

Interview with Chief Executive Officer



Mr. Richard Wong
Associate Director, Equities
HSBC Asset Management
(Hong Kong) Limited

Ms Shirley Yang
Senior Specialist – Organisation
Development
CLP Holdings Limited

Mr. Wong Ka Wo, Simon
Group Chairman and
Managing Director
Kampery Group

Mr. Andrew Brandler
Chief Executive Officer
CLP Holdings Limited

Management welcomes an open dialogue with all the stakeholders to improve understanding of the Group's strategy and prospects. In this year's Annual Report, an investment analyst, an employee and a customer put their questions to Andrew Brandler, Chief Executive Officer.

Richard Wong of HSBC Asset Management:

RW: What changes in Hong Kong's electricity regulatory environment do you anticipate post-2008 and how are you positioning CLP to adapt to this new environment?

AB: It is still too early to predict what type of framework will be appropriate for Hong Kong's electricity regulatory environment after 2008. The Scheme of Control (SOC) has delivered a world-class, sufficient, reliable and cost-effective electricity supply to Hong Kong's consumers for over 35 years. Experience elsewhere in the world,

such as the loss of supply to the central business district of Auckland in 1998, the supply and price volatility seen in California and recent concerns in parts of Australia over inadequate generation reserve margins, suggests that other regulatory regimes are not necessarily better, and could be far worse, for Hong Kong.

We are positioning ourselves for the future in two ways. First, we are developing a thorough understanding of the implications of different regulatory systems for our Hong Kong electricity business, so that we can participate actively,

effectively and with authority in any political or public debate on the electricity industry. Secondly, we are continuously enhancing CLP Power's performance in terms of supply quality, reliability, tariff management and customer service – this will stand us in good stead whatever the shape of future regulation may be.

RW: Given the current sluggish economic growth in Hong Kong and in Asia, do you see a need to adjust your strategy on expansion into non-SOC investments? Are you still targeting one-third of CLP's revenue coming from non-SOC activities by 2005?

AB: The electricity business is characterised by long-term investment and long-term returns. This means that our investment strategy will not be unduly swayed by short-term movements in

regional economic cycles – although the downturn may provide opportunities to source assets at more realistic valuations than previously.

Our target of having one-third of our earnings from non-SOC operations by 2005 remains unchanged. We are making progress towards this. For example, the Ho-Ping plant in Taiwan (in which we have a 40% stake) should enter service in 2002, Yallourn Energy has made progress on industrial relations issues and should post a profit in 2002, and our joint venture with Beijing Guohua is also expected to be profitable.

The policy of investment in the Mainland and Asia-Pacific power industry is aimed to benefit shareholders in terms of increased earnings and diversification away from reliance solely on our Hong Kong electricity business. We are working hard towards our target for non-SOC earnings. We have the human and capital resources necessary to achieve this objective, but its achievement will depend on the availability of investment opportunities which meet our criteria in terms of price, earnings and risk profile. We will not pursue this target at the expense of inappropriate risk to shareholder returns.

RW: China is perceived as a major growth economy. What is CLP's strategy in China? What

opportunities and key risks do you see in this market?

AB: I am optimistic on both the growth potential of the Mainland's power industry and CLP's on-going role in that industry.

The Mainland is committed to a policy of economic development. This must lead to increased demand for electricity. The authorities appear determined that economic growth should not be constrained by shortcomings in electricity supply. The details of the Mainland's power reforms are still unclear, albeit that the outlines are emerging, including the separation of generation and transmission, and the introduction of competition in the generation sector. These uncertainties suggest a measure of caution in investment in the Mainland. In CLP's case, when reviewing generation projects, we are placing less reliance on aspects such as power purchase agreements and more on basic fundamentals – availability and costs of fuel, competitiveness of generation costs, quality of the relevant transmission network and the supply/demand balance for electricity in the local province or region.

