CLP GROUP'S FINANCIAL RESULTS AND POSITION AT A GLANCE

Last Year's Balance Sheet
(Consolidated Balance Sheet at 31.12.2000)

	HK$M
Assets	
Fixed assets	30,692
Investments in affiliates	13,971
Cash & cash equivalents	2,172
Other current assets	1,649
	48,484
Shareholders' Equity and Liabilities	
Share capital, premium & reserves	25,731
Retained earnings	7,689
Borrowings	2,578
Development fund	2,923
Special provision account	766
Other liabilities	8,797
	48,484

Cash Flow For The Year
(Consolidated Cash Flow Statement for the year ended 31.12.2001)

	HK$M
1 Cash inflow from operating activities	6,155
Dividends paid less dividends received	(825)
2 Investments in/advances to affiliates	(3,539)
Capital expenditure	(4,471)
3 Repurchase of ordinary shares	(2,282)
Net increase in borrowings	2,989
Other net cash outflow	(119)
Net decrease in cash	(2,092)
Cash & cash equivalents at 31.12.2000	2,172
Cash & cash equivalents at 31.12.2001	80

Earnings For The Year
(Consolidated Profit and Loss Account for the year ended 31.12.2001)

	HK$M
4 Turnover	24,999
5 Expenses	(19,051)
Operating profit	5,948
Net finance costs	(158)
6 Share of profits of affiliates	4,162
Profit before taxation	9,952
Taxation	(1,189)
Profit after taxation	8,763
7 Transfers under Scheme of Control	(1,506)
8 Total earnings	7,257

Earnings Retained
(Consolidated Retained Earnings for the year ended 31.12.2001)

	HK$M
Balance at 31.12.2000	7,689
Repurchase of ordinary shares	(2,282)
Total earnings	7,257
Dividends paid for the year	
2000 final	(1,602)
2001 interim	(2,605)
Balance at 31.12.2001	8,457

1. The Group's SOC operations continued to provide a stable source of cash inflow.
2. Increased investments in affiliates mainly due to investments in CLP Powergen joint venture (HK$2,163 million) and CLP Guohua Power Company Limited (HK$834 million), advances to Castle Peak Power Co. Ltd. (CAPCO) (HK$291 million).
3. During the year, the Company repurchased a total of 75,986,000 shares on The Stock Exchange of Hong Kong Limited. This reduced the cash reserves and the retained earnings.

4. Turnover mainly represents sales revenue from the Hong Kong electricity business, which is regulated by a Scheme of Control Agreement (SOC). Local unit sales increased by 2.4%.
5. Expenses increased moderately by 4.3% due to higher government rent and rates and enhanced services to customers.
6. Profits before taxation of affiliates were mainly contributed by CAPCO (HK$1,491 million) and Hok Un property joint venture (HK$1,752 million).
7. According to the SOC, when revenue exceeds expenditure and permitted return, the surplus is transferred to a development fund. Transfers to development fund and rate reduction reserve were HK$1,201 million and HK$305 million respectively.
8. Earnings after taxation amounted to HK$7,257 million, which comprised SOC earnings of HK$5,422 million, interest income of HK$28 million, non-SOC earnings of HK$339 million and Hok Un Phases 4 and 5 profit of HK$1,468 million.

Today's Balance Sheet
(Consolidated Balance Sheet at 31.12.2001)

		HK$M
	Assets	
9	Fixed assets	33,577
	Investments in affiliates and securities	17,747
	Cash & cash equivalents	80
	Other current assets	1,624
		53,028
	Shareholders' Equity and Liabilities	
	Share capital, premium & reserves	25,517
10	Retained earnings	8,457
11	Borrowings	5,567
12	Development fund	3,177
13	Special provision account	766
14	Other liabilities	9,544
		53,028

9. The Group invested HK$4,653 million in fixed assets, mainly on transmission and distribution networks. According to the SOC, CLP Power's permitted return is based on a percentage of its net fixed assets.
10. Included in retained earnings are the proposed final dividend and special final dividend of HK$0.44 and HK$0.61 per share respectively. These result in total dividends for the year of HK$2.10 per share.
11. The Group's gearing, measured as total debt over total capital, remained at a healthy level of 14.1%.
12. Development fund represents a liability of the Group. Its purpose is to assist in the acquisition of SOC fixed assets.
13. It was agreed with the Government in December 1999 to set aside HK$803 million from the development fund to which the deferral premium of units 7 & 8 of the Black Point Power Station is charged. No deferral premium was charged in 2001.
14. Other liabilities included customers' deposits (HK$2,450 million), deferred taxation (HK$3,391 million) and trade and other payables (HK$2,678 million).

The purpose of this review is to highlight key financial and operating information on the CLP Group's performance during the year 2001.

CONSOLIDATED FINANCIAL RESULTS

The business activities of the CLP Group fall broadly into two categories. The primary category is the core electricity generation and supply business in Hong Kong, which is regulated by the Government of the Hong Kong Special Administrative Region pursuant to the Scheme of Control (SOC). The Group's wholly-owned subsidiary, CLP Power, owns the transmission and distribution network and its jointly controlled generating company, Castle Peak Power Company Limited (CAPCO), owns the generating plants in Hong Kong. The main features of the SOC and the SOC Statement are shown on pages 102 and 103 of this Annual Report. The second category of business comprises the Group's electricity-related activities outside the SOC, including power projects in the Chinese mainland and the Asia-Pacific region, the energy-related businesses being developed in Hong Kong and the Mainland as well as the development of the Group's properties that are no longer required for electricity purposes.

