

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the generation and supply of electricity. Particulars of the Company's principal subsidiary companies are shown under Note 16 to the Accounts.

CONSOLIDATED ACCOUNTS

The consolidated Accounts incorporate the Accounts of the Group together with the Group's interests in jointly controlled entities and associated company. Details of the jointly controlled entities and associated company are provided under Notes 17 and 18 to the Accounts.

EARNINGS AND FINAL DIVIDEND

	HK\$M	HK\$M
Group earnings for the year	7,257	
Less: Interim dividends (HK\$1.05 per share) paid	(2,605)	
Balance after interim dividends		4,652
The Directors recommend that this balance be dealt with as follows:		
Final dividend (HK\$0.44 per share)		1,059
Special final dividend (HK\$0.61 per share)		1,469
Retained earnings for the year		2,124
		4,652

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 25 April 2002, the final dividend and special final dividend will be paid on 26 April 2002.

PERFORMANCE

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Management's Discussion and Analysis on pages 30 to 55 of this Annual Report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 23 to the Accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, the Company repurchased a total of 75,986,000 shares of HK\$5.00 each of the Company on The Stock Exchange of Hong Kong Limited at an aggregate price of HK\$2,273 million. Details of the repurchases are set out in Note 23 to the Accounts. All the shares repurchased up to 31 December 2001 have been cancelled. The repurchases were effected by the Directors for the enhancement of long-term shareholder value.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

RESERVES

Distributable reserves of the Company amounted to HK\$4,258 million as at 31 December 2001 (2000: HK\$4,203 million). Movements in the reserves of the Company and the Group during the year are set out in the Statement of Changes in Equity on pages 68 and 69 of this Annual Report.

FIXED ASSETS

Additions to the fixed assets of the Group for the year totalled HK\$4,653 million (2000: HK\$3,402 million), comprising principally transmission and distribution equipment, land and buildings.

Additions to the fixed assets of the jointly controlled generating companies incorporated in Hong Kong totalled HK\$604 million for the year.

Details of movements in the fixed assets of the Group are shown under Note 15 to the Accounts.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2001 amounted to HK\$5,567 million (2000: HK\$2,578 million). Particulars of borrowings including bank overdrafts and bank loans are set out in Note 24 to the Accounts.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

The financial assistance given to affiliated companies and guarantees given for facilities granted to affiliated companies have in aggregate exceeded 25% of the Group's net assets as at 31 December 2001. Pursuant to Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), consent has been obtained from The Stock Exchange of Hong Kong that the Company can include a statement of the indebtedness, contingent liabilities and capital commitments of the affiliated companies as at 31 December 2001 in place of a proforma combined balance sheet of the affiliated companies in this Annual Report.

Details of the statement of indebtedness, capital commitments and contingent liabilities are shown under Note 30 to the Accounts.

FINANCE COSTS CAPITALISED

Finance costs amounting to HK\$134 million (2000: HK\$70 million) were capitalised by the Group during the year as set out in Note 4 to the Accounts.

DONATIONS

Donations by the Group for charitable and other purposes amounted to HK\$1,588,000 (2000: HK\$723,000).

TEN-YEAR SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2001 and for the previous nine financial years are set out on pages 104 and 105 of this Annual Report.

DIRECTORS

With the exception of Mr. Paul M. L. Kan, Mr. Peter W. Greenwood and Mr. Michael Price, who were appointed as Directors of the Company on 7 September 2001, the Directors of the Company, whose names appear on page 15 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same page. Details of Directors' remuneration are provided under Note 6 to the Accounts.

Mr. Michael Price has resigned as an Executive Director of the Company to take effect from 1 April 2002, after 24 years of service to the Group.

Mr. Paul M. L. Kan and Mr. Peter W. Greenwood being new Directors appointed by the Board, retire at the forthcoming Annual General Meeting in accordance with Article 109 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Apart from the Group Managing Director and Executive Directors, all the Directors are subject to retirement by rotation and re-election at the Annual General Meeting. In accordance with Article 103 of the Company's Articles of Association, The Hon. Sir S. Y. Chung, The Hon. Michael D. Kadoorie, Mr. W. E. Mocatta and Mr. J. A. H. Leigh retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

ALTERNATE DIRECTORS

The Alternate Directors in office during the year ended 31 December 2001 were as follows:

Mr. J. S. Dickson Leach, alternate to The Hon. Michael D. Kadoorie	}	
Mr. W. E. Mocatta, alternate to Mr. J. S. Dickson Leach	}	
Mr. J. A. H. Leigh, alternate to Mr. R. Bischof	}	(for the year)
Mr. Peter W. Greenwood, alternate to Mr. J. A. H. Leigh	}	
Mr. I. D. Boyce, alternate to Mr. R. J. McAulay	}	
Mr. I. D. Boyce, alternate to Mr. W. E. Mocatta	}	(appointed on 26 February 2001)
Ms. L. J. Ryerkerk, alternate to Mr. S. F. Goldman	}	(appointed on 1 April 2001)
Mr. J. A. H. Leigh, alternate to Mr. W. E. Mocatta	}	(resigned on 26 February 2001)

