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中 電 控 股 有 限 公 司

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 00002)

Profit Warning due to Impairment of Goodwill

This announcement is made by CLP Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company wishes to inform its shareholders and potential investors that it expects to make in its accounts for the six months ending 30 June 2019 a reduction in the goodwill attributable to its EnergyAustralia Retail business, likely in the range of HK$6 billion to HK$7 billion. The impairment is a non-cash item and does not have an immediate impact on the Group’s cash flows and operations. However, it will significantly reduce reported earnings for the first half and, as a result, the Group is expected to record an unaudited consolidated loss on total earnings for the first six months ending 30 June 2019.

Recent Developments – EnergyAustralia Retail business

In our Quarterly Statement 2019 (January – March) (dated 7 May 2019), the Company provided an update on the EnergyAustralia Retail business and explained the following:

“*In February, the Federal Government announced it would implement a Default Market Offer, effectively re-regulating “standing offer” electricity tariffs for residential and small business customers in New South Wales, Queensland and South Australia. The Victoria State Government* *also plans to introduce its own electricity default offer for residential and small business customers; both will be effective from 1 July 2019. These measures once finalised are likely to have a significant negative impact on the future contributions of the Retail segment*".

Subsequent to events described in our Quarterly Statement, both the Australian Federal and Victoria State governments have finalised models for the proposed default offers and confirmed that these will be implemented from 1 July 2019. These changes mandate lower regulated "safety net" retail tariffs for the markets in which the EnergyAustralia Retail business operates.

Goodwill Impairment - Management Preliminary Assessment

The EnergyAustralia Retail business is a cash generating unit ("CGU") and in the consolidated accounts of the Company as at 31 December 2018, the goodwill of the EnergyAustralia Retail business was HK$15,065 million. This goodwill arose from EnergyAustralia's acquisitions of two retail businesses in 2005 and 2011, and represents an intangible asset created because the purchase considerations paid by EnergyAustralia were higher than the identifiable net assets of the acquired businesses.

The new "safety net" retail tariffs in Australia apply to customers on "standing offer tariffs" and will result in a reduction in tariffs paid by these customers from 1 July 2019. In parallel, EnergyAustralia is promoting new simple, lower cost energy plans to existing customers on market offers. It is expected that these changes will result in a decrease in second half earnings before tax from the Retail segment in the order of HK$240 million to HK$300 million. This reduction will likely sustain into the future, but may vary as market participants and customers adjust to these new market conditions.

As required by the accounting standards, a goodwill impairment review is required to be performed annually or more frequently if there is an impairment trigger. Impairment occurs when the recoverable amount of a CGU is below its carrying value. The previous review was undertaken at the 2018 year end prior to the Default Market Offer and Victorian Default Offer being finalised. We explained on page 236 of our 2018 Annual Report that the "*value-in-use calculation of our Retail CGU at year end… indicate that minimal headroom remains*."

Retail tariffs are one of the key assumptions used in estimating the value-in-use which determines the recoverable amount for the Retail CGU. Taking into account the regulatory pricing regime from 1 July 2019 and the potential impacts on retail earnings, management has undertaken a preliminary impairment assessment of the goodwill of the EnergyAustralia Retail CGU. That assessment indicates that the goodwill of the EnergyAustralia Retail business will be impaired at the half year. The exact amount of the impairment has yet to be determined but is estimated to be in the range of HK$6 billion to HK$7 billion. The size of this impairment will likely result in an unaudited consolidated loss on total earnings for the Group for the same period.

Update on EnergyAustralia's business – Year to Date

For the first half of 2019, the operating performance of the EnergyAustralia business to date has continued to be affected by the conditions we reported in the Quarterly Statement. In particular, we have seen lower electricity production from EnergyAustralia's power plants due to coal supply issues affecting Mount Piper Power Station and maintenance requirements at the Yallourn Power Station. In addition, prices for forward energy contracts have increased in the first half. While this should benefit the business in the medium term, it has resulted in a significant non-cash negative change of the fair value of some of the energy derivatives used for economic hedges in our portfolio in the first half. The combined impact of these conditions is that based on the unaudited management accounts, the operating earnings from EnergyAustralia for the first five months of 2019 (before any impairment of goodwill) were HK$731 million.

Constraints on electricity production from EnergyAustralia's power plants are likely to ease in the second half of 2019 with the Yallourn Power Station expected to resume normal operations and ongoing efforts to improve coal supply at Mount Piper Power Station.

Other Important Information

This profit warning is based on management's preliminary assessment with the information available and has yet to be reviewed by the Company's auditor. Furthermore, the CLP Holdings Board of Directors and Audit & Risk Committee will be assessing the exact amount of impairment as part of the review process of the Group's unaudited consolidated accounts for the six months ending 30 June 2019. The unaudited interim results of the Group for the six months ending 30 June 2019 will be announced by the Company in early August 2019.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
David Simmonds
Company Secretary

Hong Kong, 20 June 2019

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The Directors of the Company as at the date of this announcement are:

Non-executive Directors:	The Hon Sir Michael Kadoorie, Mr William Mocatta, Mr J. A. H. Leigh, Mr Andrew Brandler and Mr Philip Kadoorie
Independent Non-executive Directors:	Mr V. F. Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Mrs Fanny Law, Mrs Zia Mody and Ms May Siew Boi Tan
Executive Directors:	Mr Richard Lancaster and Mr Geert Peeters