The contributions of the Group's principal activities to the consolidated results are as follows:

	Turnover		Profits/(losses) before taxation	
	2001 HK$M	2000 HK$M	**2001 HK$M**	2000 HK$M
Sales of electricity — CLP Power (SOC)	**24,806**	24,224	**6,259**	6,452
Share of CAPCO's profits before taxation (SOC)	**—**	—	**1,491**	1,434
Power projects outside Hong Kong	**—**	—	**698**	625
Property income	**18**	38	**1,818**	1,368
Public lighting & engineering services	**149**	171	**19**	13
Development of telecom and other businesses	**26**	18	**(239)**	(104)
Interest income	**—**	—	**28**	93
Impairment losses on investments	**—**	—	**—**	(1,030)
Unallocated Group expenses	**—**	—	**(122)**	(76)
	24,999	24,451	**9,952**	8,775

Turnover

SOC OPERATIONS

Total unit sales to customers in Hong Kong increased by 2.4% for the year ended 31 December 2001. Electricity sales to Commercial and Government sectors grew by 3.6% and 6.1% respectively. The growth of the Commercial sector can be attributed to the increase in sales to offices, restaurants and shopping malls. The growth in the Government sector can be attributed to the continuous infrastructure development and enhancement to public facilities. The Manufacturing sector recorded a decline of 7.0%, which reflects further reduction of manufacturing industry in Hong Kong.

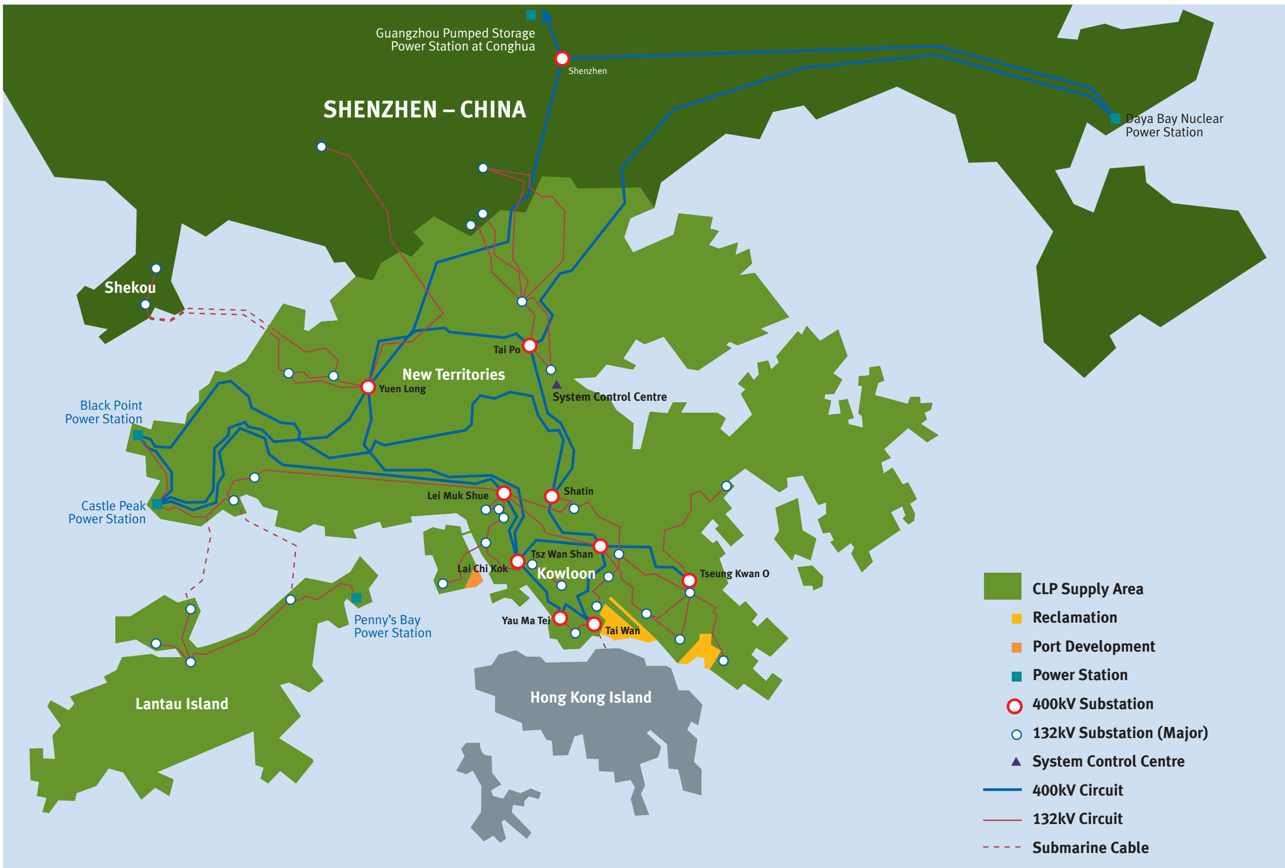
Sales to Guangdong Guang-Dian Power Grid Group Company Limited were 909GWh, representing 3.2% of total unit sales. Sales to Shekou increased by 1.5% to 672GWh.

SOC Electricity Sales

	Number of Customers	Year ended 31. 12. 2001	Increase/ (decrease)	Average Annual Sales Change over 1997–2001
	Thousand	GWh	%	%
Commercial	173	10,378	3.6	4.7
Residential	1,727	6,752	2.2	2.9
Government & others	55	6,575	6.1	7.7
Excluding manufacturing	1,955	23,705	3.9	4.9
Manufacturing	43	3,245	(7.0)	(4.7)
Total local sales	1,998	26,950	2.4	3.4
Export sales	—	1,581	33.9	24.4
Total sales	1,998	28,531	3.8	4.1

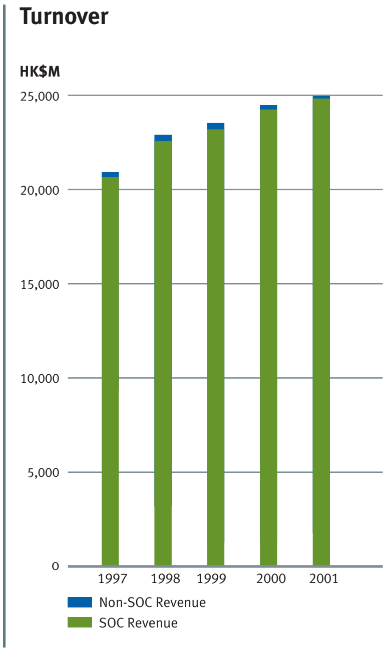
The transition of Hong Kong from a manufacturing centre to a service economy has resulted in a slowdown in electricity demand growth. Manufacturing customers now contribute around 12.0% of CLP Power's total local unit sales, compared to more than one-third in the 1980's. The Residential and Government sectors contribute almost half of CLP Power's local sales. These sectors are generally less sensitive to cyclical economic downturns.

