



CLP Centenary Substation in West Kowloon

The purpose of this business review is to explain the various business streams within the CLP Group, the major progress made during 2001 and outline objectives for the coming year and the longer term.

HONG KONG ELECTRICITY BUSINESS

The CLP Group, through its wholly-owned subsidiary, CLP Power, owns and operates the larger electric utility business in the Hong Kong Special Administrative Region.

CLP Power supplies electricity to 2 million customers, representing a population of approximately 5.4 million in Kowloon, the New Territories, Lantau and a number of outlying islands. CLP Power's supply area covers approximately 1,000 square kilometres, through a company-owned and operated 10,859 kilometres advanced transmission and distribution network. In addition to sales to Hong Kong customers, approximately 6% of CLP Power's electricity sales was for distribution to customers in Guangdong Province.

CLP Power's electricity generation and supply business is regulated by the Hong Kong Government pursuant to a Scheme of Control Agreement. The current Scheme

of Control became effective in 1993 and runs until 2008. The Scheme of Control obliges CLP Power to meet electricity demand at the lowest reasonable cost. In return, the Government recognises that CLP Power is entitled to receive a reasonable return on its investment.

CLP Power does not directly own generation facilities, but purchases its power from Castle Peak Power Company Limited (in which CLP Power owns a 40% interest) and Guangdong Nuclear Power Station (in which CLP Holdings owns a 25% interest) at Daya Bay, Guangdong Province. These sources of power, together with CLP Power's right to use capacity at the Guangzhou Pumped Storage Power Station, amount to a total installed capacity of 8,263MW.

Business Strategy

The strategic vision of CLP Power is to be a world-class power company providing excellent services to Hong Kong customers. CLP Power is fulfilling that vision by delivering reliable energy supplies and high quality services at competitive prices to its customers, while meeting or exceeding all safety and environmental requirements for the community, and providing a challenging and rewarding work environment for its employees.

The long-term interests of our shareholders are best served by ensuring that CLP Power's customers receive value for money and good service. If a

utility company consistently fails to meet its customers' reasonable expectations, it cannot expect to continue to receive the support of the community it serves. Hence, customer satisfaction is a cornerstone of CLP Power's strategy for creating value to shareholders.

In fact, demand for CLP Power's services is greater than ever. On a typical working day, CLP Power lays about two kilometres of distribution cable, installs one substation, processes 860 account applications and amendments, and handles more than 6,400 telephone enquiries.

Achievements for 2001

2001 was marked by significant accomplishments and developments of CLP Power.

- Through its on-going drive for efficiency and cost control, CLP Power was able to announce a package of rebates and fuel

clause reduction to all its customers in 2002. This is the third time CLP Power has provided rebates to its customers in three years. On top of the rebate and fuel clause reduction package, all CLP non-residential customers will receive additional benefit from a Business Relief Rebate of HK¢0.2 per unit of electricity consumption for a period of 12 months. This Rebate is provided in light of the difficult environment currently being faced by commercial and business users. The entire rebate and reduction package is expected to amount to HK\$560 million and will be funded mainly by the Development Fund.

- CLP Power has signed a second supply arrangement with Guangdong that extends into 2002. This will assist Guangdong in meeting its electricity demand and provide additional sales revenue that

will offset costs for CLP's Hong Kong customers and contribute to shareholder earnings.

- To meet rising customer expectations, three larger customer services centres were acquired during the year to provide a comprehensive range of value-added services, such as sales of energy-efficient electrical appliances, in addition to the existing core services of bill payment and account enquiries.
- In April, CLP Power achieved the highest rating in a public opinion survey. The overall rate of satisfaction, based on customers' feedback on restoration of supply, customer centres, customer installation inspection and customer telephone services was 98.28%. CLP Power's efforts in customer services improvements and achievements were recognised by the Customer Service Grand Award under the Hong Kong Awards for Services 2001





“Hand Talk” service for hearing-impaired customers

organised by the Hong Kong Retail Management Association.

