



Opportunities and challenges – the tasks ahead.

This is my first review as CLP Group Managing Director and Chief Executive Officer since succeeding Ross Sayers in May 2000. I want to take this opportunity to set out my perspective on the core opportunities and challenges that CLP faces in developing its business and the key tasks that we must address in order to implement our corporate strategy and create value for our shareholders.

ENHANCEMENT OF THE HONG KONG ELECTRICITY BUSINESS

Although we are making substantial efforts to broaden the range of our activities, the Hong Kong electricity business carried on by CLP Power will serve as the core business of the CLP Group for the foreseeable future. Financial and management resources will need to be allocated to CLP's

new investments, but a strong focus must be maintained on our domestic electricity business.

The key challenge this business faces is the expiry in 2008 of the Scheme of Control Agreement between CLP, our joint venture partner, ExxonMobil Energy Limited, and the Hong Kong Government. Whilst it is still too early to predict what type of framework will be appropriate for the Hong Kong electricity industry after 2008, it is important to bear in mind the particular considerations which will apply to any significant modification of the existing regulatory regime:

- CLP is an investor-owned utility and, together with ExxonMobil Energy Limited which has a 60% shareholding in the generating assets operated by CLP in Hong Kong, owns the entirety of the electricity infrastructure within its supply area.
- A reliable, cost-competitive and adequate electricity supply is crucial to the social and economic well-being of Hong Kong. The Scheme of Control has served Hong Kong admirably in this respect for over 35 years. Any changes to the regulatory regime can only be made at a time and on terms which will ensure continuity of the quality, capacity and cost effectiveness of this essential service.
- Hong Kong is not part of a large integrated electricity grid system. Any major electricity market reform will depend on progress in restructuring the power industry in southern China. This process is underway, but will be a massive and lengthy task, whose outcome is not yet certain.

With a view to our long-term future, proper management of regulatory issues is essential to the continued success of CLP Power and the CLP Group as a whole. To this end, we must:

- Have a thorough understanding of the implications for our Hong Kong electricity business of any potential changes in our operating environment;
- Develop an effective strategy to manage these issues;
- Participate in the public and political debate on the electricity industry;
- Continue to reposition ahead of external changes; and
- Maintain a world-class workforce, through continued development of existing staff and selective external recruitment.

We have transformed the productivity and cost efficiency of our Hong Kong electricity business in recent years. Whatever the future shape of our regulatory framework may be, it is clear that the interests of CLP, its shareholders and customers will be best served by continuing to sharpen our already first-class standards of supply quality, efficiency, tariff level and customer service, so as to enhance the long-term competitiveness of our business.

BUILDING OUR REGIONAL ELECTRICITY BUSINESSES

The development of our electricity businesses in the Mainland and the Asia-Pacific region serves both to diversify our earnings and to leverage the skills, experience and reputation acquired through the successful operation of our Hong Kong electric utility.

I am aware that the rate of growth of these businesses and financial returns to date may not have met shareholder expectations. This has been the result of a number of factors, of which the following can be highlighted:

- The economic downturn which hit the region from autumn 1997 onwards;
- The political, economic and regulatory risks and uncertainties which affected power projects in our region; and
- The shortage of viable investment opportunities and aggressive international competition for those which were available.

Despite the difficulties CLP has faced in growing its regional power businesses in recent years, I believe that the regional electricity sector does present significant opportunities for investment and that CLP is well-positioned to take advantage of these.

Firstly, although there may be variations between individual countries, the overall economic climate in the Mainland and the Asia-Pacific region is improving. This leads to increased demand for electricity, as well as the higher levels of confidence by governments and investors which are essential to support the long-term planning and financing which power projects require.

Secondly, CLP is strongly positioned for growth in the Mainland. Through our existing investments, CLP already participates in over 25% of foreign direct investment in the Mainland power business. We have a track record of successful project development there, starting in 1985 with our investment in the Daya Bay Nuclear Power Station. CLP's excellent reputation and long-standing relationships with the Mainland authorities and electricity industry participants provide an ideal base for sourcing investment opportunities and a unique competitive advantage.

Thirdly, CLP's strategy is to invest only where we feel able properly to judge market risks and returns. This is why our development business is limited to the Mainland and the Asia-Pacific region. Central to this strategy are the partnerships which CLP has established with major regional power players. These include Electricity Generating Public Company Limited in Thailand, the YTL Group in Malaysia, the Tata Group in India and Taiwan Cement Company. Together these form an unrivalled network of local partners in the region.



The Black Point Power Station 10km run - 2001

Fourthly, the Asian economic crisis, together with investment possibilities in the electricity industries of Europe and the U.S.A., has reduced the international competition for power projects in the Mainland and the Asia-Pacific region. The supply and demand for capital is now more evenly balanced.

Finally, CLP has looked critically at ways to capitalise on investment opportunities whilst, at the same time, controlling and diversifying risk. We have strengthened our management team and have significantly improved our processes of investment analysis and evaluation.

DEVELOPING MULTI-UTILITY ACTIVITIES IN HONG KONG AND SOUTHERN CHINA

Diversification of the CLP Group's business involves both transplanting our existing electricity industry skills to a regional plane and, within Hong Kong and southern China, leveraging our existing skills and assets, both tangible and intangible, into a wider range of business activities.

Success in the implementation of our multi-utility activities will depend on our ability to identify the particular skills and assets which will give CLP a competitive edge in new business ventures and then to apply these in the development of businesses which, over time, will make a meaningful contribution to the CLP Group's earnings.

In broad terms, examples of the skills and assets which CLP can carry into multi-utility activities would be our:

- Brand and reputation;
- Experience in customer service;
- Project management expertise; and
- Customer relationships.

The successful exploitation of these skills and assets will require CLP to master business activities which go beyond its traditional electricity domain. Moreover, the Hong Kong electricity utility has historically not driven competitive market skills – albeit that we have made great strides in enhancing the competitive characteristics of this business in recent years. For this reason, we will only move into new

business areas when we are confident that, either through partnerships or the recruitment of the necessary skills, these can be successfully managed. The development of CLP TeleCom, for which a number of key management appointments have been sourced externally, illustrates this approach.

It is clear that time and resources will be required to take the multi-utility business forward, but it offers a route to successful diversification and growth for the CLP Group over the longer term.

The Board has set out a clear strategy for the Company's management team. The implementation of this strategy is within the reach of the Company's financial and human resources. In this year's review, my first, I have set out the tasks ahead. My responsibility, in the coming years, is to report to you on the fulfilment of these tasks and the creation of value for CLP's shareholders.



Andrew Brandler

Hong Kong, 26 February 2001