CLP Power Generation and Transmission Network



As there was no tariff increase in 2001, total turnover only increased by 2.2% to HK$24,999 million. 2001 was the third consecutive year in which CLP Power had frozen its tariff.

Local maximum demand for the year was 5,844MW, a 4.4% increase over 2000.



NON-SOC OPERATIONS

A substantial part of the Group's non-SOC income is derived from its joint ventures. In accordance with accounting principles generally accepted in Hong Kong, their revenues are not consolidated in the Group's turnover.

Profits/(Losses) Before Taxation

SALES OF ELECTRICITY — CLP POWER

The operating profit of CLP Power in 2001 amounted to HK$6,259 million, a decrease of 3.0% compared to 2000. This was due to higher operating expenses and no increase in tariff.

Operating Costs

The operating costs of SOC operations increased by 12.5% to HK$2,965 million in 2001. The increase was mainly due to higher government rent and rates and enhanced services to customers.

Fuel

The energy sources for electricity distributed by CLP Power for the year ended 31 December 2001 were: natural gas (35.3%), coal (30.3%), oil (0.5%) and uranium (33.9%), in the form of power purchased from Guangdong Nuclear Power Station (GNPS).

Fuel expense decreased by 0.5% to HK$2,897 million in 2001. The average fuel cost for the year was about HK¢13.75 per unit generated, HK¢0.85 lower than in 2000.

The operating expenses of CLP Power increased by 4.4% to HK$18,547 million as shown below:

	2001	2000	Increase/ (decrease)
	HK$M	HK$M	%
Operating costs	**2,965**	2,636	12.5
Fuel	**2,897**	2,912	(0.5)
Purchases of nuclear electricity	**5,013**	4,587	9.3
Compensation under employees' departure scheme	**(1)**	99	
Depreciation	**3,026**	2,803	8.0
Operating interest	**931**	1,163	(19.9)
CAPCO's profits before taxation	**3,716**	3,572	4.0
	18,547	17,772	4.4

Purchases of Nuclear Electricity

During the year, CLP Power purchased approximately 10,055GWh (2000: 9,844GWh) of its power from GNPS at Daya Bay under the offtake contract covering 70% of GNPS's output. All payments for nuclear electricity from GNPS are treated as part of CLP Power's SOC operating expenses.

SHARE OF CAPCO'S PROFITS BEFORE TAXATION

This represents the Group's 40% interest in CAPCO. CAPCO contributed a profit before taxation of HK$1,491 million in 2001, representing an increase of 4.0% from last year due to the reduction in interest expenses after the refinancing of certain loans at lower interest rates.

POWER PROJECTS OUTSIDE HONG KONG

The contributions of the Group's investments in electricity businesses outside Hong Kong are analysed as follows:

Profits/(losses)	**Before taxation**		**After taxation**	
	2001 HK$M	2000 HK$M	**2001 HK$M**	2000 HK$M
Chinese mainland	**1,009**	708	**894**	636
Asia-Pacific region	**(311)**	(83)	**(318)**	(83)
	698	625	**576**	553

Electricity Business in the Chinese Mainland

Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC)

GNPJVC was established in 1985 to construct and operate Guangdong Nuclear Power Station (GNPS) at Daya Bay. GNPS is equipped with two 984MW Pressurised Water Reactors. The majority of the GNPS equipment was imported from France and the United Kingdom. The two units at GNPS commenced commercial operation in 1994. 70% of electricity generated is supplied to Hong Kong with the remaining 30% sold to Guangdong.

In 2001, a total of 14,365GWh of electricity (2000: 14,063GWh) was sent out by GNPS, the highest annual production since commercial operation started. The annual station capacity factor was 87%. The profit of GNPJVC is calculated by reference to the shareholders' funds of the Company and the capacity factor.

Hong Kong Pumped Storage Development Company, Limited (PSDC)

PSDC, a joint venture company formed with ExxonMobil Energy Limited, has the right to use 50% of the 1,200MW capacity of the Guangzhou Pumped Storage Power Station. Because of its comparatively low operating cost and quick-start capability, the pumped storage units have been used extensively by CLP Power. The profit of PSDC is based on a percentage of its net fixed assets in a manner analogous to the SOC.

Shandong Zhonghua Power Company Limited (SZPC)

Total electricity output from the existing operating power stations for the year ended 31 December 2001 amounted to 6,346GWh (2000: 6,246GWh), which was 2.3% above the annual electricity generation quantity stipulated in the power purchase agreement. The Group's share of SZPC's profit was higher than last year as a result of a higher electricity tariff and lower fuel cost.

CLP Guohua Power Company Limited (CLP Guohua)

During the year, the Group injected HK$834 million as total consideration to acquire a 49% interest in CLP Guohua, the joint stock company established by Beijing Guohua and CLP-PC. CLP Guohua holds interests in three coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, and Sanhe Power Station in Hebei with a combined installed capacity of 2,100MW, of which CLP Guohua owns 1,285 equity MW.