- CLP Power has delivered a challenging capital works programme, totalling HK\$4.6 billion, including 132kV Tseung Kwan O Town Centre Substation, 132kV Tin Shui Wai ‘B’ Substation, 132kV West Kowloon Substation and diversion projects for West Rail. This investment enhanced our supply quality and reliability, as well as provided for demand created by new towns and infrastructure development projects in CLP Power’s supply area. Unplanned customer minutes lost per annum (a standard measure of supply reliability) have been improved by about 50% within the last four years.
- A benchmark of CLP Power operations showed that its performance, compared to international power utilities, was well above average, with many areas at world-best practices. However, through these benchmarking exercises, gaps were identified between

CLP Power and the best performing utilities.

Improvement plans were developed to keep CLP Power at the forefront of world practice.

- CLP Power has actively managed its fuel costs and achieved remarkably low costs despite the price escalation and volatile fuel market environment in recent years. The delivered coal price for the year was lower than the market by 35%. This was achieved through the development of new coal sources, operational changes to accommodate a wider variety of qualities and careful timing of contract placement.
- The strategic purchasing initiative achieved significant cost reductions in both capital equipment and operating expenses. CLP Power also explored possibilities offered by the “new economy” to improve speed and efficiency of its procurement activities. CLP Power has used e-catalogues, e-tendering and on-line bidding since September 2000.

Plans and Activities for 2002

Over the next year, CLP Power will build on this progress and focus on the following major strategies and initiatives:

- CLP Power will benchmark its performance against other comparable utility companies and market leaders around the world to identify specific areas where it can further improve efficiency and drive down operating costs.
- In order to reduce pressure on fuel costs, CLP Power will look for fuel procurement synergy within the CLP Group. CLP Power will closely manage its fuel suppliers to ensure good performance, and complete improvements to the Castle Peak Coal Plant to provide flexibility in burning a wider range of coals.
- Although Hong Kong’s recent rate of growth has slowed down significantly, on-going development projects and new infrastructure projects, mostly in CLP Power’s supply area, will continue to require upgrades and extensions to the transmission and the distribution networks. Major work includes the implementation of the reliability improvement plan to further reduce the customer minutes lost, the application of 11kV live line work to minimise the need for power outages on these circuits and the overhead line improvement work.
- CLP Power will continue its focus on delivering high performance and flexibility from its generating assets. Priority tasks for the

generation business are the completion of Castle Peak Power Station refurbishment projects and construction and commissioning of Black Point Power Station units 7 & 8 to schedule and budget.

- In order to deliver a level of service that meets or exceeds our customers' expectations, CLP Power will continue to revamp its customer services centres and conduct a series of customer reach initiatives to collect feedback as the basis for further improvements and new services. CLP Power will cultivate relationships with customers and provide total energy solutions to them.

Medium to Longer-term Perspectives

The key challenge for CLP Power is the expiry in 2008 of the Scheme of Control Agreement. CLP Power welcomes a dialogue with the Government, academics, legislators and its customers on the future structure of the electricity industry, which is likely to start in 2002/2003. Irrespective of the outcome of the review process, CLP Power needs to strive for world-best practice in all aspects of its business activities so as to deliver value to customers, shareholders and employees alike.

REGIONAL ELECTRICITY BUSINESSES

CLP Power China (CLP-PC) leads the Group's operations in the Chinese mainland while CLP Power International (CLP-PI) undertakes our activities in the wider Asia-Pacific region.

CLP-PC and CLP-PI develop and own power projects in the region and serve as vehicles for growth in the CLP Group to create shareholder value.

CHINESE MAINLAND

Our interests in the Mainland include the following:

- 25% in Guangdong Nuclear Power Joint Venture Company, Limited, which owns a 1,968MW nuclear

power station at Daya Bay;

- 29.4% 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);
- 49% in CLP Guohua Power Company Limited, which owns and operates three power stations with a total generating capacity of 2,100MW in the Beijing-Tianjin-Tangshan area;
- 49% of Shenmu II Power Station (2 x 100MW coal-fired units), Shaanxi Province;
- 49% of Hong Kong Pumped Storage Development Company, Limited (a joint venture with ExxonMobil Energy Limited) which gives us the right to use 50% of the 1,200MW capacity of Phase I of the Guangzhou Pumped Storage Power Station; and

Installation work at Heze II Power Station Unit 3, Shandong





CLP delegation's visit to Beijing Yire Power Station

- 41.5% 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).

