

Chairman's Statement



I am pleased to present our Interim Report for the half year ended 30 June 2002.

Financial Results for the Six-month Period

Total earnings of CLP Holdings for the six months ended 30 June 2002 were HK\$3,445 million (HK\$1.43 per share), compared to HK\$2,788 million (HK\$1.11 per share) for the corresponding period in 2001.

Earnings from the Scheme of Control electricity business in Hong Kong increased by 7.2% to HK\$2,829 million. CLP Power's capital expenditure on the transmission and distribution networks and other facilities totalled HK\$1,857 million (2001: HK\$1,802 million), whilst capital expenditure by associated Hong Kong generating companies was HK\$288 million (2001: HK\$202 million).

Operating earnings from non-Scheme of Control activities grew from HK\$195 million to HK\$582 million, compared to the same period in 2001. This strong growth was mainly due to a much improved earnings contribution from projects undertaken in the Chinese mainland and the Asia-Pacific region. While we are encouraged by the strong growth recorded for the half year, it should be noted that the risk/reward profile of the investments in non-Scheme of Control activities is more volatile than that of the Hong Kong Scheme of Control business.

Directors today declared the second interim dividend of HK\$0.38 per share (2001: HK\$0.35 per share) which will be payable on 13 September 2002 to shareholders registered as at 2 September 2002. The Register of Shareholders will be closed on 3 September 2002.

Year 2002 Performance and Outlook

In our Annual Report 2001, under the heading "CLP at a Glance", we summarised our outlook for 2002. At this half-way point in the year, I would like to report on CLP's performance to date and how that compares with the earlier outlook.

Hong Kong Electricity Business

We have continued to benchmark the business performance of our Hong Kong electricity business carried out by our wholly-owned subsidiary, CLP Power, with other comparable utility companies around the world. This benchmarking exercise has confirmed that in many areas, such as reliability of our coal-fired plant units, safety standards, environmental performance and transmission system operation, CLP matches or exceeds world-class standards. At the same time, we recognise that there are areas where further improvement is required in order to make sure that, across the entire span of its activities, CLP Power's performance meets leading global standards.

These measures of performance reinforcement and enhancement stand CLP in good stead as we approach the 2003 Scheme of Control Interim Review. It is, however, clear that during the first half of 2002, as throughout the last 38 years, the Scheme of Control has continued to meet its objective of ensuring the provision of an electricity supply which is reliable, adequate and at the lowest reasonable cost.

Our shareholders and customers will be aware, particularly in the light of experience elsewhere in the region and worldwide, that this is an achievement to be valued and respected. The greatest care must be taken in the evaluation of any future regulatory regime in order not to jeopardise the quality of an essential service which, quite rightly, the Hong Kong community has come to take for granted.

The strength of our Hong Kong electricity business was underlined during the first half of 2002 by the continued growth in sales due to strong demand from the local residential sector and substantial sales to Guangdong. Local unit sales of electricity in the first half of the year were up by 3.6% over the same period last year. Total unit sales, which include sales to the Chinese mainland, registered a 7.6% increase. These sales reflected the tight supply and demand situation in Guangdong and benefit both CLP Power's Hong Kong customers and our shareholders, in that the earnings from such sales are allocated on an 80/20 basis between customers and shareholders.

Regional Electricity Business

Chinese Mainland

Our aim for 2002 has been to exploit business opportunities with preferred strategic partners and in targeted provinces, as well as building on our long-standing network of relationships in the Chinese mainland.

Good progress continues to be made on the Shandong project in which CLP Power China (CLP-PC) holds a 29.4% stake. Shiheng I and II Power Stations (4x300MW) have operated satisfactorily. The construction of Heze II Power Station (2x300MW) and Liaocheng Power Station (2x600MW) is progressing well, to budget and ahead of schedule. We anticipate that Heze II will start commercial operation this year. Our relationship with Beijing Guohua Electric Power Corporation, established in the form of an evergreen joint venture, CLP Guohua in which CLP-PC has a 49% shareholding, has moved forward during the first six months of 2002. CLP and Beijing Guohua have worked closely together in enhancing operational, safety, environmental and financial procedures, controls and discipline to improve the operational and financial performance of the joint venture's assets. Each party has brought its own skills and expertise to the joint venture. We believe that we have the makings of a successful partnership for the long term.