Total electricity sold by the three power plants in the period since acquisition to 31 December 2001 was 8,691GWh and heat sales totalled 5 million GJ.

Huaiji Hydro Power Project

The project involves building, owning and operating nine small scale power stations with a total installed capacity of 98MW in Huaiji County of Guangdong Province.

CLP Generating Capacity Outside Hong Kong (Gross/Equity MW-February 2002)

Electricity Business in Asia-Pacific Region

Electricity Generating Public Company Limited (EGCO)

EGCO operates two of the newest, most efficient power stations in Thailand (2,056MW). It has also invested in a number of small power projects in Thailand and the Philippines, totalling 151 equity MW.

Ho-Ping Power Company Limited

The Group owns 40% of the 1,320MW Ho-Ping Project. This is the first IPP project to obtain private-sector project financing in Taiwan. Commercial operation is scheduled for mid-2002.

CLP Powergen Joint Venture — Yallourn Power Station

In February 2001, under the joint venture arrangement with Powergen UK plc (Powergen), the Group acquired 80% of the joint venture companies which have a 92% interest in Yallourn Energy at a total consideration of HK$2,163 million, Yallourn Energy runs a 1,450MW coal fired plant and a dedicated coal mine in Victoria, Australia. The Group's equity interest in Yallourn Energy was 73.6%. Yallourn Energy suffered a loss in the period since acquisition, mainly due to lower price contracts entered in earlier years and industrial action in December 2001.

Under the joint venture agreement, certain matters that are key to the financial and operating policies of Yallourn Energy are classified as "reserved matters", which require mutual agreement by both CLP and Powergen. Consequently, in accordance with the Statement of Standard Accounting Practice (SSAP) No. 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", although CLP holds 73.6% of the equity interest in Yallourn Energy, it cannot be consolidated as a subsidiary of the Group as control is shared with our partner, Powergen. Instead, it is considered appropriate to classify the investment as an investment in a jointly controlled entity as defined under SSAP No. 21 "Accounting for interests in Joint Ventures".

PROPERTY INCOME

The Group's most important property project is its 50% interest in a joint venture undertaken with a wholly-owned subsidiary of Cheung Kong (Holdings) Limited to develop the Hok Un site at Hung Hom. The subsidiary of Cheung Kong (Holdings) Limited pays all development expenses and, after construction, completion and sale of the project, profits are to be distributed equally to the two parties, with a minimum overall profit guaranteed. The Group has no obligation to share any losses from the development.

Profits before tax for phases 4 and 5 of HK$1,752 million were booked during the year upon the issuance of occupation permits for these phases.

DEVELOPMENT OF OTHER BUSINESSES AND INTEREST INCOME

The increase in expenses for development of other businesses reflected the Group's increased level of activities in relation to telecommunications and other energy-related businesses.

Interest income reduced from HK$93 million to HK$28 million due to cash on hand being applied to investments.

Taxation

The Group's effective tax rate for the year was 11.9% (Hong Kong standard tax rate: 16%) compared to 15.7% in 2000. The decrease in the effective tax rate was principally due to the write-back of a tax provision of HK$269 million arising from the change in financial year in 1999.

Transfers under Scheme of Control

Transfers required under the SOC are shown below:

	2001 HK$M	2000 HK$M
Transfers under Scheme of Control		
To development fund	**(1,201)**	(1,386)
From special provision account	**–**	37
To rate reduction reserve	**(305)**	(280)
	(1,506)	(1,629)

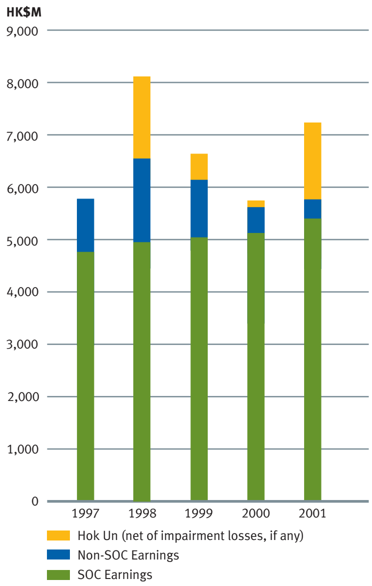
In accordance with the requirements of the SOC, the transfer to the development fund was HK$1,201 million in 2001 (2000: HK$1,386 million). There was no charge to the special provision account for deferral premium in relation to units 7 & 8 of the Black Point Power Station during the year (2000: HK$37 million). The transfer to the rate reduction reserve amounted to HK$305 million in 2001 (2000: HK$280 million), representing a charge of 8% per annum on the average balances of the sum of the development fund and the special provision account.

Earnings Attributable to Shareholders

	2001 HK$M	2001 HK$M	2000 HK$M	2000 HK$M	Increase/ (decrease) %
Scheme of Control earnings		**5,422**		5,147	5.3
Interest income		**28**		93	
Non-Scheme of Control operating earnings					
Electricity businesses outside Hong Kong	**576**		553		
Public lighting, property and export sales	**124**		55		
Development of telecom and other businesses	**(239)**		(104)		
Corporate finance costs	**(17)**		—		
Unallocated Group expenses	**(105)**	**339**	(78)	426	
		5,789		5,666	2.2
Hok Un redevelopment profit		**1,468**		1,132	
Impairment losses on EGCO and YTL Power		**—**		(1,030)	
Group earnings attributable to shareholders		**7,257**		5,768	25.8
Weighted average number of shares in issue[1], million shares		**2,486.58**		2,497.47	
Earnings per share[1], HK$		**2.92**		2.31	26.4
Earnings per share[1] excluding Hok Un and impairment losses on investments, HK$		**2.33**		2.27	2.6

[1] After taking into account the bonus issue made on 23 April 2001 of one share for every five shares held and the repurchase of 75,986,000 shares during the year.