Business Strategy

CLP-PC intends to build on its status as the largest external investor in the Mainland electricity industry by:

- Developing a balanced portfolio through acquisitions and greenfield development in targeted Mainland provinces;
- Establishing and reinforcing relationships with partners, government authorities and business associates; and
- Actively participating in the management of our investments to add value to our joint ventures, deliver the projected returns on investment and meet safety, health and environmental objectives.

Progress in 2001

The joint stock company with Beijing Guohua Electric Power

Corporation, CLP Guohua Power Company Limited (CLP Guohua), was established in January 2001. In addition to owning and operating its existing assets, CLP Guohua will develop greenfield projects and acquire existing power assets. The 49% interest in Shenmu Power Station acquired by CLP-PC in 2001 will be the first additional asset to be injected into the joint venture.

Operation of the Guangdong Daya Bay Nuclear Power Station was satisfactory and high-levels of safety and production were achieved. For the second year in succession, Daya Bay won the Nuclear Safety Award in the Annual Electricité de France Challenge Contest against all French nuclear power stations.

In Shandong, Shiheng I and II Power Stations maintained their status of First Class Power Stations from the State Power Corporation of China. Good progress was made in the construction of Liaocheng and Heze II Power Stations. The first unit of Heze II is being

commissioned, some three months ahead of schedule.

CLP-PC had identified the potential for investment in the electricity industry in the west of China prior to the Beijing authorities' move to actively promote economic development in the west, including the transmission of power generated in the western provinces to the east. In 2001, CLP-PC entered into a joint venture agreement with local state-owned enterprises for the construction of a 600MW coal-fired power station at Anshun in Guizhou Province. In addition, CLP-PC is also undertaking a feasibility study on the joint development of a 1,200MW coal-fired power station at Diandong in Yunnan Province.

Plans and Activities for 2002

"Regulation 69" issued by the State Council in late November 2000 has placed a moratorium on the sale of state-owned power assets. "Document 701" issued by the State Development Planning Commission in April 2001 sets out

how electricity tariffs and rates of return on power plant investment should be determined before competition is introduced into the generation sector.

Until the effect of these regulatory initiatives and wider state enterprise reforms becomes clearer, CLP-PC's immediate focus will be on the effective management of its existing joint ventures and the prudent exploration of business opportunities with selected strategic partners in target provinces.

Medium to Longer-term Perspectives

Successful management of state enterprise reform remains a major challenge for the Mainland authorities. However, the Mainland's accession to the World Trade Organisation and Beijing's successful candidature for the 2008 Olympic Games are a recognition of the Mainland's stability and a spur to continued transition from a planned to more open socialist market economy.

In the electricity generation sector, the authorities are planning to introduce competition in stages. It is expected that a "South China Power Pool" comprising generating plants in Guangdong, Guangxi, Yunnan and Guizhou will be established in the next decade. Senior Mainland officials and "Document 701" have confirmed that, notwithstanding the introduction of competition, existing power purchase agreements properly

approved by the Central authorities will be honoured.

CLP-PC's long-standing presence and experience in the Mainland power industry will be leveraged to manage changing market conditions and to take up suitable investment opportunities, notably with regard to investment in the western part of China in line with the Mainland policy.

ASIA-PACIFIC REGION

In the region, CLP-PI owns the following interests:

- 40% in a 1,320MW project under commissioning at Ho-Ping, Taiwan;
- 73.6% in a 1,450MW coal-fired plant and dedicated coal mine in Victoria, Australia, owned by Yallourn Energy Pty Limited (Yallourn Energy);
- 70.4% in a 655MW combined cycle power station in Gujarat, India, owned by Gujarat Powergen Energy Corporation Limited (GPEC);

- 22.44% in Electricity Generating Public Company (EGCO), Thailand;
- 40% in a 1,434MW coal-fired BLCP power project to be developed at Map Ta Phut, Thailand; and
- 5% in YTL Power International Berhad (YTL Power), Malaysia.

Business Strategy

CLP-PI seeks to develop its position as a leading Asia-based independent power company, growing its business through development projects and acquisitions in electricity generation, transmission and distribution. To do this, CLP-PI:

- Focuses on selected countries in the region where the business environment encourages development of the private sector power industry;
- Adopts strategies appropriate to each country, including through alliances with local companies with complementary skills and knowledge;

Dedicated coal mine in Victoria, Australia owned by Yallourn Energy





Ho-Ping Power Station, Taiwan

- Intends to build a balanced portfolio through a combination of new projects and the acquisition of existing assets;
- Applies strong asset management disciplines to maximise earnings, control risk and meet safety, health and environmental objectives; and
- Draws on industry knowledge and experience available throughout the CLP Group.

