



Exploiting our strengths

Taking opportunities Managing challenges

CLP seeks to be a major player in the regional power sector and, in doing so, to create value to our shareholders.

More specifically, the Company's objectives are to:

- Deliver meaningful and sustainable increases in shareholder value to our investors;
- Enhance our electricity business in Hong Kong;

- Selectively develop and grow our electricity business in the Asia-Pacific region;
- Target significant and sustainable growth in earnings per share over the medium term; and
- Enhance CLP's position as a responsible corporate citizen, with concern for the interests of all of our stakeholders, including safeguarding the environment.

As shareholders will by now be aware, the pursuit of CLP's corporate objectives is being

undertaken on the basis of a three-fold strategy:

- Continuous improvement and strengthening of our core Hong Kong electricity business;
- Development of our electricity business in the Chinese mainland and Asia-Pacific region; and
- Exploitation of opportunities to expand our activities in Hong Kong and the Chinese mainland beyond the electricity business, by leveraging off our existing business, assets, skills and relationships.

Each of our three strategic business lines draws on CLP's core competencies, disciplines and values. Each is subject to different challenges, opportunities and market forces.

The focus in our core electricity business in Hong Kong remains on efficiency and cost-control measures that help to mitigate pressure on future tariff increases. The Scheme of Control, which regulates our Hong Kong electricity business, provides for an Interim Review in 2003. The Hong Kong Government has indicated that the Interim Review may be used to map out the future shape of the regulation of the Hong Kong electricity industry after the expiry of the Scheme of Control in 2008. Effective management of regulatory issues is essential to CLP's continued success.

In the Chinese mainland, CLP Power China established a joint venture with Beijing Guohua Electric Power Corporation in January 2001 and acquired a 49% stake in Shenmu Power Station from TXU in November 2001. Good progress has also been made in other aspects of our Mainland business, including the construction of Heze II and Liaocheng Power Stations, in which CLP owns a 29.4% interest. During the course of the year, there were regulatory developments regarding the sale of state-owned power assets and rates of return on

power investments. These will introduce a degree of uncertainty into the Mainland power industry until the relevant issues are worked through. At the same time, there will be long-term benefits for the Mainland's economy (and, therefore, its power industry) from China's recent accession to the World Trade Organisation and the general trend to opening up the power industry for investment.

The CLP Group's portfolio of electricity assets in the broader Asia-Pacific region grew in 2001 with the completion of the acquisition by CLP Power International of a 73.6% shareholding in Yallourn Energy, which owns a 1,450MW coal-fired power station in Victoria, Australia. We have also completed the purchase of 70.4% stake in Gujarat Powergen Energy Corporation Limited, which owns a combined-cycled 655MW power station in the State of Gujarat, India. These assets, together with CLP Power International's other investments, such as its 40% interest in a 1,320MW project at Ho-Ping, Taiwan, demonstrate that CLP is well on the way to establishing itself as a major regional power player. Nonetheless, wider regional economic uncertainty, coupled in places with political uncertainty, means that the risks and rewards inherent in an Asia-based strategy must be carefully weighed and reviewed at all times.

This year has also seen progress in CLP's telecommunications business carried on through CLP TeleCom.

In April, CLP TeleCom launched a new retail brand called "Oxygen" which now provides both narrowband and broadband Internet access to Hong Kong consumers. CLP's "ChinaLink" provides secure network service between Hong Kong and the Mainland, making use of our overhead power network. However, the overall economic climate for telecommunications activities is unfavourable. This, combined with extremely competitive market conditions in Hong Kong, demands a prudent and incremental approach to this business, in order to minimise the risk of significant impairment of shareholder value.

THE YEAR AHEAD

During 2002, the CLP Group will focus on the consolidation of its existing businesses, whilst remaining alert for growth opportunities. In particular:

- CLP Power will continue its strategies to enhance the Hong Kong electricity business, manage regulatory issues and support business development opportunities outside the scope of the Scheme of Control.
- Following the recent introduction of regulatory changes, development of the Mainland electricity market will be at a slower pace in the short term.

CLP Power China will concentrate on managing its investments in CLP Guohua and Shandong, particularly with regard to tariff implementation, and on continued development of power projects in western China.

- CLP Power International will continue the commissioning of the Ho-Ping Power Station in Taiwan and will proactively manage the investments in India and Australia, held through our joint venture with Powergen, with cautious development elsewhere in southeast Asia.
- CLP TeleCom's business will be subject to on-going review to improve financial viability.
- The Company will continue to review the efficient use of its balance sheet and monitor the advantages of share repurchase as a means of enhancing returns to shareholders.
- We will reinforce the CLP Group's reputation by way of corporate branding and community activities.
- We will enhance leadership quality and depth and a performance-driven culture across the CLP Group.
- The CLP Group's good performance in safety, health and environmental aspects will be further improved, including through increasing awareness of the longer-term environmental and social implications of our activities on the communities we serve.

CLP — A SOUND UTILITY STOCK

I am conscious that in a difficult global economic climate, our shareholders look to CLP as a source of stable and consistent returns. It is only prudent for the Company to seek a measure of diversification away from reliance on the core Hong Kong electricity business as the source of CLP's earnings and growth. However, the risk/reward profile of these investments, such as in the development of our Mainland and

Asia-Pacific electricity activities, will be different from that of the Hong Kong Scheme of Control business. Our approach to these new activities must be incremental and cautious, so that the fundamental characteristic of CLP's stock as a sound utility holding remains unchanged.



Andrew Brandler

Hong Kong, 25 February 2002

