

## **2020 AGM**

### **Questions and Answers**

For the Questions and Answers session, a number of questions were submitted by Shareholders, the Chairman and management had addressed some of these during the allocated time and the discussion of these are recorded in the AGM minutes. For the questions that were not addressed at the AGM, the responses are set out below.

#### **Hong Kong electricity business-related**

Q. What would be the challenges and opportunities for CLP under the Scheme of Control?

The current Scheme of Control (SoC) Agreement is a fair and sensible agreement, enabling us to move forward with our long-term investment plans in support of the Hong Kong Government's long-term carbon reduction targets for 2030. The coming years will reflect both the lower permitted rate of return (under the new SoC Agreement effective October 2018) and the growth in asset base resulting from the investments agreed with the Government. The SoC Agreement requires adjustment in the fuel mix, the gradual retirement of coal-fired power generation units and their replacement with gas-fired units, and the corresponding investment risks that power companies will be exposed to. Accepting the new permitted rate of return reflects CLP's dedication in supporting the long-term development of Hong Kong.

We will have two new gas-fired power generation units at Black Point Power Station, one is currently being commissioned and another in 2023, which are much more energy and carbon efficient than coal-fired units. We are also making progress with the construction of an offshore LNG terminal that will further improve Hong Kong's energy security with direct access to international sources of natural gas, diversifying Black Point's current supply. We are on track to play our part in meeting the Government's target of increasing the amount of gas-generated electricity in Hong Kong to around 50% by 2020.

The SoC Agreement is our greenest so far and includes important initiatives to promote local renewable energy development, energy efficiency, and conservation. A Feed-in Tariff scheme, Renewable Energy Certificates, a Power Connect programme, and a new CLP Eco Building Fund were launched to support these goals.

CLP is committed to continuing working for the long-term benefit of Hong Kong and to joining the community in building a greener Hong Kong for future generations. Looking ahead, we will continue to focus on delivering our ambitious Development Plan. These investment in Hong Kong will underpin the performance of the business in the years ahead.

- Q. Due to world economic downturn, would CLP consider bargaining the cost of fuel (raw material) to produce electricity or consider sourcing more fuel producer worldwide?

Hong Kong has to import fuels from overseas to meet our energy requirement. CLP has adopted a balanced approach under our fuel procurement strategy to source fuel supply worldwide to ensure supply security and reliability with competitive prices and at the same time to meet environmental targets.

CLP is on track to play our part in meeting the Hong Kong Government's target of increasing the amount of gas-generated electricity in Hong Kong to around 50% by 2020. With the increased gas consumption, CLP has taken additional steps to secure additional gas to further increase the diversity and security of supply. To access competitive supplies from the global LNG market for the long term, CLP is developing an offshore LNG terminal in Hong Kong waters, jointly with The Hongkong Electric Co., Ltd. Significant progress was made in 2019. Subject to timely receipt of various regulatory approvals and statutory permits, construction works would begin in the second half of 2020 and are expected to complete by the end of 2021.

- Q. What is the amount of power losses (due to meter failures, wrong connection, tampering, etc.) in 2018 and 2019? Is there an increasing trend? What additional mechanism will CLP Power employ to detect, evaluate and recover the power losses due to power thefts?

We did not see a trend of noticeable increase in the number of power loss cases due to illegal tampering, meter failure or abnormality in 2018 and 2019. CLP has a mechanism in place to monitor abnormal electricity consumption and to pursue claims on confirmed illegal tampering cases. With the mass roll-out of smart meters and its enhanced features of security and data accuracy, we expect the cases of power losses caused by metering issues can be identified more promptly.

- Q. How does the Power Connect programme work? Can I specify my preferred beneficiary?

CLP Power Connect programme encourages residential customers to save energy and CLP offers financial assistance to disadvantaged groups in the preference of the participating customers to offset against their electricity expenses.

CLP residential customers who join the programme and save energy compared with the same period in the previous year can earn CLP Eco Points to redeem a variety of rewards. Customers are also encouraged to choose the disadvantaged group to receive electricity subsidy, including aged 65 or above elderlies, low-income families, and the disabled. In 2020, CLP will offer electricity subsidy to 30,000 households in need, with each receiving HK\$500 to offset against their electricity expenses. We have received all nominations and eligible beneficiaries will receive the electricity subsidy by the third quarter of this year.

