

Dear Shareholder,

As a shareholder of CLP and fellow Hong Kong citizen you will have a particular interest in the tariff increase which we recently announced to our customers in Kowloon and the New Territories.

As this is an important matter for your Company, our community and our customers, I thought I should write to you to explain the position and, at the same time, correct some of the misleading, inaccurate and, frankly, wrong statements of others which you may have heard in the press in recent days.

### **The Tariff Increase**

The tariff increase, which will take effect from 1 January 2012:-

- involves an average rise of 9.2%;
- half our residential customers will pay only an additional HK\$10 per month; and
- business customers will pay an average increase of only HK\$50 per month.

The reasons for the increase are:-

- To pay for the necessary investment to
  - meet the Hong Kong Government's increasingly stringent emissions target;
  - maintain power supply reliability to the standard our customers demand; and
  - support ongoing major infrastructure development
- To meet the costs of buying fuel to generate electricity – in the past five years the tariffs paid by customers have not reflected the actual cost of the fuel used to generate the electricity we supply.
- Specifically, in response to Government policies, we will have to consume around twice as much gas for power generation in the next few years. Gas from new sources is 2-3 times more expensive than the supplies we contracted over 20 years ago and which are now running out.

### **Meeting our Responsibilities**

There has been a lot of talk in the media about CLP not meeting its responsibilities to Hong Kong. As a shareholder you have shown your trust and confidence in the Company – and you know that CLP has a tradition of meeting its responsibilities.

We are doing so now – just as we have done for over a century in providing an essential public service to the community. Let me explain how.

Meeting our responsibility to the environment

- CLP has reduced emissions from power generation by 80% since 1990 – despite an 80% increase in electricity demand over that period.
- CLP has complied with all of the Government’s requirements on emissions reductions – and our shareholders and lenders have supported the massive investment necessary to meet regulation.

Meeting our responsibility to provide a quality service

- CLP’s supply reliability is 99.99% - Hong Kong has one of the most reliable electricity systems in the world. Our community does not, and should not, expect shortcomings in the reliability of its electricity supply.

Meeting our responsibility to invest in Hong Kong’s future

- In the past 10 years, CLP’s shareholders and lenders have invested over HK\$66 billion in ensuring that Hong Kong has the electricity infrastructure needed to power our economy and our society.
- Every single use of those investments was made with the prior approval of the Hong Kong Government.

Meeting our responsibility to respect our engagements

- Our Hong Kong electricity business is regulated by the Government under a Scheme of Control – a contract between CLP and the Government. CLP has respected every single one of its commitments under the Scheme of Control.
- The investments we have made and the tariff rise we are making are entirely in line with the Scheme of Control and the Development Plan, approved by Government under the Scheme of Control.

Meeting our responsibility to provide a cost effective electricity supply

- CLP maintains stringent control over capital and operating expenditure.

- Excluding the extra costs directly resulting from Government's environmental policies and charges the 2012 increase is close to inflation. And, over the past 25 years our tariffs have actually fallen by 30% in real terms, relative to inflation. In fact our new tariffs are lower in real terms than they were in 1997.
- Energy costs are rising all over the world – there have been recent increases of 20% to 90% in electricity costs. Even though Hong Kong is a small market and has to rely 100% on imported fuels, our energy bills are still amongst the lowest of major cities across the world, including Tokyo, Sydney, London, Singapore, New York.

CLP has strictly followed the policies and requirements of the Hong Kong Government. We have respected every single one of our obligations and commitments. We have met our responsibilities. Even so, Government is now inviting the public to express their views on the tariff adjustments of the two power companies. As a shareholder and fellow-citizen, you are an informed and engaged member of our community. If you wish to make your views known to the Chief Executive on his Facebook, please click the following link <http://www.facebook.com/UpperAlbertRoad>.

We are conscious of the trust and confidence you have placed in us by investing in CLP. We value your support.

Yours sincerely,



Andrew Brandler  
Chief Executive Officer