Group Earnings



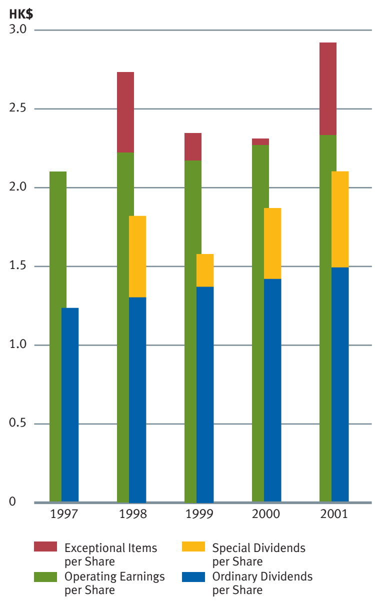
Earnings per share for the recurring operations increased by 2.6% to HK$2.33 per share, reflecting the enhancement by the repurchase of a total of 75,986,000 shares in 2001. Total earnings per share were HK$2.92 per share, an increase of 26.4%.

Dividends

During the year, three interim dividends each of HK$0.35 per share were paid, totalling HK$1.05 per share. The Board has recommended that a final dividend of HK$0.44 per share and a special final dividend of HK$0.61 per share be proposed for approval at the forthcoming Annual General Meeting, making a total of HK$2.10 per share for the year (2000: ordinary dividends of HK$1.417 per share and special dividend of HK$0.450 per share, after adjusting for the one-for-five bonus share issue in April 2001). The ordinary dividend payout ratio, i.e. the ratio of ordinary dividends over recurring operating earnings, is 63.3% (2000: 62.4%).

The Board anticipates that three interim dividends will be payable in June, September and December 2002. In line with market practice and as a change from the practice previously adopted by the Company, the Board is not stating the anticipated amount of those interim dividends. However, there will be no change to CLP's underlying policy of providing stable and consistent dividends to our shareholders in line with growth in earnings.

Earnings And Dividends Per Share



FINANCIAL POSITION

Fixed Assets and Capital Expenditure

As at the year end, fixed assets amounted to HK$33,577 million, an increase of HK$2,885 million or 9.4% from last year. During the year, the Group invested HK$4,653 million (2000: HK$3,402 million) in fixed assets, of which HK$4,580 million (2000: HK$3,319 million) was invested by CLP Power for the SOC business. Capital expenditure by CAPCO and PSDC was HK$604 million (2000: HK$356 million), making a total of HK$5,184 million for CLP Power, CAPCO and PSDC together (2000: HK$3,675 million).

Investments in Jointly Controlled Entities, Associated Company and Investment Securities

The breakdown of the Group's investments in each geographical region is shown below:

	2001		2000	
	HK$M	**%**	HK$M	%
Electricity Business				
Chinese mainland	**6,181**	**40**	4,773	41
Asia-Pacific region	**4,714**	**31**	2,744	23
Hong Kong	**4,532**	**29**	4,213	36
	15,427	**100**	11,730	100
Property and other Businesses	**2,320**		2,241	
	17,747		13,971	

This does not include the acquisition of the interest in Gujarat Powergen Energy Corporation Limited in India from Powergen, which was completed in 20 February 2002 as explained in Note 31 of the Accounts.

Current Assets

As at 31 December 2001, the Group had liquid funds of HK$80 million (2000: HK$2,172 million), all of which were denominated in HK dollars. Cash on hand brought forward from last year was applied to invest in projects. Other current assets comprised mainly the trade receivables for the sale of electricity in Hong Kong.

Shareholders' Funds

Shareholders' funds at 31 December 2001 increased 1.7% to HK$33,974 million from HK$33,420 million at 31 December 2000, despite the repurchase of 76 million shares during the year.

Deferred Taxation

Deferred taxation is the tax attributable to timing differences between profit as computed for taxation purposes and profit as stated in the accounts. In CLP, the timing differences mainly arise between depreciation allowances in tax computations and the depreciation charges in financial accounts. In accordance with the SOC, CLP fully recognises deferred taxation arising from timing differences with no regard for crystallisation. This policy does not comply with the Statement of Standard Accounting Practice No. 12 "Accounting for Deferred Tax" issued by the Hong Kong Society of Accountants, which states that deferred taxation should not be provided if it is unlikely that a liability will crystallise in the foreseeable future.

The deferred taxation balance increased from HK$3,110 million to HK$3,391 million during the year, mainly due to CLP Power's tax depreciation allowances from continuous investment in its transmission and distribution network.

Development Fund

The transfer from profit and loss account was HK$1,201 million. This was offset by the special rebate and one-off rebate to customers of HK$607 million and HK$340 million respectively. The development fund balance at 31 December 2001 was HK$3,177 million (2000: HK$2,923 million). This represents 5.3% (2000: 5.0%) of the SOC average net fixed assets of CLP Power and CAPCO.

The development fund represents a liability of the Group and does not accrue to the benefit of shareholders. The main purpose of the development fund is to assist in financing the acquisition of SOC fixed assets.

The accumulation of the development fund is, to a significant extent, attributable to previous electricity sales to the Mainland. For the year ended 31 December 2001, such sales generated a transfer to the development fund of approximately HK$274 million.

Special Provision Account

CLP Power and its jointly controlled generating company, CAPCO, agreed with the Government in December 1999 to further defer construction of units 7 & 8 of the Black Point Power Station. A total of HK$803 million was set aside from the development fund to a special provision account to which the deferral premium is charged. During the year, no deferral premium was charged to the special provision account (2000: HK$37 million).

Borrowings and Capital Resources

The business expansion of the Group, and in particular, the capital expenditure programmes of CLP Power and CAPCO are funded by bank loans, issue of debt securities and cash flow from operations.

Financing facilities totalling HK$15.0 billion (HK$33.9 billion for CLP Group and CAPCO combined) were available, of which HK$5.6 billion (HK$19.4 billion for CLP Group and CAPCO combined) had been drawn down.

