

The purpose of this business review is to explain to our shareholders the various business streams within the CLP Group, the major achievements during the year 2000 and to highlight objectives for the coming year and the longer term.

HONG KONG ELECTRICITY BUSINESS

Through its wholly-owned subsidiary, CLP Power, the CLP Group is the owner and operator of the largest electric utility business in the Hong Kong Special Administrative Region.

CLP Power supplies electricity to 1.9 million customers, representing a population of approximately 5.4 million in Kowloon, the New Territories, Lantau and a number of outlying islands. Capital investment in the business amounted to HK\$58,709 million as at 31 December 2000 and included:

- 6,283MW of installed generating capacity (in which CLP Power owns a 40% interest through Castle Peak Power Company Limited, a joint venture with ExxonMobil Energy Limited);
- Over 10,000 km of transmission and distribution lines; and
- Over 10,000 substations.

During the past decade, CLP Power has undergone a progressive transformation in the productivity and cost competitiveness of its business. In 1991, the utility employed almost 6,500 employees, compared with 3,590 at 31 December 2000. Over the same period, local unit sales of electricity increased by



45%, meaning that overall productivity in terms of output per employee increased by 160%.

These improvements in cost efficiency have translated into competitive tariffs for our customers. Tariffs have decreased, in real terms, by 41% since 1983.

In the year 2000, CLP Power's ongoing drive for efficiency and cost control has continued to contain pressure on tariff increases. Productivity, over the year, increased by 16%, assisting the Company in announcing a tariff freeze for 2001 - the third year in succession that basic and total tariff levels remain unchanged.

Strong electricity demand growth in Guangdong led to a resumption of electricity sales to Guangdong Electric Power Holding Company ("GEPH"). In September 2000, a contract was signed with GEPH for fixed term supply of electricity over a period of about 20 months. During the year 2000, 519GWh was supplied to GEPH, representing 1.9% of total unit sales.

Under the Scheme of Control

Agreement, through which the Hong Kong Government regulates our electricity business in Hong Kong, a financial review is undertaken every five years. The resulting Financial Plan is discussed with the Government and then submitted to the Executive Council for approval. CLP Power's Financial Plan for 1999 to 2004, approved by the Executive Council in May 2000, included projected estimated capital expenditure of HK\$30 billion over that period. With the slowdown in growth in overall electricity demand and the adequate level of CLP's existing generating capacity, the emphasis of the Financial Plan is on investment in transmission and distribution systems, which is forecast to constitute 70% of capital expenditure through to 2004. This investment will provide for demand created by new towns, rail and infrastructure development projects in CLP Power's supply area, as well as to upgrade our existing network to further enhance supply quality and reliability.

In the coming years, CLP Power plans to improve the level of service by acquiring maintenance-free equipment, increasing the application

of 11kV live line work and mobile generators to reduce outages, as well as the formation of dedicated work teams for power quality and rural supply security improvements.

During the year, in line with CLP Power's focus on supply quality and reliability, our electricity generation, transmission and distribution system was enhanced by capital investment totalling HK\$3,204 million, including 515 new substations, 504 new circuit kilometres and a Distribution Management System. CLP Power's contracting and procurement systems have been streamlined to maximise the benefit to customers from our investment. By the application of strategic purchasing, significant savings on total costs have been achieved through better sourcing, optimising of need and leverage of the Company's purchasing power through collective purchasing.

The "new economy" offers many possibilities to improve the speed and efficiency of CLP Power's activities and to reduce costs. These are being actively explored by CLP Power. Already, through our website, CLP Power's customers can carry out over 30 different transactions over the Internet, ranging from bill payment to enrolment in the cooking classes run by our DeLight Centre. On the procurement side, CLP Power is aggressively pursuing an e-procurement strategy. This includes, for example, working with one of the world's leading B2B (business-to-business) eMarketplace providers, FreeMarkets,

to manage key significant procurement processes on-line. New software is also being used to create on-line interfaces with suppliers. It is envisaged that our work in this respect with General Electric Company of the U.S.A., one of our major suppliers, could become the world standard for utilities. In addition, CLP Power is working with other regional utilities on a business case for an Asian Utilities Electronic Exchange. These and other initiatives are aimed at placing CLP amongst the world's most advanced users of the Internet in its direct procurement.