CLP has a competitive advantage in the Mainland, compared with other foreign power investors. We have long experience in the Mainland, going back to our investment in the Daya Bay Nuclear Power Station in 1985. Our workforce is

overwhelmingly Chinese, with attendant benefits in terms of language and cultural skills, and can apply our experience in modern utility management to the power industry in the Mainland. We have strong relationships and an excellent reputation in the Mainland. All these factors have enabled CLP to establish a leading role in the power industry – we participate in over 30% of Mainland electricity projects involving foreign investors. We will continue to build on this unique platform.

Shirley Yang of CLP Holdings:

SY: At times, CLP seems like an old-fashioned and conservative company. What are you doing to develop a corporate culture which fits our future business needs?

AB: Many of CLP's values might be labelled as old-fashioned or conservative, such as prudent financial management, reliability in technical performance, long-term planning and integrity in business dealings. These will not change – they are as relevant to our future business needs as they have been to our achievements over the past century.

However, in response to the demands of our business environment, CLP needs to enhance its skills in terms of innovation, creativity and entrepreneurship. This requires

changes in corporate culture and strengthened human resources capability. This is a process which takes time to be embedded across the Company. The actions we are taking include:

- Establishing a balanced staff profile to ensure an injection of new talents and continuity of knowledge and capability;
- Large-scale investment in training and development;
- Structured selection and development of executives and high-potential employees;
- Annual performance-based assessment for every employee;
- Strengthened “pay for performance” system;
- Streamlined organisation and grading – moving to broader and more flexible job bands and facilitating movement within the Group;
- Targeted external recruitment; and
- An active policy of communicating our business plans and objectives to all our employees.

The ultimate objective is to achieve and maintain an optimal combination of the “old-fashioned” values on which CLP has been built and new or reinforced skills to meet the demands of the future.

SY: Is the Management planning to downsize the Company?

AB: We have no current plans to downsize CLP’s workforce. Like any company, CLP must ensure that its

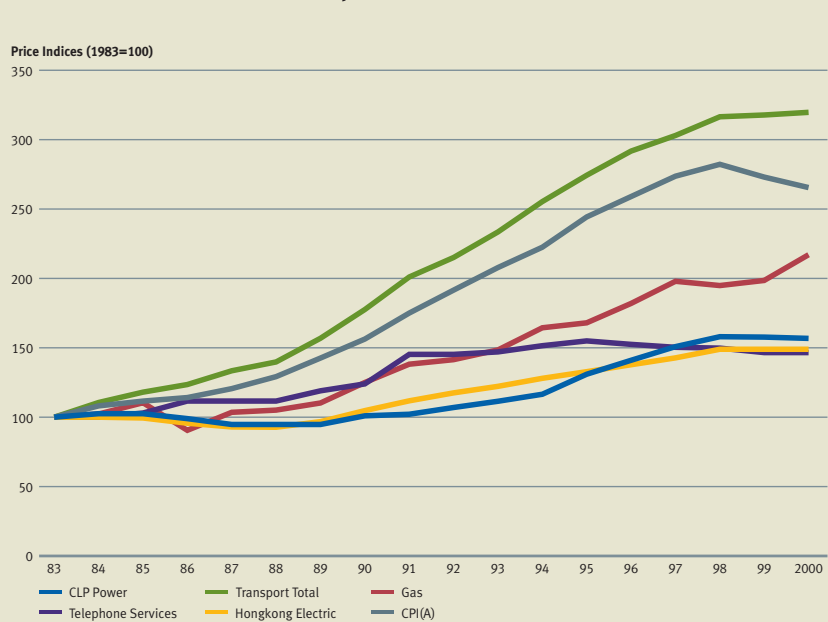
workforce corresponds to the needs of its business, whether this be in terms of number, skills, competencies or culture. And as the range of CLP’s activities widens, our human resources requirements will vary across different business lines. That said, the drive for cost-efficiency in our SOC business has led to a reduction of the CLP Group’s total workforce of 38.7% over the last 10 years. Whilst we will continue to look for further efficiency gains, I doubt there is scope or the need for large scale downsizing in the future, but rather a requirement to continually upgrade the skills of our staff and ensure that they are effectively allocated to achieve maximum value for shareholders and customers alike.

