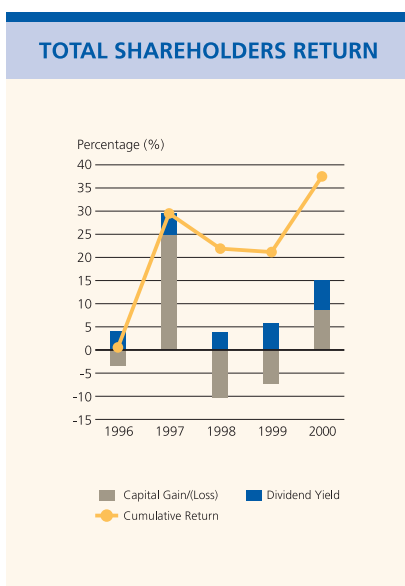


Maximising total return.

The principal financial objective of CLP Holdings is to maximise total return to shareholders over time - as measured by the combination of capital appreciation and dividend income.

The Group aims to increase returns to shareholders by growing profits, making investments that have rates of return above the cost of capital, and by returning surplus cash to investors through dividends or share repurchases.

Over the 12-month period ended 31 December 2000, CLP Holdings' total return amounted to 15%. During the same period, the total returns for the Hong Kong Tracker Fund and the Hang Seng Utilities Index were -7.4% and 18.3% respectively. CLP's total return for the five years ended 2000 was 37.5%, as set out in the chart below.



In the Group's core electric utility business, profits are regulated by a Scheme of Control Agreement with the Hong Kong Government. Long-term success in this business is dependent on providing electricity reliably and safely to customers at the lowest reasonable cost. Under the Scheme of Control, profits may be increased by making appropriate capital investments in the electricity generation, transmission, and distribution networks to meet the long-term power needs of customers in the Company's supply area. Capital expenditures are scrutinised and approved by Government through a process of periodic Financial Reviews and annual Auditing Reviews.

Outside the Scheme of Control, the focus of management is to invest in electricity-related and multi-utility businesses where the projected returns exceed the risk-adjusted cost of capital required to undertake them.

A number of financial strategies are

also pursued to minimise the Group's cost of capital and enhance shareholder value. By further optimising its capital structure, the Group can increase returns on equity. A prudent debt to total capital ratio is maintained, based on the Group's cash flow and interest coverage. Due to its strong cash-generating capability and financial standing, the Group has earned high long-term credit ratings and can access the international capital markets as required.

Cash generation is used to fund capital investment, pay dividends and, when appropriate, make share repurchases. The Group's dividend policy is to provide shareholders with relatively consistent increases in ordinary dividends, linked to the underlying earnings performance of the business.

In the year under review, the paid and proposed ordinary and special dividends amounted to HK\$2.24 per share and there were no share repurchases made by the Company.