

opportunities in India, including, if possible, progress on the power project in Mangalore in which CLP-PI has a long-standing interest.

Over the medium to longer term, CLP-PI plans to:

- Bring the Ho-Ping project to commercial operation in 2002;
- Determine and implement plans for mine development and power plant modernisation at Yallourn in Australia;
- Gain competitive market skills to meet future challenges as power markets in Asia Pacific move towards competition;
- Explore opportunities arising from the recovery of the Asian economies, which, over time, will create demand for new greenfield power projects; and
- Build on investments, market knowledge and relationships in Thailand, Taiwan, India, Australia and Malaysia to deliver further growth through development projects and selected acquisitions.

For the foreseeable future, CLP-PI intends to remain headquartered in Hong Kong. At the same time, competition in the power industry requires CLP-PI to enhance its cost competitiveness through measures such as regional offices, employment of local staff and efficient managerial and remuneration practices.

Chinese Mainland

The CLP Group is a major investor in the Mainland electricity sector. Our interests include:



Shiheng Power Station, Shandong

- A 25% shareholding in Guangdong Nuclear Joint Venture Company, Limited, which owns a 1,968MW nuclear power station at Daya Bay;
- A 29.4% interest in Shandong Zhonghua Power Company ("SZPC") in Shandong Province. SZPC owns two existing operating power stations, Shiheng I and II (totalling 1,200MW) and has two power stations under construction, Liaocheng and Heze II (totalling 1,800MW);
- A 41.5% shareholding in the Huaiji Power Project in Guangdong Province (comprising nine small hydro power stations in operation or under construction amounting to a total of 98MW); and
- Through Hong Kong Pumped Storage Development Company, Limited (a joint venture with ExxonMobil Energy Limited) the right to use 50% of the 1,200MW capacity of Phase I of the Guangzhou Pumped Storage Power Station.

The year 2000 saw steady progress in

the construction of the Liaocheng and Heze II power stations in Shandong, which proceeded according to schedule, budget and quality requirements. The financial results achieved by SZPC, including shareholder earnings, were on target.

The major achievement in the year 2000 was the approval by the Ministry of Foreign Trade and Economic Co-operation ("MOFTEC") of an agreement between CLP-PC and Beijing Guohua Electric Power Corporation, whereby CLP-PC will acquire a 49% interest in a joint venture which will own three operating power stations in the Beijing-Tianjin-Datang area, with a total generating capacity of 2,100MW. It is envisaged that, subject to negotiation and finalisation of the relevant agreements, the joint venture will seek to acquire further stakes in operating power stations and projects under development in the Beijing and northern China area.

CLP-PC's overall business direction is to be geographically focused in the

Mainland, so as to build up a meaningful and competitive presence in provincial and regional electricity markets. In pursuit of this goal, CLP-PC will work, whenever possible, with strong Mainland parties jointly to pursue opportunities.

In the year ahead, CLP-PC's initiatives will include:

- Implementing the joint venture with Beijing Guohua;
- Taking forward investment opportunities identified by CLP-PC in its targeted provinces and regions;
- Exploring opportunities to enter the electricity distribution business; and
- Strengthening the managerial and organisational excellence of CLP-PC through management development, incentivised remuneration and, where appropriate and practicable, the localisation of operations in the Mainland.

In the longer term, the structural reforms being carried out in the Mainland power industry, involving a move towards deregulation and corporatisation by separating government functions from enterprise management, will enhance the opportunities for external private sector investment in the industry, once uncertainties about the precise shape of the reform have cleared. This, coupled with the Mainland's strong economic performance and forthcoming entry into the World Trade Organisation, encourages CLP in its long-standing focus on electricity opportunities in the

Mainland, building on CLP's excellent relationships and track record.

MULTI-UTILITY ACTIVITIES IN HONG KONG AND SOUTHERN CHINA

CLP places increasing emphasis on the exploitation of opportunities in Hong Kong and southern China, notably the development of multi-utility activities, leveraging off CLP's existing assets and skills. These new ventures will take time and resources to bring to fruition. However, the year 2000 saw significant progress in the first of these activities, CLP's telecommunications business undertaken by CLP TeleCom.