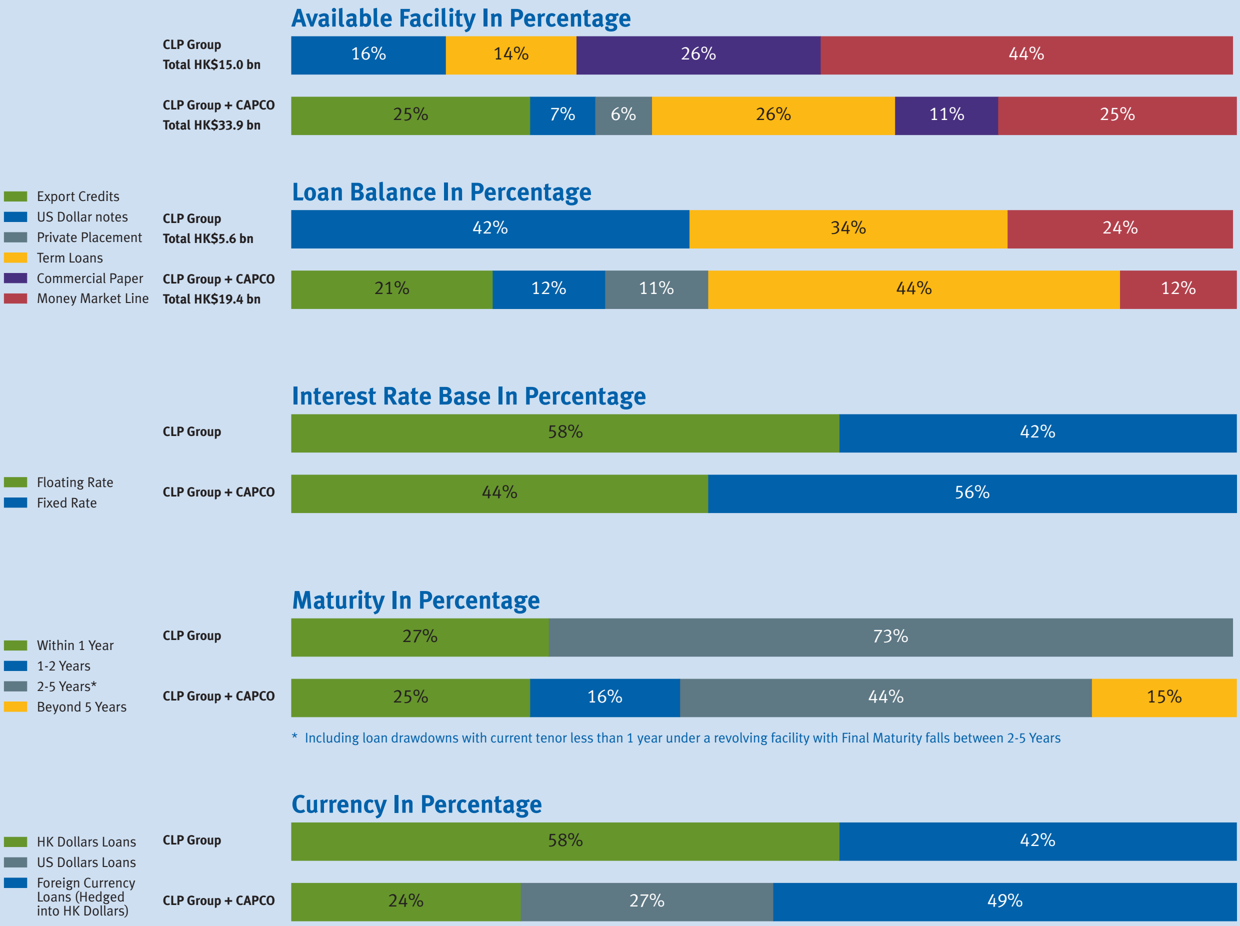
Total debt to total capital of the Group at 31 December 2001 was 14.1%. On a most conservative basis, i.e. including 100% of CAPCO's debt, total debt to total capital increased to 32.4% and the interest cover was still maintained at a very healthy ratio of eleven times.

The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of the jointly controlled entities and associated company as at 31 December 2001 are shown on pages 54 and 55.

The Group adopts a prudent approach to all our financial arrangements, while at the same time aiming to achieve cost efficient funding. During the first quarter of 2001, the Group took advantage of favourable interest rate market conditions to swap HK$1,170 million floating rate obligations into fixed rate, representing 50% of the USD Notes due 2006, previously swapped to Hong Kong dollar floating rate in 2000. In addition, CAPCO has also re-financed HK$6.5 billion equivalent loans at lower interest rates.

Debt Profile

The charts below show the type, interest rate, maturity and currency profiles of borrowings of the Group and CAPCO at 31 December 2001:



CREDIT RATING

In February 2001, Standard & Poor's (S&P) upgraded the long-term foreign currency rating of both CLP Holdings and CLP Power from 'A' to 'A+' after raising the long-term foreign currency sovereign rating of Hong Kong to 'A+'. At the same time, Moody's revised the outlook of the A3 long term foreign currency ratings of CLP Holdings and CLP Power from stable to positive, following the change of the outlook for Hong Kong's A3 foreign currency sovereign rating to positive. The upgrading of CLP Holdings' and CLP Power's ratings concurrently with Hong Kong's rating is an indication of our financial strength.

	CLP Holdings		CLP Power	
	S&P	Moody's	S&P	Moody's
Long-term Rating				
Foreign currency	A+	A3	A+	A3
Local currency	A+	Aa2	A+	Aa1
Outlook	Stable	Positive	Stable	Positive
Short-term Rating				
Foreign currency	A-1	P-1	A-1	P-1
Local currency	A-1	–	A-1	–

Our premier credit ratings can facilitate and enhance our position in various local and overseas business activities, including fund raising, investment and new business opportunities of the Group.

