

Ho-Ping Power Company Limited

The Group achieved financial close of the 1,320MW Ho-Ping Project in December 1998. During the year 2000, the Group increased its stake in the Ho-Ping project from 30% to 40% by acquiring an additional 10% from Taiwan Cement Corporation. This is the first IPP project to obtain private-sector project financing in Taiwan. Construction of the project has progressed steadily towards scheduled commercial operation in 2002. The Group's share of Ho-Ping's loss of HK\$11 million was after a write-off of the Group's pre-operating costs of HK\$13 million.

PROPERTY JOINT VENTURES IN HONG KONG

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 site is being developed into commercial and residential units (named "Laguna Verde"). According to the joint venture agreement executed in 1991, the subsidiary of Cheung Kong (Holdings) Limited pays all development expenses and, after the sale, construction and completion 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.

In 1999, the joint venture acquired additional Plot Ratio from the Government. Under a separate agreement with the subsidiary of Cheung Kong (Holdings) Limited, the Group shares 50% of the net proceeds of sale from this additional gross floor area and bears 50% of associated land premium, development and marketing costs.

The project is scheduled to be completed in phases in the years 1998 to 2001. All units in Phase 3 were pre-sold at an average price of about HK\$5,370 per sq. ft. The

Occupation Permit was obtained in the second quarter 2000. The relevant profit before taxation of HK\$1,357 million was booked during the year. About one-third of Phase 4 units were pre-sold. The relevant Occupation Permit is expected to be issued during 2001.

Taxation

The Group's effective tax rate for the year was 15.7% (Hong Kong standard tax rate: 16%) compared to 12.8% in 1999. The increase in the effective tax rate was principally due to the non-deductible impairment losses on investments and a significant reduction in the level of non-taxable interest income. Taxation in 1999 also included a 10% 1997/98 Hong Kong profits tax rebate from the Government.

Transfers under Scheme of Control

Transfers required under the SOC are shown below:

	2000 HK\$M	1999 HK\$M
Transfers under Scheme of Control		
To development fund	(1,386)	(1,040)
From special provision account	37	–
To rate reduction reserve	(280)	(236)
	(1,629)	(1,276)

In accordance with the requirements of the SOC, the transfer to the development fund was HK\$1,386 million in 2000 (1999: HK\$1,040 million). The amount of deferral premium in relation to units 7 & 8 of the Black Point Power Station charged to the special provision account was HK\$37 million. The transfer to the rate reduction reserve amounted to HK\$280 million in 2000 (1999: HK\$236 million), representing a charge at 8% per annum on the average balance of the sum of the development fund and special provision account.

Earnings Attributable to Shareholders

	2000 HK\$M	1999 HK\$M	Increase/ (decrease) %
Scheme of Control	5,147	5,064	1.6
Electricity businesses outside Hong Kong	553	543	1.8
Interest income	93	587	(84.2)
Public lighting, property and export sales	55	62	(11.3)
Unallocated Group expenses	(78)	(84)	
Development of multi-utility businesses	(104)	(9)	
	5,666	6,163	(8.1)
Hok Un redevelopment profit	1,132	498	
Impairment losses on EGCO and YTL Power	(1,030)	–	
Group earnings attributable to shareholders	5,768	6,661	(13.4)
Weighted average number of shares in issue, million shares	2,081.227	2,362.973	
Earnings per share, HK\$	2.77	2.81	(1.4)
Earnings per share excluding Hok Un and impairment losses on investments, HK\$	2.72	2.60	4.6

1999– 12 months ended 31 December 1999

Earnings per share for the recurring operations increased by 4.6% to HK\$2.72 per share, reflecting the enhancement by the repurchase of a total of 367,275,500 shares from CITIC Pacific Limited in October 1999. Total earnings per share were HK\$2.77 per share, a decrease of 1.4%.

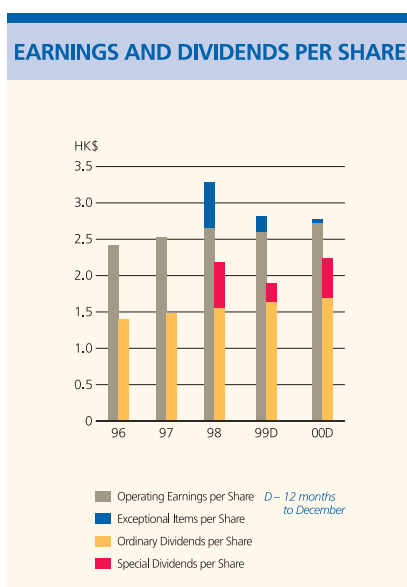


Dividends

During the year, three interim dividends each of HK\$0.40 per share and a special interim dividend of HK\$0.27 per share were paid, totalling HK\$1.47 per share. The Board has recommended that a final dividend of HK\$0.50 per share and a special centenary dividend of HK\$0.27 per share be proposed for approval at the forthcoming Annual General Meeting, making a total of HK\$2.24 per share for the year (15 months ended 31 December 1999: ordinary dividends of HK\$2.02 per share and special dividend of HK\$0.25 per share). The ordinary dividend payout ratio, i.e. the ratio of ordinary dividends over recurring operating earnings, is 62.4% (15 months ended 31 December 1999: 59.2%).