In February 2000, CLP was granted a Letter of Intent from the Office of the Telecommunications Authority to award an External Fixed Telecommunications Network Services ("EFTNS") Licence.



Installation work on CLP TeleCom's ChinaLink

Following careful review of the telecommunications market and CLP's competitive advantages in that market, CLP TeleCom took steps to develop its ChinaLink business (telecom and Internet capacity to the Mainland) and retail businesses (such as resale of mobile, international call and Internet access, purchased carrier business).

Both the ChinaLink and retail businesses are at the advanced development stage and are intended to be launched in early 2001. A new brand will be created to enhance the customer services position of the retail business.

Looking ahead, CLP TeleCom's main initiatives for the coming year will include:

- Successful launch of the ChinaLink and retail businesses;
- Development of cost-competitive data and internet protocol ("IP") transport capabilities, leveraging off CLP's existing infrastructure;
- Development of IP enabled applications and services that can be bundled to CLP customers;
- Building a retail brand to meet or exceed customer expectations;
- Building competitive market skills, including through the recruitment of experienced telecommunication managers and staff; and
- Identifying and exploiting opportunities to build upwards and outwards from CLP TeleCom's initial business ventures.

CLP Enterprises was formed in March 2000 as our vehicle to develop multi-utility businesses in Hong Kong and southern China. CLP Enterprises' task will be to identify and develop gas, energy infrastructure and financial / information technology opportunities that can draw from CLP's tangible and intangible assets. An example of the type of project to be pursued by CLP Enterprises was its bid for a stake in a major liquefied natural gas terminal project in Shenzhen, of which the outcome is not yet known. CLP Enterprises is also pursuing e-business opportunities, where the potential offered by new information technology capabilities can be used to unlock value from CLP's assets and businesses, including its customer relationships.

CLP Research Institute was established in the year 2000. This will focus on research and development in areas relevant to the CLP Group. The principal areas of research will include emerging energy and communications technologies, distributed generation, renewable energy, and sustainable development.

The core business of CLP Engineering has been to undertake public lighting as a contractor to the Hong Kong Government. CLP Engineering has successfully expanded into the provision of private lighting and other specialist engineering services outside the core Hong Kong electricity business, such as infrastructure projects, manpower services and energy audits. However, lighting has remained the mainstay

business and major source of revenue. In 1999, Government decided to tender competitively for the public lighting work in the Kowloon and New Territories East Region. CLP Engineering was unsuccessful in its bid for this work.

CLP Engineering, therefore, faces the erosion of the public lighting business, but has other opportunities. A key task for management in 2001 will be to review the future strategy for CLP Engineering. Given the implications of the forthcoming Government tender for the New Territories West Region public lighting contract on the company's manpower and profitability, early completion and implementation of the review is required.

PROPERTY REDEVELOPMENT IN HONG KONG

In addition to its electricity and multi-utility activities, CLP also undertakes the redevelopment of property in Hong Kong, whenever it has sites which are no longer required for electricity purposes. CLP does not acquire land and buildings for redevelopment from the market, save when joint development of an existing CLP property with an adjoining site will add value.

CLP's major current project is the residential and commercial redevelopment of the former power station at Hok Un. Once completed, this project, Laguna Verde, undertaken by CLP Property in joint venture with Cheung Kong, will comprise 4,735 flats, 1,692 carparks and 270,000 sq. ft. commercial space. In the year 2000,



Laguna Verde

CLP Property obtained an Occupation Permit for Phase 3 and commenced presale of Phase 4 of Laguna Verde.

CLP Property's on-going priorities include:

- Successful completion and sale of the Hok Un project;
- Identification and progress on other redevelopment opportunities for existing CLP sites; and
- Capturing optimal timing for land premium negotiation, project commitment and sale.

IMPLEMENTATION OF CLP'S STRATEGY

The achievements of CLP over the past year and our future goals can be drawn together within a clear theme of advancement in each of the key elements of the Company's strategy - developing new businesses and strengthening existing businesses by building on the foundations provided by the Group's financial strength, skills and assets.