Looking ahead, CLP Power's major business strategies and key initiatives during 2001 and following years will include:

- Reinforcing the quality of service to our customers and enhancing customer loyalty, including through competitive tariff policies, supply reliability and improvements in customer service;
- Continuous advances in internal business management and performance, including benchmarking to meet world-best practices;
- Close management of capital expenditure and operating cost;
- Encouraging a culture of innovation and growth by developing management and leadership capabilities, repositioning staff skills and organisation to meet a changing environment;
- Investment in information technology infrastructure; and
- Responsible corporate citizenship,

partnering with the Hong Kong Government and the community.

All of these are aimed to support the central business theme of positioning CLP Power as a world-class electric utility.

REGIONAL ELECTRICITY BUSINESSES

The CLP Group's regional electricity businesses comprise our operations in the Mainland led by CLP Power China ("CLP-PC") and our activities in the wider Asia-Pacific region undertaken by CLP Power International ("CLP-PI"). Both these subsidiaries serve as vehicles for growth in the CLP Group and aim to create shareholder value as owner-operators in the Mainland and Asia-Pacific power sector.

Asia-Pacific Region

Within the region, CLP-PI owns:

- A 40% interest in a 1,320MW project under development at Ho-Ping, Taiwan (pictured below);
- An 80% interest in a joint venture to acquire Powergen's regional



- electricity generating assets;
- A 20.81% shareholding in Electricity Generating Public Company Limited (“EGCO”) in Thailand; and
- A 5% stake in YTL Power International Berhad (“YTL Power”) in Malaysia.

During the year 2000, CLP-PI developed its existing business by increasing its interest in the Ho-Ping project from 30% to 40% and in EGCO from 18.1% to 20.81%.

However, the most significant event was the agreement reached in December with Powergen whereby, subject to financial close, CLP-PI will acquire an equity interest of 80% in the portfolio of electricity generating assets previously owned by Powergen. The joint venture will include a 92% interest in Yallourn Energy, which owns a 1,450MW coal-fired merchant plant and captive coal mine at Yallourn, Victoria, Australia, as well as an 88% interest in GPEC which has a modern combined-cycle 655MW power station located in the state of Gujarat, western India.



In January 2001, a major earthquake occurred in Gujarat. The earthquake has not had any adverse effect on the continuing operation of GPEC's power station.

Third party consents from the lenders, other shareholders and relevant authorities in respect of the acquisition of GPEC are being obtained. CLP-PI expects completion of the acquisition of an 88% interest in GPEC to occur during 2001.

The acquisition of Powergen's assets will significantly increase the equity investment of CLP-PI from 1,047MW to 2,575MW of generating capacity, thus establishing its position as one of the leading private sector power companies in the region.

The CLP-PI/Powergen joint venture may acquire Powergen's 35% interest in PT Jawa Power, an operating power station in Jakarta, Indonesia, within the next five years, subject to a number of conditions relating to refinancing of debt facilities and renegotiation of the power purchase agreement.

As part of the transaction with Powergen, CLP-PI will also acquire, through the joint venture, development rights in power projects at Bina, Rosa, Tuticorin, GPEC II (all in India) and BLCP (Map Ta Phut, Thailand) representing a total of approximately 2,000 equity MW, subject to any necessary consents from other project shareholders and relevant regulatory authorities. The

joint venture with Powergen, therefore, opens up further opportunities for growth in CLP-PI's business through a pipeline of existing development projects.

The implementation of the joint venture with Powergen will be a central focus of CLP-PI's activities during 2001, including:

- Taking the joint venture and related agreements through to financial close;
- Establishing joint venture management structures;
- Integrating the joint venture within CLP-PI; and
- Making progress in realising the potential value of the development projects within the Powergen portfolio.

Outside the Powergen joint venture, in the next 12 months CLP-PI will continue to build on its other investments, notably through:

- Working with EGCO to promote the growth of its business and the enhancement of the value of CLP-PI's shareholding in EGCO;
- Continuing the construction and commissioning of the Ho-Ping Power Station and pursuing new projects and acquisition opportunities in Taiwan, with Taiwan Cement Company;
- Partnering with YTL Power to bid for privatised electricity assets in Malaysia; and
- Developing our partnership with the Tata group for greenfield projects and investment