

**Supplementary Information from Power Companies
On Five-year Development Plans and Annual Tariff Reviews
Elaboration on the Notes on Confidential Information**

Background

At the meeting of the Panel on Economic Development on 7 February, the two power companies provided supplementary information on their Five-year Development Plans and Annual Tariff Reviews. The two power companies consider that some of the information, if not kept confidential, may be detrimental to the interests of the public due mainly to the following reasons:

- Disclosure of information related to projections of future business (e.g. capital expenditure and electricity sales) will enable the suppliers to easily assess the budgets estimate of certain projects, or know in advance the two power companies' demand for services, and increase their bargaining power. This may cause an increase in capital expenditure or costs of the two power companies, affecting future tariff increases, and jeopardising the interests of the public; and
- Revealing information about contract requirement and price forecast will significantly weaken the two power companies' bargaining position in prices and quantities negotiations, resulting in higher costs to be borne by the public.

2. Given that such information should not be publicly released, the two power companies are required to ensure that the information is kept confidential or, otherwise, there may be a violation of the Hong Kong Listing Rules requirements and detriment to the interests of small shareholders, or a breach of the Securities and Futures Ordinance. Further elaboration on these aspects is given in paragraphs 3 to 8 below.

Listing Rules

3. The confidential information highlighted by the two power companies are non-public and price sensitive information, and will have significant impact on the share prices of the parent company of CLP Power Hong Kong Limited, CLP Holdings Limited, and the parent company of The Hongkong

Electric Company Limited, Power Assets Holdings Ltd. Being members of listed group, the two power companies are required to comply with Hong Kong Listing Rules requirement which contains specific guidance in dealing with price sensitive information. Rule 13.09(1) of the Listing Rules imposes a direct responsibility on directors to ensure that non-public and price sensitive information, not previously released to the market, is kept strictly confidential, and that the information should be publicly released to the market promptly if confidentiality cannot be preserved.

Interest of Small Shareholders

4. The release of confidential information to selected groups of the public may create an unfair market with disparity of information. The groups with knowledge of such information may be able to capture on the opportunities the public release of this information will create to the detriment of small shareholders and other potential investors. Such price fluctuation may result in an unorderly market, affecting the investments of the small shareholders many of whom are ordinary people living and working in Hong Kong.

5. The two power companies will also be in breach of the Listing Rules if they disclose price sensitive information to selected groups of the public without confidentiality protection, unless at the same time they publicly release the information to the market.

Securities and Futures Ordinance

6. Confidential information, which is non-public and price sensitive information, falls within the definition of “relevant information” as defined in section 245 of Part XIII of the Securities and Futures Ordinance and people in possession of such relevant information become “insiders”. Any dealing by insiders using relevant information or any “tipping” by insiders to others of relevant information will commit an offence under Parts XIII and XIV of the Securities and Futures Ordinance (e.g. sections 248 to 249, 270 to 273 and 291 to 294). Therefore, any leakages of the two power companies’ non-public information will create a serious disruption to the orderly function of the Hong Kong stock market.

Problems with Public Disclosure

7. Given the highly commercially and price sensitive nature of the information, any public release of such information to the market is also likely to be problematic and undesirable as there will be detrimental consequences to the two power companies, their customers and their shareholders. Amongst other things, knowledge of the confidential information by suppliers may result in potential abusive pricing arrangements prejudicing the power companies' ability to negotiate effectively in global supply markets.

Conclusion

8. Given the above reasons and for safeguarding confidential information, the two power companies submit that the most practical solution in achieving accountability and proper disclosure of the confidential information to Legislative Council is to provide relevant information under confidential measures and adopting the approaches proposed by the two power companies.

CLP Power Hong Kong Limited
The Hongkong Electric Company Limited