



CLP is powering into its second century with pride in its past and confidence in its future.

This year CLP will celebrate its centenary - China Light & Power Company, Limited, the forerunner of today's CLP, was established in Hong Kong on 25 January 1901. The Company's history over the past 100 years has been one of remarkable success, both mirroring and contributing to Hong Kong's achievements. Like Hong Kong itself, CLP has always looked to the future rather than dwelling in the past. For this reason, we are looking at our centenary not as a moment to stop and look back, but as an opportunity to take stock and look forward.

As CLP moves into its second century, the aim of this year's Annual Report is to give shareholders the clearest possible picture of the Company's business and financial position, our corporate strategies and objectives as well as the steps that we intend to take to implement those strategies and to meet our objectives, both in the year ahead and in the longer term.

YEAR 2000 RESULTS

Earnings per share for the recurring operations increased by 4.6% to HK\$2.72 per share compared to the 12-month period ended 31 December 1999, reflecting the enhancement by the repurchase of a total of 367,275,500 shares (approximately 15% of the shareholding) from CITIC Pacific Limited in October 1999. The Scheme of Control earnings for the year ended 31 December 2000 increased by 1.6% to HK\$5,147 million, as a result of CLP Power's continuous investment in its transmission and distribution network. Interest income decreased from HK\$587 million to HK\$93 million due to the reduced cash reserves after the share repurchase from CITIC Pacific. Earnings from other non-Scheme of Control activities declined from HK\$512 million to HK\$426 million, due to the start-up costs for telecommunications and multi-utility businesses.

Total earnings for the year 2000 were HK\$5,768 million, compared to HK\$6,661 million for the 12 months ended 31 December 1999. Total earnings for this year included the Group's share of profit of HK\$1,132 million arising from the Phase 3 redevelopment and sale of properties at the former power station site at Hok Un and a provision of HK\$1,030 million for impairment in value on certain investments. Total earnings for the 12 months ended 31 December 1999 included the Hok Un Phase 2 profit of HK\$498 million. Including these redevelopment profits and impairment losses, earnings per share were HK\$2.77 per share, a decrease of 1.4%.

The Board has recommended a final dividend and a special centenary dividend of HK\$0.50 and HK\$0.27 per share respectively, resulting in a total dividend for the year of HK\$2.24 per share. The Board has also proposed to make a bonus issue of one new share of HK\$5 credited as fully paid for every five shares held. The Board anticipates that three interim dividends each of HK\$0.35 per share will be payable in June, September and December 2001.

STRATEGY

The Company's strategy will already be clear to our shareholders. However, it may be helpful to re-emphasise the three key elements of that strategy, since these are central to the direction that the Company is taking as we begin our new century. These are to:

- Continuously improve and strengthen our core Hong Kong

electricity business;

- Develop our electricity business in the Chinese mainland and Asia-Pacific region; and
- Exploit opportunities to expand our activities in Hong Kong and southern China, including multi-utility activities, by leveraging off our existing business, assets, skills and relationships.

In the year 2000, we have made significant progress in each element of our strategy.

HONG KONG ELECTRICITY BUSINESS

The upturn in Hong Kong's economy was reflected in an increase in local electricity sales, which rose by 4.6% compared to the preceding 12 months. Local maximum demand in 2000 reached 5,598 MW, a 4.6 % increase over the peak level recorded in 1999. Growth in total unit sales was supported by a resumption of supply to Guangdong Electric Power Holding Company, which took 519 GWh during the course of the year.

CLP Power, the subsidiary responsible for our Hong Kong electricity business, continued its efforts to improve productivity, reduce operating costs and enhance the quality of service to our customers. Our achievements in this respect were marked by our announcement in January 2001 that we would be freezing tariffs in 2001 – this is now the third successive year in which CLP's basic tariffs will be unchanged. The productivity gains and the cost savings achieved, as well as strong sales in 2000, also enabled CLP Power to provide a HK\$200 rebate for each of our 1.9 million customers as part of our initiatives to celebrate the centenary of CLP's establishment.

In May 2000, the Executive Council of the Government of the Hong Kong Special Administrative Region approved CLP Power's Financial Plan for 1999 to 2004, submitted pursuant to the Scheme of Control Agreement. This was an important step in reinforcing regulatory certainty for our business during the coming years. The approved Financial Plan projects an estimated capital expenditure of HK\$30 billion, of which approximately 70% will be used to enhance the transmission and distribution systems.

REGIONAL ELECTRICITY BUSINESSES

CLP's efforts in the Mainland in the year 2000 were focused on laying the foundations for further investment and growth. The successful progress of our Joint Venture in Shandong Province,

in which CLP holds a 29.4% interest, has demonstrated CLP's ability to add value to power projects in the Mainland. This, coupled with the excellent relationships which CLP has established in the Mainland over many years, reinforces our confidence that CLP is particularly well-placed to be a major contributor to the growth of the Mainland power industry and that this industry is positioned for significant growth as the Mainland's economy continues to develop. I had the opportunity, during a number of visits to the Mainland in 2000, to confirm these views, notably in discussions with political leaders and major electricity industry participants.