The Board has also proposed to make a bonus issue of one new share of HK\$5 credited as fully paid for every five shares held.

In the absence of unforeseen circumstances, the Board anticipates that three interim dividends each of HK\$0.35 per share, after the bonus issue of one for five, will be payable to shareholders in June, September and December 2001.



FINANCIAL POSITION

Fixed Assets and Capital Expenditure

As at the year end, fixed assets amounted to HK\$30,692 million, an increase of HK\$1,789 million or 6.2% from last year. During the year, the Group invested HK\$3,402 million (1999: HK\$2,716 million) in fixed assets. Capital expenditure by the associated generating companies incorporated in Hong Kong was HK\$356 million (1999: HK\$337 million), making a total of HK\$3,758 million (1999: HK\$3,053 million).

Investments in Jointly Controlled Entities, Associated Company and Investment Securities

The breakdown of the Group's investments in each geographical region at 31 December 2000 is shown below:

	Investments	
	HK\$M	%
Electricity Business		
Chinese mainland	4,766	41
Hong Kong	4,075	35
Thailand	1,173	10
Taiwan	928	8
Malaysia	643	6
	<hr/>	<hr/>
	11,585	100
Property Business		
Hong Kong	2,241	
	<hr/>	
	13,826	

This does not include the acquisition of the Asia-Pacific IPP portfolio of Powergen UK plc and the joint venture with Beijing Guohua Electric Power Corporation of China. Completion of these transactions is expected to take place in early 2001.

Liquidity and Capital Resources

As at 31 December 2000, the Group had liquid funds of HK\$2,172 million (1999: HK\$918 million), comprising HK\$2,162 million cash and deposits and HK\$10 million floating rate certificate of deposit. About 78% of these liquid funds were denominated in US dollars and the remainder in HK dollars.

Financing facilities totalling HK\$10.4 billion (HK\$31.1 billion for CLP Group and CAPCO combined) were available, of which HK\$2.6 billion (HK\$18.1 billion for CLP Group and CAPCO combined) had been drawn down. In December 2000, CLP Power arranged a HK\$1.5 billion five-year term facility at attractive pricing for a facility of that kind.

Total debt to total capital of the Group at 31 December 2000 was 7.5%. On a most conservative basis, i.e. including 100% of CAPCO's debt, total debt to total capital increased to 32.3% and the interest cover was still maintained at a very healthy ratio of nine times.

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. However, making full provision for deferred taxation complies with International Accounting Standards and United States generally accepted accounting principles.

The deferred taxation balance increased from HK\$2,920 million to HK\$3,110 million during the year, mainly due to CLP Power's continuous investment in its transmission and distribution network.

Development Fund

The transfer from profit and loss account was HK\$1,386 million. This was offset by the special rebate and CLP centenary rebate to customers of HK\$593 million and HK\$387 million respectively and a transfer to special provision account of HK\$803 million. The development fund balance at 31 December 2000 was HK\$2,923 million (1999: HK\$3,320 million). This represents 5.0% (1999: 5.7%) 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 the acquisition of SOC fixed assets.

The accumulation of the development fund is, to a significant extent, attributable to sales to the Mainland. For the year ended 31 December 2000, such sales generated a transfer to the development fund of approximately HK\$211 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. Up to 31 December 2000, the amount of deferral premium charged to the special provision account was HK\$37 million.

CASH FLOWS

Net cash provided by operating activities increased by HK\$471 million in 2000, primarily reflecting increase in sales, partially offset by increased expenses.

Returns on investments included a profit of HK\$1,470 million distributed by the Hok Un joint venture.

Higher taxation in 1999 was because of an increase of 61% in the operating profit of CLP Power in financial year 1998. The significant increase in operating profit was due to higher sales revenue by the above average unit sales growth of 8.1%.

Net cash used in investments in 2000 primarily reflects the capital expenditure of CLP Power, additional shareholdings in Ho-Ping Power Company Limited and EGCO as well as advances to CAPCO and the Hok Un joint venture. Higher investments in 1999 were mainly due to the acquisition of a 5% shareholding in YTL Power of HK\$773 million and an equity injection in the Shandong joint venture of HK\$849 million.

Cash used in financing activities in 1999 included HK\$12,816 million for the repurchase of a total of 367,275,500 shares (approximately 15% of the shareholding) from CITIC Pacific Limited in October 1999. In 2000, there was a net debt repayment of HK\$187 million.

	2000 HK\$M	1999 HK\$M	Change HK\$M
Cash provided by (used in):			
Operating activities	7,415	6,944	471
Returns on investments and finance	(1,651)	(2,856)	1,205
Taxation	(454)	(1,094)	640
Investing activities	(3,856)	(5,301)	1,445
Financing activities	(187)	(12,720)	12,533
	1,267	(15,027)	16,294

1999 – 12 months ended 31 December 1999