CHAIRMAN'S STATEMENT

"The CAPCO acquisition underlines our confidence in the future of the city's power sector and our role in that future."

Dear Shareholders,

2013 was a year of great significance for the CLP Group, marked by the completion of a number of regulatory issues in Hong Kong, a mixed performance by our overseas investments and, perhaps most significant of all, our impending acquisition of a controlling interest in Castle Peak Power Company Limited (CAPCO), which reaffirms our commitment to Hong Kong. This decision brings to an amicable end the remarkable 50-year partnership with Exxon Mobil Corporation (ExxonMobil) and lays the foundation to a new strategic relationship of exciting potential with China Southern Power Grid Co., Limited (CSG).

In my Chairman's Statement this year, I wish to focus on CLP Power Hong Kong which is our core business. I also plan to dwell on the key aspects of the CAPCO transaction because it is such a landmark decision in CLP's history and it is fitting to acknowledge our long and rewarding relationship with ExxonMobil.

Before doing so, I would like to report the Company's results in 2013. The Group's operating earnings remained steady at HK$9,307 million, compared with HK$9,406 million in 2012. Group total earnings, which include non-recurring items, were HK$6,060 million, 27.1% lower than that in the previous year.

In 2013, our business in Hong Kong continued to perform well and our Mainland business achieved a record profit. In India, while we continue to face challenges, the coal supply situation that had weighed heavily on our operation improved significantly in the second half of 2013. The disappointing results from Australia continue to reflect the unprecedented structural changes that the Australian energy market is undergoing, evidenced by an oversupply of generating capacity, depressed wholesale prices and a pronounced decline in electricity demand. These difficult market conditions are likely to continue for some time. We expect that there will ultimately be a range of industry supply-side responses to these conditions. Meanwhile, we are rigorously assessing our own internal costs and moving to optimise the operation of our power stations in line with declining demand. We will continue to monitor the market closely and to advocate for practical and supportive government policies in relation to carbon taxes, renewable energy targets and gas supply that could also affect the value of our business.

The decline in total earnings was due to the non-cash impairment and other charges of HK$3,696 million in relation to a number of our assets in Australia, India and the Chinese mainland. The impairment in Australia relates to the decline in the value of our generation portfolio, where continuing

oversupply and the outlook for increasing gas prices have had a particularly negative impact relative to the Yallourn Power Station and our portfolio of gas-fired assets.

Notwithstanding the encouraging improvement in our operation in India, we took a HK$293 million provision for our gas-fired Paguthan Power Station to reflect changes to the Power Purchase Agreement and our revised view of the residual value of the plant, in light of the industry-wide long-term nature of the severe shortage of gas. Additionally, we made a provision of HK$297 million to the CSEC Guohua and Shenmu joint ventures, reflecting their recoverable amounts and recognised a loss of HK$75 million from the divestment of Boxing Biomass Power Station in the Chinese mainland.

Taking a Long-Term View

While these impairments are non-cash accounting charges, I recognise that the magnitude of these adjustments is disappointing. As I pointed out in the Interim Report, the nature of the power sector necessitates a long-term view – given the scale and lifespan of our investments and the array of stakeholders impacted by our operations, there is no quick-fix solution to the challenges that have weighed on the Group over the past year. However, there is no doubt that by focusing on those areas of the business where we can bring about further improved performance and enhanced results, we can continue to grow the Company in a way that will reward shareholders.

The Board and I have instructed Senior Management to make it their top priority in 2014 to address these challenges. In order to give shareholders a clearer picture of our Company's strategy as well as the prospects for further growth in the years ahead, I have asked our new Chief Executive Officer Richard Lancaster in his Strategic Review (which forms an important component of this Annual Report) to describe the various factors which impacted our operations and our plans to improve the fundamentals of the business.

Providing Reliable Clean Energy

Before moving on to our CAPCO transaction, I would like to touch on some key Hong Kong issues. In 2013, we completed the Interim Review of the Scheme of Control (SoC) Agreement and obtained approval from the Government for a new five-year development plan which takes our business through to 2018. We also achieved a record high for supply reliability during the year. In 2013, a typical CLP customer experienced well less than 2 minutes of unplanned interruptions in the year. To put that in context, a typical customer in New York, Sydney and London experienced unplanned power interruptions, per year, of 16-35 minutes over the period of 2010-2012.

In the first half of 2014 the Government is expected to launch a public consultation on energy policy and fuel mix to be used for electricity generation to meet its climate change challenge. Energy decisions should involve the community and the Government. Hong Kong has been enjoying a world-class supply reliability that tends to be taken for granted and while environmental performance is being improved and welcomed, the higher cost of cleaner energy is not well understood. The community should be made fully aware of the choices available, their implications and consequences so that the decision can be made wisely.

There have been calls for a review of the current regulatory regime, largely criticising the SoC for failing to meet the community's expectation. In fact, the SoC has been serving Hong Kong well for 50 years. Its terms have been evolving with time to reflect continuous refinements made to the regulatory framework and changing aspirations of the community. Most importantly, it has ensured the delivery of a highly reliable and environmentally friendly electricity supply at reasonable cost for Hong Kong.