Simon Wong of Kampery Group:

SW: As a customer, we would like to see cheaper electricity. Can you tell me what the future tariff projections would be like and whether there is room for reduction?

AB: Our commitment is to provide our customers with an adequate and reliable supply of electricity at the lowest reasonable cost. CLP Power has lived up to this commitment. Between 1983 and 2000, the average cost of electricity has decreased in real terms by 41%. We have frozen basic tariff levels since 1998, as well as offering significant rebates to our customers in 2001 and 2002. This chart shows CLP Power’s performance in managing electricity cost compared

CLP’s Tariff — A Price Index Comparison



Notes: Data sourced from the Census and Statistics Department of the Hong Kong Government. All data is to 31 December 2000 (latest available).

to overall inflation and a number of other public service providers in Hong Kong.

Since 1982, CLP's overall electricity tariff has been the lowest in Hong Kong. Following our tariff announcement in December 2001, CLP Power's overall tariff in 2002 will be the lowest in Hong Kong by a margin of 18% (and up to 42% lower for industrial users). These achievements are a reflection of CLP Power's substantial efforts in controlling operating cost and improving efficiency.

It is not possible to accurately forecast future tariff levels, particularly since these may be affected by external factors such as Hong Kong's economy, fuel costs, environmental standards and the like. However, CLP's past record in controlling tariff levels speaks clearly for our determination to ensure that our customers receive value for money. Our drive to enhance performance of our business will continue. Under the SOC, all these efficiency gains are passed through to benefit customers in terms of lower tariffs.

SW: In the past year, we had seen CLP getting more involved in community activities. This would set a positive image for CLP. I would like to ask if CLP would, in future, continue to not only take part in community activities as usual, but also increase resources

and assistance to groups such as the Community Chest of Hong Kong, the Hong Kong Girl Guides Association?

AB: CLP has always played an active role in the community. Our centenary year has given particular prominence to our activities in this respect. Many of these involve leading community groups such as the two you mention. In addition to the Group's donations for charitable and other purposes, HK\$448,000 was donated by CLP and its employees to the Community Chest during the year, under its Corporate and Employee Contribution Programme. I am confident that our shareholders and customers support these activities. However, there is an on-going balance to be struck when we are dealing with shareholders' or customers' money. We must be careful not to infringe on shareholders' entitlement to receive dividends from the Company and decide themselves whether and, if so, which community or charitable work they want to support. Likewise, we must consider the customers' interest when undertaking initiatives within the framework of the SOC.

SW: In the past year, people were getting more aware of their environment (heated subjects like air pollution, genetically modified food, organic agriculture, food and

material waste, etc. have been put on the table for discussion). Some of the issues are related to fuel or equipment being non-environmental. What is CLP's role in this important subject?

AB: Our position is straightforward – the CLP Group is committed to providing a safe, healthy and clean environment for our employees, customers and the public. We live up to this commitment. We monitor emissions from our Hong Kong power stations on a real-time basis. Over the past decade, our emissions of SO₂ and NO_x have been reduced by over 70% per unit of electricity generated. This is the result of a range of actions including the decommissioning of the oil-fired Tsing Yi Power Station, the commissioning of Black Point Power Station (which uses natural gas, the cleanest fossil fuel available) and initiatives at Castle Peak Power Station such as the use of low-sulphur coal and retrofitting low-NO_x burners. We are closely monitoring the use of renewable energy sources. 2002 will see the commissioning of our first wind turbine in Hong Kong at Shek Kwu Chau.

I might add that 4,000 CLP colleagues and our families live in Hong Kong. As citizens, we have a direct and personal interest in our environment. All of us in CLP are proud to work for a company which respects Hong Kong's environment.