Progress in 2001

The key task in 2001 was to take forward the joint venture with Powergen UK plc (Powergen), signed in December 2000, whereby CLP-PI acquired an 80% interest in assets previously held within Powergen's Asian portfolio. Steps taken included:

- Completion of the acquisition by the joint venture of the shares in Yallourn Energy held by Powergen and other third parties;
- Completion of the refinancing of Yallourn Energy in February 2001 which will enable that company to operate effectively within the Australia market environment;

- Acquisition of development rights in the BLCF power project; and
- Progress to completion of the acquisition of the shares in GPEC.

Construction of the Ho-Ping Power Station progressed satisfactorily. The transmission line linking the power station to the Taiwan grid has been completed. Both units 1 and 2 are in the commissioning phase.

Plans and Activities for 2002

The continued implementation of the joint venture with Powergen remains a priority task. This includes the integration of GPEC within CLP-PI and bringing our investment in Yallourn Energy and GPEC to profitability. Significant progress of BLCF is a further objective.

At Ho-Ping, it is expected that the two 660MW units will start commercial operation in 2002 and generate revenue. We will look for other development opportunities from which to expand our Taiwan operations.

The performance of CLP-PI's investment in EGCO has not been satisfactory. Through our representation on the board, we continue to push for improvements in EGCO's performance and the enhancement of the value of our shareholding.

In Australia, we will look for opportunities to build a balanced portfolio of assets which will optimise value and manage risks within the Australian national electricity market, building on synergies with Yallourn Energy.

In India, strong local partnerships appear to offer a more secure route to satisfactory performance in the electricity sector. We will be exploring the use of local partnerships to enhance our investment in GPEC and any broader presence in India.

Medium to Longer-term Perspective

The challenges to electricity businesses in Asia-Pacific region come largely from political,

economic and regulatory uncertainty, much of which occurs, and must be managed and assessed, on a country-by-country basis. Depending on local circumstances, our ability to manage risks and the financial viability of such investments, CLP-PI intends to build on its existing interests, market knowledge and relationships in the region to develop meaningful market positions.

NON-ELECTRICITY ACTIVITIES IN HONG KONG AND THE CHINESE MAINLAND

CLP is exploring opportunities in Hong Kong and the Chinese mainland to develop non-electricity activities by

leveraging off CLP's existing assets and skills.

During 2001, CLP TeleCom, the Group's telecommunications subsidiary, launched a new retail brand "Oxygen" and started the marketing of narrowband and broadband Internet access. By the end of 2001, over 8,000 customers were making use of Oxygen's Internet service provision.

In June, CLP TeleCom was awarded an External Fixed Telecommunications Network Services (EFTNS) Licence by the Government of Hong Kong Special Administrative Region and through "ChinaLink", now offers highly secure network service between Hong Kong and the Mainland.

However, 2001 was a bleak year for the telecommunications industry in Hong Kong. CLP TeleCom has faced extremely challenging market

conditions, including heavy competition and declining margins – there are currently approximately 33 FTNS licences and 260 Internet Service Provider licences granted in Hong Kong. In view of difficult market conditions and adverse investment sentiment, CLP TeleCom did not complete a proposed joint venture with Yes Television to launch a pay TV service in the Hong Kong market.

CLP TeleCom's objective for 2002 is to review its business model to ensure that it is financially viable, whilst preserving the opportunity to exploit any competitive advantage from CLP's assets and skills.

CLP Enterprises is the Group's vehicle for identifying and incubating energy-related and information technology (IT) activities in Hong Kong and the Mainland. In May, CLP Enterprises, in consortium with ExxonMobil China Gas Pipeline Limited, submitted a joint bid to PetroChina Company Limited for participation in the West-East Gas Pipeline Project. This project is intended to link upstream gas resources in western China with downstream end-users in the east. After being short-listed, the ExxonMobil/CLP consortium proceeded to the foreign participation negotiation process.