The programme also supports people living in sub-divided units, with each beneficiary household receiving HK\$600 to alleviate their electricity expenses. Landlords of sub-divided units may apply for subsidy for the rewiring and installation of individual meters to improve the home safety and living conditions of tenants. Please go to <https://powerconnect.clp.com.hk/> for more details.

### **Australia energy business-related**

Q. What will be the impact of the Australia bushfire on the Return of Investments there?

The Mount Piper Power Station was the only generation asset directly impacted by the bushfires. No other generation operations were affected and power station operations continued without interruption. The Springvale mine operations were affected by smoke and fire for around two weeks and there were no coal constraints affecting generation; Mount Piper's current stockpile is sufficient for normal operations.

Severe weather conditions had led to pressure on the networks, resulting in price volatility which was well-managed by EnergyAustralia's trading teams.

EnergyAustralia took a number of actions to support its customers, both residential and business, and the communities impacted by the widespread bushfires and anticipated only short-term impacts to cash flows as a result. Its business is demonstrating resilience to these challenges.

Q. Would EnergyAustralia's business continue to have a negative impact on CLP's results and performance in the next 10 years? And if yes, how would CLP cope? Would CLP consider transferring such risk partially, or even disposing its interests in EnergyAustralia?

CLP remains a long-term investor in Australia. We retain confidence in our ability to deliver long-term shareholder value through EnergyAustralia. We still see the value in having a large customer base in Australia, the ability to operate in two main markets, in NSW and Victoria, where we have not only a strong retail business, but also a wholesale generating portfolio that is right sized for those retail businesses. So structurally, with a retail and wholesale business that provide that natural hedge, we do see this being a robust business model.

Q. While EnergyAustralia's business does not have a negative impact on CLP's dividend payments at present, would it be the same case for the future? How would CLP contain such negative impact and maintain the steady growth in its dividend payments?

We are currently in a down cycle in wholesale energy, however experience tells us that it will not be sustained.

CLP is a long-term investor and we have confidence EnergyAustralia will provide a long-term sustainable return on investment.

Our dividend policy is to provide reliable and consistent ordinary dividends with steady growth when supported by our earnings while ensuring that a solid financial position can be maintained to fund our business growth.

Steady growth in dividends is important to our shareholders and we have been able to deliver that in the past. Looking forward, since each dividend payment is determined by the Board based on their assessments at the time, we cannot provide any guidance or forecast on what decisions will be made.

### **CLP Group business-related**

- Q. How would CLP evaluate the performance and the risks of its business activities in each CLP market (including regulatory risks), as well as the measures taken for mitigating such risks?

In reference to our 2019 annual results, the recalibration of our earnings reflected the ongoing energy transition impacting our business, while the long-term fundamentals of our business remain well supported by the diversity of our portfolio, the capabilities of our people and our significant financial resources.

In Hong Kong, while there are short-term challenges brought by the uncertain economic, health and social situation, we remain dedicated and positive about its future. The clearest sign of this is the HK\$53 billion of investment we have committed for future energy supply during the course of the current Development Plan to 2023, much of which will go towards improving Hong Kong's energy security, reducing overall emissions and enhancing customer experience. In Mainland China and India, we will continue to seek good quality, long-term opportunities to expand our non-carbon emitting portfolio. In Australia, we are cautious about the immediate outlook, yet remain confident in the long-term strength of our market position and the need for investments in fast-response generation to reduce intermittency and volatility in the market.

In terms of regulatory risks, in Hong Kong, CLP's capability to achieve more stringent performance targets and new incentives under the new SoC Agreement presents a short-term regulatory risk exposure while the risk of adverse regulatory changes in the medium to longer term remains possible.

The Group's Australian business continues to face regulatory challenges on numerous fronts which may restrict the margin recovery and increase the complexity as well as the cost of market operations. The implementation of regulated default market offers on 1 July 2019, which mandates lower, regulated

“safety net” retail tariffs, led EnergyAustralia to record a one-off, non-cash goodwill impairment.

In Mainland China, the implementation of power sector reforms gathered pace in 2019. Authorities released the Renewable Portfolio Standard which sets provincial renewable energy targets from 2020. The trial operations of the electricity spot market have also started in eight provinces.

CLP manages these risks by:

- a) Close monitoring of regulatory development and market/public sentiment;
- b) Working constructively with governments to advocate our position on regulatory changes;
- c) Implementing comprehensive stakeholder engagement plans to facilitate sensible and informed discussion on regulatory matters;
- d) Mobilising internal resources to ensure timely responses to regulatory changes and maintaining regulatory compliance and oversight;
- e) Communicating and highlighting the importance of a balance between a reliable and safe supply, care for the environment, and reasonable tariffs; and
- f) Reinforcing CLP’s efforts in caring for the community and promoting energy efficiency.