It was, therefore, particularly encouraging when, towards the end of the year, State approval was given for CLP's participation in a major joint venture with Beijing Guohua Electric Power Corporation ("Beijing Guohua"), whereby we will acquire a 49% interest in three operating power stations in Beijing and adjoining areas, totalling 2,100 MW, of which the joint venture will own 1,285 equity MW. Through this joint venture, we aim to pursue other investments in northern China.

Our continuing confidence and determination to be a successful and leading player in the regional power sector were demonstrated by the purchase of an additional 10% interest in Ho-Ping power project in Taiwan (taking CLP's shareholding to 40%) and, most importantly, by the acquisition of an 80% equity interest in the Asia-Pacific electricity generating portfolio previously owned by Powergen UK plc.

Through the purchase of Powergen's assets, CLP has acquired 1,528 equity MW in operating assets in Australia and India, as well as development rights in several power projects in India and Thailand, with a potential of 2,000 equity MW. This transaction takes forward CLP's strategy of being a leading player in the regional power industry by:

- More than doubling CLP's Asia-Pacific asset portfolio (outside Hong Kong and the Chinese mainland);
- Substantially strengthening our position in India and creating a foothold in the Australian power market; and
- Providing a pipeline of future development projects.

As announced in the Interim Report, after a review of the fundamentals of CLP Power International's investments in Electricity Generating Public Company Limited, Thailand and YTL Power International Berhad, Malaysia, a provision of

HK\$1,030 million was made for impairment in value in respect of these investments. In this regard, shareholders will be aware that CLP's financial statements have always reflected a prudent approach. We continue to be confident that these investments will play a positive role in CLP's regional power business.

MULTI-UTILITY ACTIVITIES IN HONG KONG AND SOUTHERN CHINA

A significant advance in the CLP Group's multi-utility activities in the year 2000 was the development of our telecommunications business, through CLP TeleCom. In February 2000, CLP TeleCom received a Letter of Intent from the Office of the Telecommunications Authority agreeing in principle to our application for a licence to install a fibre-optic cable between Hong Kong and the Mainland. This fibre-optic link has now been completed and our ChinaLink business should shortly be launched. CLP's retail telecommunications businesses are in advanced development and are expected to be marketed soon.

OUTLOOK

CLP's core Hong Kong electricity business should benefit from the continued move out of recession by Hong Kong's economy, as well as the large scale infrastructure, rail network and residential development projects which are planned for CLP's supply area.

In the Asia-Pacific region, a major task will be the integration of the generating assets acquired from Powergen, and the realisation of the various development projects within the Powergen portfolio. In our Mainland activities, we must build on our existing strong relationships, take forward the joint venture with Beijing Guohua and bring to fruition the opportunities that exist for successful investment and acquisition. If these objectives can be met, we are confident that our Mainland and Asia-Pacific power businesses are poised to deliver meaningful earnings growth to the Company.

Our multi-utility activities, notably our telecommunications activities in Hong Kong and the Mainland, are at an early stage of development. Our plans are taking shape and these areas have strong potential to support CLP's growth in future years.

CLP's balance sheet is in very sound shape and can support our ambitions for business growth and focused investment. However, our financial strength must be used wisely and

with discretion. We must apply stringent criteria in determining whether an investment will create value for shareholders and refrain from deploying capital resources in circumstances where the levels of risk are out of line with the projected returns to shareholders.

MANAGEMENT

To cater for future growth of the Group, several key executives were recruited to fill senior positions in power, telecommunications, e-commerce and multi-utility businesses. In May 2000, Mr. Andrew Brandler, an investment banker with wide experience in the energy and electricity sector, joined CLP as our Group Managing Director and Chief Executive Officer.

A NEW CENTURY

CLP operates in one of the most dynamic and stimulating regions of the world and in a business environment which is changing and challenging. Our responsibility is to make our second century as successful as our first 100 years. In a fast developing world, we must not allow ourselves to be bound by our history. Nonetheless, CLP's future prosperity can and should be based on the core experience and values that we have learnt and applied in building our business over the past century. These include:

- Priority to safety and safeguard of the environment wherever CLP operates;
- Prudent financial management;
- Excellence in technical performance and service quality;
- Long-term planning based on confidence in Hong Kong and our region;
- Good corporate citizenship and a commitment to the communities we serve; and
- Reliability and trustworthiness in all our business dealings and partnerships.

By maintaining these core disciplines, CLP will continue to add value to its shareholders and to be a partner of choice for all the stakeholders in our business.



The Hon. Michael D. Kadoorie

Hong Kong, 26 February 2001