The electricity industry is capital intensive, involving advanced technologies and very long lead times. It is crucial that a clear, fair and stable regulatory environment is provided to ensure that the significant capital investments can be delivered and a fair return is provided for a commercial company to continue its investment to ensure a sustainable electricity industry. We have been making this point over the past years, and we intend to step up our public engagement with customers and stakeholders so that they may gain a better understanding of the complex issues underlying these decisions.

Saluting a Remarkable 50-Year Relationship

Turning now to the CAPCO acquisition, for the record, I am delighted that in collaboration with CSG in November we reached agreement with our long-term partner ExxonMobil to each acquire half of its 60% interest in CAPCO. Following the completion of the transaction, CLP will hold 70% of CAPCO, while CSG will hold the remaining 30% stake.

As stated earlier, I intend to reflect on our long-term partnership with ExxonMobil and the rationale behind the acquisition of CAPCO shares with CSG. In doing so, I want to pay tribute to the foresight and vision displayed by ExxonMobil half a century ago, when our partnership was forged, and acknowledge the role it subsequently played in the development of the power sector in Hong Kong. At the same time, it gives me great pleasure to welcome our new partner CSG in CAPCO. This arrangement symbolises not just our commitment to Hong Kong, which is greater than ever, but a recognition of the closer integration of Hong Kong with Guangdong Province in the Mainland.

PRC Vice President Li Yuanchao meets a CLP delegation led by the Chairman at the Great Hall of the People

Above all, the acquisition reaffirms our commitment to continue to serve Hong Kong. CLP has been providing safe and reliable electricity to fuel Hong Kong's growth for over 110 years. The fact that we are investing HK$12 billion in the CAPCO acquisition underlines our confidence in the future of the city's power sector and our role in that future.

The prospects that this exciting acquisition brings would, however, not be as promising if it had not been for what went before it. Our longstanding alliance with ExxonMobil, then known as Standard Oil in the US or Esso elsewhere, was forged in 1964. Hong Kong – and the world – was a very different place then. Hong Kong's industrial prowess as one of the four so-called Asian Tigers was in full flow and the population was growing at an astonishing rate following large scale emigration from the Mainland. The economy was growing at a spectacular rate and the power industry was in need of massive investment to meet the insatiable energy demands that post-war Hong Kong was experiencing.

By pure chance, my father, the late Lord Kadoorie, had a meeting with the then Chairman of Standard Oil, Michael Haider. What followed were rounds of discussions that led to a joint venture in CAPCO, of which ExxonMobil owned 60% and CLP 40%. It was the largest commercial transaction that had ever taken place in the territory at that time and brought confidence all round. It was a strategic partnership that has served our Company – and Hong Kong – well. Indeed, the partnership has grown well beyond any point that could have been foreseen at the time. It has gone from strength to strength through the construction of the Tsing Yi, Castle Peak and Black Point power stations.

Over the years, the partnership has continued to deliver on its commitment to Hong Kong by pioneering the use of the best available technologies for environmental and operating efficiency, including the introduction of cleaner gas-fired power in the mid-1990s and the retrofitting of Castle Peak Power Station with world-class emissions reduction facilities in the late 2000s.

These initiatives have played an important role in improving the air quality of Hong Kong, as well as enhancing the efficiency of the delivery of power to the majority of our population, that is our customer base in Kowloon and the New Territories.

In the past decades, CAPCO played its part by making massive investments in Hong Kong's power generating capability. These investments paved the way for the prosperous development of Hong Kong, which we continue to enjoy to this day, and which will, in my view, continue for many more years to come.

Throughout this period, and in all of these investments, ExxonMobil has supported our focus and commitment to the highest safety standards. The safety disciplines and practices that ExxonMobil brought to our partnership have contributed to the first class safety record that CAPCO has achieved over the years. Indeed, the learnings CLP has gained through our partnership have enhanced our own capabilities and assisted us to deliver on our commitment to safety across all our business.

Strengthening a Strategic Partnership

Our new partnership with CSG in CAPCO is, in many respects, a natural extension for us in light of our successful cooperation over the years. Our two systems have been connected since CLP first supplied power to Guangdong in 1979, strengthened further when we began importing power from Daya Bay in 1994 and will become more closely interconnected with the closer integration of Hong Kong and Guangdong. The transaction will allow us to develop those arrangements into a strategic relationship. We anticipate being able to collaborate on other commercial opportunities as our partnership matures.

As I have noted above, we have enjoyed a long and successful partnership with ExxonMobil which for half a century has contributed to the power industry of Hong Kong. We look forward to further strengthening our strategic relationship with CSG, confident that what succeeded for us in the past can be replicated in the future.

Before I close, I would like to once again acknowledge with thanks the great service our former CEO, Andrew Brandler, has provided over the last 13 years. At the same time, I am delighted to welcome our new CEO Richard Lancaster, who has had a distinguished career in our Company since joining us in 1992. The Board and I are confident that the Company remains in very safe and reliable hands with Richard and his management team at the helm.

The Honourable Sir Michael Kadoorie
Hong Kong, 27 February 2014