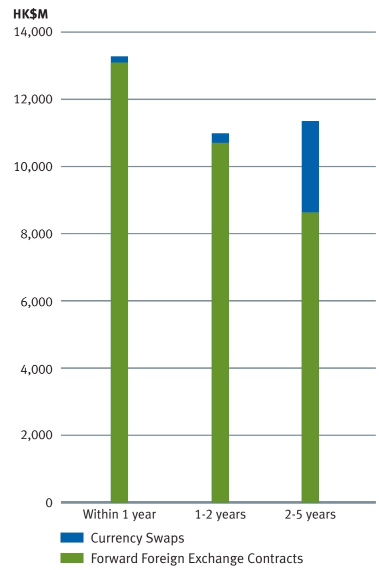
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Group uses forward foreign exchange contracts and currency swaps to manage its foreign currency exposure with an objective to minimise the impact of exchange rate fluctuation on earnings and tariff charges to customers. Foreign currency exposures are mainly obligations related to loan repayments, and purchases of goods and services. The Group's policy is to hedge only existing quantifiable transactions, and speculation is strictly prohibited. All hedging transactions are with counterparties with acceptable credit ratings. A limit is assigned to each counterparty for monitoring the credit exposure.

During the year, the Group has continued to take opportunities to purchase forward US dollars to hedge the Group's US dollar exposure on other loan interest/repayments, fuel-related payments and other projected expenditures. As at 31 December 2001, the Group had outstanding forward foreign exchange contracts and currency swaps amounting to HK$35.5 billion (at 31 December 2000: HK$30.3 billion). US dollar forward foreign exchange contracts and currency swaps accounted for about 99% of this total.

The fair value for these off-balance sheet financial instruments was HK$232 million, which represents the net proceeds we would receive if these forward foreign exchange contracts and currency swaps were closed out at 31 December 2001. As all these off-balance sheet financial instruments are employed solely for hedging purposes, the Group is not exposed to market risk because the change in fair value will be offset by an opposite change in the values of the underlying hedged items. The maturity profile of the outstanding forward foreign exchange contracts and currency swaps is shown in the chart below:

Maturity Profile



The Group has no significant operating lease commitments or sale and leaseback arrangements.

CASH FLOWS

	2001 HK$M	2000 HK$M	Change HK$M
Cash provided by/(used in):			
Operating activities	**6,155**	6,887	(732)
Investing activities	**(4,747)**	(813)	(3,934)
Financing activities	**(3,500)**	(4,807)	1,307
	(2,092)	1,267	(3,359)

Net cash provided by operating activities decreased by HK$732 million in 2001, reflecting the increased expenses for development of other businesses, reduced interest income and higher tax payment in 2001.

Cash used in investing activities included the capital expenditure of CLP Power as well as investments in power projects in the Chinese mainland and the Asia-Pacific region, partly offset by dividends received from affiliated companies and profit received from the Hok Un joint venture.

Net cash used in financing activities in 2001 primarily reflects the payment of dividends and the repurchase of ordinary shares during the year, partly offset by increases in borrowings.

NEW ACCOUNTING PRONOUNCEMENTS

During the year, the Hong Kong Society of Accountants (HKSA) amended three accounting standards that affect the Group's consolidated financial statements for the year 2001. These are Statement of Standard Accounting Practice (SSAP) No. 1 "Presentation of Financial Statement", SSAP No. 9 "Events after the Balance Sheet Date" and SSAP No. 15 "Cash Flow Statements".

CLP continues to monitor and adopts, as far as practicable, best practice in reporting standards and disclosure in its financial statements. The financial statements for the year 2001 present the cash flow statement and the statement of changes in equity earlier than required respectively in SSAP Nos. 15 and 1.

FINANCIAL INFORMATION ON JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANY

As the proportion of the Group's business activities carried out through affiliated companies increases, their financial importance to the Group grows. Hence, additional financial information on our significant jointly controlled entities, namely CAPCO, GNPJVC and CLP Powergen joint venture — Yallourn Power Station is provided in Note 17 to the Accounts.

AUDITORS — SCOPE OF NON-AUDIT WORK

In addition to statutory audit work, the Auditors, PricewaterhouseCoopers Hong Kong, also provided non-audit services to the Group. The non-audit fees charged were:

	2001 HK$M	2000 HK$M
Due diligence and accounting advisory relating to business developments	**3**	3
Taxation services	**1**	—
Other advisory services	**1**	1

The amounts above do not include charges by PwC Consulting for services provided in relation to computer systems. The Group has been advised that there are no common shareholding interests between PwC Consulting and the Auditors, and each is financially independent of the other.

INFORMATION FOR AMERICAN DEPOSITARY RECEIPTS (ADR) HOLDERS

The principal trading market for the CLP Holdings shares is the Stock Exchange of Hong Kong. The shares are also traded in the over-the-counter market in the United States in the form of ADR. As required by the relevant laws, the Company will file an annual report in Form 20-F with the United States Securities and Exchange Commission before 30 June 2002.