DIRECTORS' INTERESTS

The interests of Directors in the shares of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) as at 31 December 2001 were as follows:

Directors	No. of Ordinary Shares Held				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
The Hon. Michael D. Kadoorie	—	1,243	—	472,423,717	472,424,960
				Notes (1) & (2)	
J. S. Dickson Leach	3,436	—	—	—	3,436
R. J. McAulay	13,141	—	—	439,787,424	439,800,565
				Notes (1) & (3)	
W. E. Mocatta	—	100,000	—	—	100,000
The Hon. Sir S. Y. Chung	393,789	—	—	—	393,789
William K. Fung	120,000	—	—	—	120,000
R. Bischof	25,000	—	—	—	25,000
Andrew Brandler	60,600	—	—	—	60,600
Peter P. W. Tse	20,600	—	—	—	20,600
Peter W. Greenwood	5,600	—	—	—	5,600
Michael Price	600	720	—	—	1,320

Notes:

- (1) 233,379,505 shares were held by discretionary trusts, of which The Hon. Michael D. Kadoorie and Mr. R. J. McAulay are two of the beneficiaries.
- (2) 239,044,212 shares were held by discretionary trusts, of which The Hon. Michael D. Kadoorie is a beneficiary.
- (3) 206,407,919 shares were held by discretionary trusts, of which Mr. R. J. McAulay, his wife and members of his family are beneficiaries.

Mr. S. F. Goldman had disclosed personal interests in 2,400 American Depositary Receipts for CLP Holdings shares as at 31 December 2001.

In recognition of the Group employees' efforts and contribution to the success of CLP in the past 100 years, a one-off Employee Share Award was made on 2 April 2001, whereby, following purchase by an employees' trust, 500 shares of CLP Holdings were granted to every eligible employee of the Group at no cost to such employees. Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter W. Greenwood and Mr. Michael Price, as eligible employees, received the same Employee Share Award.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangement to enable any Director of the Company or the spouse or children under 18 years of age of any Director to acquire benefits by an acquisition of shares in the Company or any other body corporate.

No contracts of significance, in relation to the Company's business, to which the Company and any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2001, Bermuda Trust Company Limited had disclosed interests in 682,978,836 ordinary shares of the Company as recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance.

The interests of Bermuda Trust Company Limited in the Company are duplicated by the interests in the shares of the Company held by discretionary trusts as disclosed above by the Directors.

SENIOR MANAGEMENT

The biographical details of the Senior Management as at the date of this Report are set out on page 21 of this Annual Report. Details of the remuneration of the Senior Management are provided under Note 7 to the Accounts.

MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the Group's five largest suppliers together accounted for 94.97% of the Group's total purchases during the year. Three of the five suppliers are jointly controlled entities of the Group.

Castle Peak Power Company Limited is the largest supplier (60.73%) of which Mr. S. F. Goldman, Ms. L. J. Ryerkerk, Mr. W. E. Mocatta, Mr. Andrew Brandler and Mr. Michael Price are Directors and Mr. J. S. Dickson Leach and Mr. Peter W. Greenwood are Alternate Directors.

The third largest supplier to the Group is Guangdong Nuclear Power Joint Venture Company, Limited (11.08%) of which Mr. W. E. Mocatta, Mr. Andrew Brandler, Mr. Peter P. W. Tse and Mr. Michael Price are Directors and Mr. J. S. Dickson Leach is an Alternate Director.

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The fourth largest supplier to the Group is Hong Kong Pumped Storage Development Company, Limited (2.62%) of which Mr. S. F. Goldman, Ms. L. J. Ryerkerk, Mr. W. E. Mocatta, Mr. Andrew Brandler and Mr. Michael Price are Directors and Mr. J. S. Dickson Leach is an Alternate Director.

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 29 to the Accounts. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

STANDARD ACCOUNTING PRACTICES

The Company does not comply with Statement of Standard Accounting Practice No. 12 "Accounting for Deferred Tax" issued by the Hong Kong Society of Accountants. The reason for the departure from Standard Accounting Practice is described under Note 1(B) of the Notes to the Accounts.

CORPORATE GOVERNANCE

The Accounts for the year have been reviewed by the Audit Committee of the Board, which has a majority of its members appointed from the Independent Non-executive Directors.

The Company has complied with the Code of Best Practice contained in Appendix 14 of the Listing Rules throughout the year. Further details on the subject of corporate governance and a summary of the terms of reference of each of the Committees appointed by the Board are set out on pages 16 to 20 of this Annual Report.

AUDITORS

The Accounts for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the Annual General Meeting of the Company.

By Order of the Board

The Hon. Michael D. Kadoorie
Chairman

Hong Kong, 25 February 2002