CLP Enterprises acquired a 27.3% interest in Precision Marketing Inc., a market research company, which will provide CLP with access

Completion of ChinaLink optic fibre splicing between Hong Kong and the Chinese mainland





Laguna Verde

to database management skills and technology.

In 2002, CLP Enterprises will pursue opportunities in energy-related businesses as well as IT investments which provide a route to enriching the CLP Group's IT capabilities.

The core business of CLP Engineering in 2001 was lighting works, with the provision of contracting services to the Hong Kong Government, Airport Authority and other private sector clients. CLP Engineering's tender for the Public Lighting Contract in the New Territories West with Government was unsuccessful. Future revenue from the lighting business will depend on whether CLP Engineering succeeds in its bid for the coming public lighting contracts on Hong Kong Island, and in Kowloon and the New Territories East.

With the decline of CLP Engineering's public lighting work, a review of its strategy concluded that CLP Engineering should seek

to grow its business in power engineering, energy services and facility management, in addition to its involvement in the public lighting business and infrastructure projects of Mass Transit Railway Corporation and Kowloon Canton Railway Corporation. CLP Engineering is also engaged in providing turnkey solutions to transmission and distribution projects to CLP Power at competitive rates. Further progress in energy services has been made by securing contracts involving the application of heat pump technology and provision of power quality solutions. The recent award of a three-year maintenance contract by the Airport Authority for electrical services indicated that CLP Engineering is well-positioned for expansion in facility maintenance.

PROPERTY REDEVELOPMENT IN HONG KONG

CLP pursues the redevelopment of sites in

Hong Kong which are no longer required for electricity purposes.

CLP's major current project is the residential redevelopment of the former power station at Hok Un, named Laguna Verde. This joint venture project, led by CLP Property and Cheung Kong, comprises 4,735 flats, 1,692 car parks and 270,000 sq. ft. of commercial space.

In 2001, the Occupation Permits for Phases 4 and 5 of the development were obtained. Pre-sales of flats in Phase 5 were launched in June. Approximately 87% of the residential units in the entire redevelopment had been sold by the end of 2001.

In order to ascertain the scope for any possible redevelopment of the site of CLP's head office at Argyle Street, Kowloon, a set of residential building plans was submitted to the Buildings Department and approved during 2001. CLP does

not presently have a timetable for any redevelopment of the site.

For 2002, CLP Property's principal new initiative will be to take forward the redevelopment of Ellyridge, a surplus staff quarters building on Ho Man Tin Hill Road in Kowloon. The intended redevelopment will have about 130,000 sq. ft. of residential space and is scheduled for completion in 2005.

RESEARCH AND DEVELOPMENT ACTIVITIES

The CLP Group is aware of the potential impact on its business of technology developments as well as changing economic, social and environmental values.

The mission of CLP Research Institute (CLP-RI) is to strengthen CLP's innovation capabilities with the intent of increasing the economic, social and environmental value of our products, services and businesses in the communities we serve. Further to this mission, CLP-RI is tasked with:

- Identifying technology developments of strategic importance to the Group and promoting knowledge and know-how to enable the Group to smartly adapt new technologies to sustain and grow its business; and

- Anticipating economic, social and environmental trends which may impact on CLP and encouraging development of knowledge needed for CLP Group's positioning in the face of those trends.

In August 2001, Dr. Gail Kendall joined CLP from the Massachusetts Institute of Technology to take up the post of Managing Director of CLP-RI.

In 2002, CLP-RI will be aiming for meaningful progress in environmental projects including the Hong Kong Air Quality Study, Hong Kong schools solar education programme and, more broadly, sustainable development benchmarking for the CLP Group. A second focus area for CLP-RI is new technology for competitive electricity markets. CLP-RI will also be establishing relationships in the academic research community in Hong Kong, the Mainland and elsewhere in the Asia-Pacific region to improve links between CLP and academic work which can have a bearing on our business and the capabilities of our workforce.

All managers within the CLP Group have a responsibility to manage for the future. It is our aim that CLP-RI will facilitate the effective discharge of that responsibility through knowledge sharing, project collaboration, and joint development of the technical competencies critical for our business future.



Hybrid solar-wind renewable energy system in Shek Kwu Chau, Hong Kong