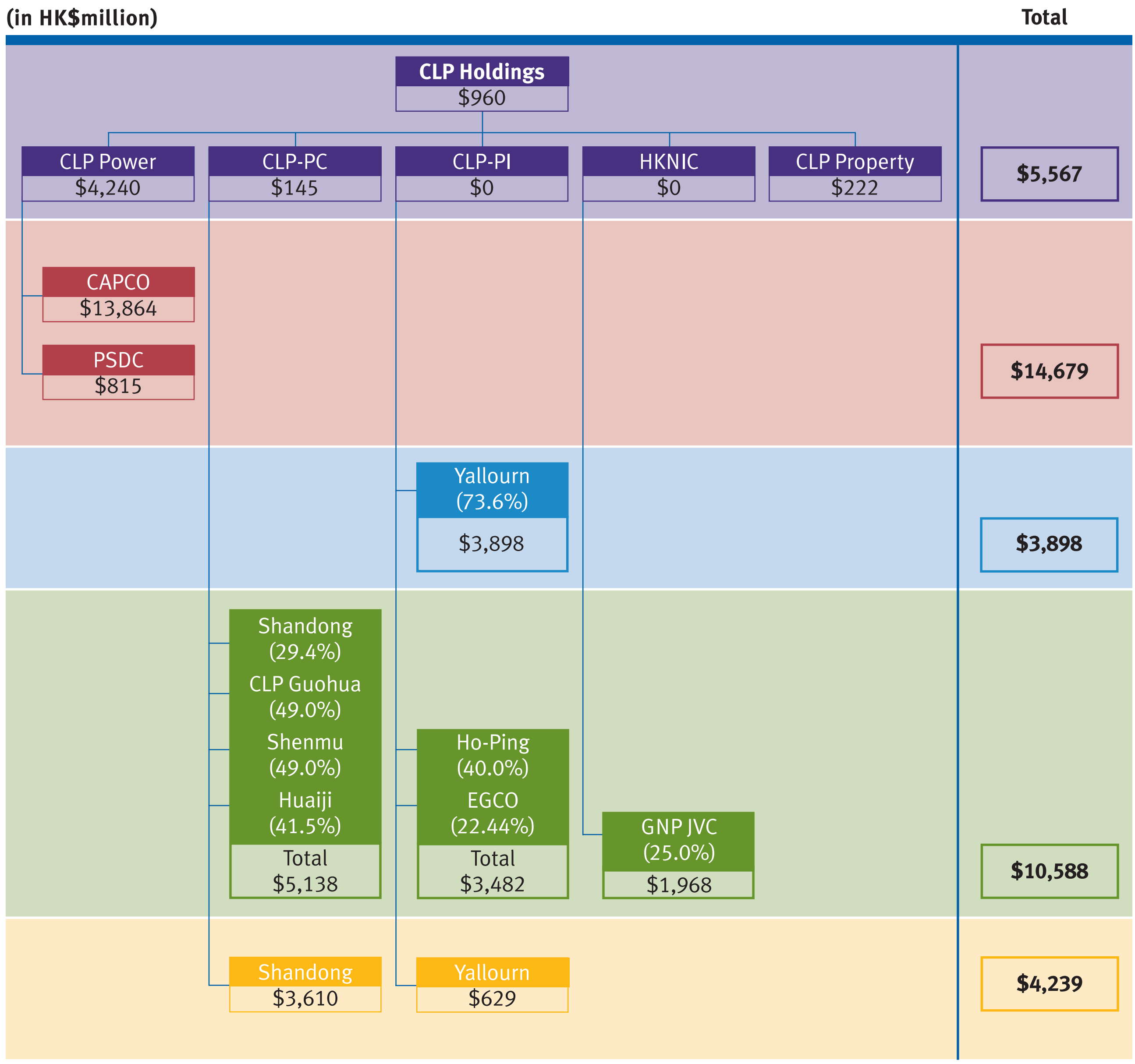
The Group's financial statements are prepared in accordance with Hong Kong (HK) generally accepted accounting principles (GAAP) modified as necessary to comply with the Scheme of Control. HK GAAP differs in certain respects from United States (US) GAAP. The Form 20-F to be filed will contain a summary of the differences between HK GAAP and US GAAP which have an effect on the consolidated profit or shareholders' funds of the Group.

CLP GROUP'S FINANCIAL OBLIGATIONS AT A GLANCE AS AT 31 DECEMBER 2001

The Company is aware of market concerns regarding the financial risks associated with borrowings and unconsolidated financial obligations of listed companies. It is the policy of the Company to adopt a prudent approach to such matters. The purpose of the following chart is to explain the total financial obligations of the Company by classifying them into five categories according to their degree of recourse to the Company.

Category		
1	**BORROWINGS OF CLP HOLDINGS & SUBSIDIARIES**	Debts of the Company and its subsidiaries. (As set out in Note 24 to the Accounts)
2	**BORROWINGS OF CAPCO & PSDC**	100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power has commitments to these companies through power purchase and service agreements, which are further explained in the Scheme of Control Statement on page 102 and Note 29 to the Accounts.
3	**SHARE OF DEBTS OF JOINTLY CONTROLLED ENTITY WITH MAJORITY OWNERSHIP***	Share of debts of jointly controlled entity in which the Group holds more than 50% interest. These debts are non-recourse to the Company and its subsidiaries.
4	**SHARE OF DEBTS OF AFFILIATES WITH MINORITY OWNERSHIP***	Share of debts of affiliated companies in which the Group holds less than 50% interest. These debts are non-recourse to the Company and its subsidiaries.
5	**CONTINGENT LIABILITIES**	Contingent liabilities of the Company and its subsidiaries, arising from undertakings given to third parties. Details of these are set out in Note 28 to the Accounts.

* In respect of Categories 3 and 4, the share of debts are calculated by reference to the Group's shareholding in the relevant affiliated companies


(in HK$million)
Total
CLP Holdings
$960
CLP Power
$4,240
CLP-PC
$145
CLP-PI
$0
HKNIC
$0
CLP Property
$222
$5,567
CAPCO
$13,864
PSDC
$815
$14,679
Yallourn
(73.6%)
$3,898
$3,898
Shandong
(29.4%)
CLP Guohua
(49.0%)
Shenmu
(49.0%)
Huaiji
(41.5%)
Total
$5,138
Ho-Ping
(40.0%)
EGCO
(22.44%)
Total
$3,482
GNP JVC
(25.0%)
$1,968
$10,588
Shandong
$3,610
Yallourn
$629
$4,239