The Mainland authorities are steadily implementing their reforms of the electricity industry. The future shape of the electricity generation and transmission sector is now becoming clearer. We have been cautious not to over-extend ourselves in the Mainland before the future

regulatory regime is better defined. We are well-positioned to build on our existing presence in the Mainland and explore the opportunities presented by the Mainland's power industry.

Asia-Pacific Region

Our year 2002 outlook for CLP's Asia-Pacific development activities foresaw the completion and implementation of the joint venture with Powergen, as well as the pursuit of regional opportunities to acquire high quality and efficient generation assets.

In our joint venture with Powergen, useful progress has been made on industrial relations at Yallourn Energy with the outsourcing of the key mine maintenance activities. At Gujarat Paguthan Energy Corporation Private Limited (GPEC), steps are underway to put in place a revised fuel source before the end of 2002 with a view to substantially reducing generation costs at GPEC and making it more competitive in its local market. Finally, the joint venture is also pursuing the BLCP power project in Thailand, in which it envisages holding a 50% stake.

In Taiwan, the first 660MW coal-fired unit of Ho-Ping Power Station has been successfully commissioned and started commercial operation on 1 June 2002. Unit 2 is also making good progress and will commence commercial operation in the second half of this year.

With regard to the pursuit of other opportunities, the key task is to improve on the performance of our existing investments. This means that our focus will be on those countries in which we already have assets and where our objective is to build up a presence in the relevant local market. For this reason and for the time being, it is unlikely that we will favour investment beyond those countries in which we currently hold assets, unless attractive opportunities arise.

Non-electricity Activities in Hong Kong and the Chinese Mainland

CLP is exploring opportunities in Hong Kong and the Chinese mainland to develop non-electricity activities by leveraging off CLP's existing business, assets, skills and

relationships. We recognise that our core competence lies in the electricity industry and diversification must be incremental, cautious and in line with CLP's status as a sound utility stock. Against this background, we had monitored closely the local telecommunication business undertaken by CLP TeleCom. In the year 2002 outlook, we emphasised the importance of achieving a viable business model for this activity in a highly competitive and challenging business environment. Having considered all options, we have reached an agreement to partner with Cheung Kong Enterprises Limited and Hongkong Electric Holdings Limited to launch a brand new broadband service, into which CLP TeleCom will integrate its retail operations, carried on under the Oxygen brand. We continue to own and operate "ChinaLink" which offers network service between Hong Kong and the Chinese mainland.

Shareholder Value

The Board and I are always mindful of our responsibility to deliver meaningful and sustainable value to our shareholders. In order to provide greater flexibility for CLP Holdings in terms of its future dividend or share repurchase policies, CLP Holdings has undertaken a restructuring of its balance sheet by transferring approximately HK\$10 billion from the share premium account to the distributable reserve of the Company. Following approval by shareholders at our Extraordinary General Meeting in April and confirmation from the High Court, the reduction of the share premium account became effective on 7 June 2002. As a result, HK\$10,116,789,910 was transferred from the share premium account to the distributable reserve of the Company on the same day. We have no immediate plans regarding the use of the increased distributable reserve.

Corporate Governance

In recent months, a number of events in the global corporate world have shaken investors' confidence in standards of corporate governance, ethical behaviour and accounting discipline. CLP remains determined to ensure that our shareholders receive excellence in corporate governance in all respects. With the support of Management, we continue to review critically CLP's internal controls and disciplines and to make improvements wherever possible. We are confident that proper systems and controls are in place - but we are not complacent. Your Board is committed to ensuring that your Company continues to justify the trust you have placed in it.



The Hon. Michael D. Kadoorie,
Chairman of the Board of Directors

Hong Kong, 9 August 2002