Q. Does CLP still run telecommunication business? What does this business cover? Did this business contribute any incomes/profit to the shareholders last year?

No, CLP no longer runs any telecommunication business.

### **Argyle Street development project-related**

Q. When will the construction work for the Argyle Street Redevelopment Project complete? How many apartments will there be for sale? How will the sales revenue be split between CLP and Sino?

The entire Argyle Street Redevelopment Project comprises the residential part and revitalisation of the adjacent Clock Tower building.

The residential development of the project, now named as St. George’s Mansions, is jointly developed by CLP and Sino Land. Internationally renowned Robert A.M. Stern Architects (RAMSA) from New York was commissioned for the design, while the project is expected to take the next couple of years to complete. Currently it is still pending for the government authorities’ presale consent while preparation for the sales brochures and sales gallery are underway.

## **Dividend-related**

- Q. Would the management consider providing scrip dividend scheme for Shareholders?

Scrip dividends is, generally, a relatively uncommon mechanism in Hong Kong and the take-up rate, as opposed to receiving dividends in cash, varies. Another limitation is that there are considerable administrative costs payable to the share registrar for processing scrip dividends; it would be preferable to avoid such costs and have more dividends paid directly to Shareholders. As a result, management does not presently envisage offering a scrip dividend option to our Shareholders but will reconsider this option from time to time.

- Q. Referring to CLP's dividend policy, what is the percentage of profit that would be arranged for distribution as dividend?

CLP's Dividends Policy aims to provide reliable and consistent ordinary dividends with steady growth when supported by our earnings whilst ensuring that a solid financial position can be maintained to fund our business growth.

For the past 10 years, the dividend payouts were in the range of 55% to 66% of operating earnings, except for 2013 and 2019 when our payout ratio rose to 70% of operating earnings.

## **Environment-related**

- Q. Would CLP have any plan for joining tree planting programme?

Environment is one of the four key pillars in serving our communities. Over the years, CLP has supported various environmental community projects including tree-planting programmes to raise public awareness of environmental protection. We hope to join similar programmes in future should the right opportunities arise.

## **Shareholders-related**

- Q. Would Shareholder who was invited to join Shareholders' Visit Programme that had been cancelled in light of Covid-19 be invited to join the visit after Covid-19 abated?

Under the coronavirus situation, we have cancelled the Shareholders' Visits from February to July to minimise the risk. For the remaining scheduled tours, we will continue to closely monitor the coronavirus situation and will contact the affected shareholders by phone (whether to resume or cancel the tours).

- Q. Would there be any promotion offered to CLP Shareholders (such as discounts on electrical appliances) to create a win-win situation?

CLP has launched the Smart Shopping online platform (<https://store.clp.com.hk/en>) at which our customers can redeem a wide range of rewards from energy efficient appliances, trendy products, dining coupons, cooking classes using electric kitchens at CLP shops, to wet market product coupons with Eco Points earned by saving energy. Shareholders who are not CLP's customers can also make direct purchase on the platform. Special promotions are offered during festivals such as Christmas and Chinese New Year to encourage energy saving at home and low-carbon lifestyles. We have recently extended our partnership to social enterprises which allows customers to use their Eco Points to support social enterprises as well.

CLP's latest flagship store Smart Energy@Mong Kok also offers customers a full range of smart home products and technologies.

Customers are welcome to download CLP app at <https://services.clp.com.hk/download.html> and access special offers from time to time.

- Q. How could Shareholder register to get souvenir by joining the online AGM?

At the online AGM platform, there is a designated page (please refer to the buttons at the bottom of the page) for Shareholders to register their interest in receiving a souvenir.

## **Others**

- Q. Has any explanation been given to CLP for the damage made to the transmission tower by a helicopter of the People's Liberation Army on 30 March 2020 and whether any compensation will be made to CLP?

On 30 March, CLP's 400kV high-voltage power system recorded a short voltage dip during which time, power supply from CLP was not interrupted. Same as any other power incidents, CLP had arranged for its engineering teams to conduct a site inspection and carry out the repairment. Our inspection indicated that damage was found on an overhead line and tower. We have already completed urgent repair work to the concerned overhead line, while the tower was under repairment. The full investigation was ongoing.