

HONGKONG ELECTRIC HOLDINGS LIMITED

REPORT OF THE DIRECTORS

(Expressed in Hong Kong Dollars)

The Directors have pleasure in submitting their Annual Report together with the audited accounts for the year ended 31st December 2000.

Group Activities

The principal activity of the Group is the generation and supply of electricity.

Accounts

The Group Profit and Loss Account for the year ended 31st December 2000 is set out on page 22 and shows the Group profit, after tax and Scheme of Control transfers, of \$5,535 million (1999 : \$5,286 million). The state of the Company's and the Group's affairs as at 31st December 2000 are set out in the accounts on pages 22 to 47.

Dividends

An interim dividend of 54 cents (1999 : 53.75 cents) per share was paid to shareholders on 3rd October 2000 and the Directors recommend a final dividend of 97.5 cents (1999 : 95 cents) per share payable on 11th May 2001 to shareholders who are registered on the register of members on 10th May 2001.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 21 on the accounts.

Share Capital

Particulars of the movements in share capital are set out in note 20 on the accounts.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year (1999 : Nil).

Charitable Donations

Donations by the Group during the year amounted to \$2 million (1999 : \$2 million).

Fixed Assets

Additions to Group fixed assets for the year amounted to \$3,549 million (1999 : \$3,621 million). The movements in fixed assets during the year are set out in note 11 on the accounts.

Directors

The Directors in office at the date of this report are listed on page 1 of the Annual Report.

Mr. Richard Li Tzar-kai resigned as a Director on 16th August 2000.

In accordance with Article 116 of the Company's Articles of Association, the Directors retiring by rotation are Mr. George C. Magnus and Mrs. Susan M.F. Chow, who, being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) (1999 : Nil).

Independent Non-executive Directors' Remuneration

A director's fee of \$50,000 per annum (1999 : \$50,000 per annum) (or such amount on a pro-rata basis by reference to the period of service during the year) is payable to each independent non-executive Director of the Company. No other emoluments are paid or payable to the independent non-executive Directors of the Company during the year.

Contracts of Significance

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Major Customers and Suppliers

The Group's five largest customers combined did not exceed 30% of the Group's total turnover for the years ended 31st December 2000 and 1999.

The largest supplier of revenue items for the year represents 29.5% (1999: 13.6%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 64.6% (1999: 59.0%).

The holding company of a substantial shareholder who owns more than 5% of the Company's issued share capital, has a 50% interest in one of the above five largest suppliers. Save as disclosed above, at 31st December 2000 and 1999, none of the Directors or shareholders to the knowledge of the Directors, had any interest in the above five largest suppliers.

Connected Transactions

- (1) The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, had on 4th February 1986 entered into an agreement in the usual and ordinary course of its business with Total Energy Resources (Hong Kong) Limited ("Total Energy"), a company which is 50% owned by Hutchison Whampoa Limited, pursuant to which HEC agreed to purchase coal on normal commercial terms from Total Energy at a consideration to be reviewed annually. Hutchison Whampoa Limited is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. Approximately 6.0% (1999 : 17.1%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately \$46 million (1999 : \$140 million). The coal price was determined in 2000 by reference to the then prevailing market price for coal. The agreement has been disclosed to shareholders in a circular dated 16th May 1987. The terms of the annual extension of the agreement are hereby disclosed in accordance with Rule 14.25(1) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").
- (2) On 28th March 2000, HEC entered into an agreement with HUD General Engineering Services Ltd. ("HUD") whereby HUD agreed to erect a coal unloading and conveying system (the "System") at the Group's Lamma power station jetty extension at a consideration of \$25.5 million for the transport of the coal used by the Group in the production of electricity from the jetty to the power plant. The said sum is payable by monthly progress payments for work completed, subject to a retention of 5% which shall be released to HUD upon the issue of the final certificate on the expiration of a 12 months' defects liability period from the completion of the erection of the System. The erection of the System is expected to be completed by 1st May 2001.

HUD is 50% owned by Hutchison Whampoa Limited which in turn is the holding company of the substantial shareholder of the Company, Cheung Kong Infrastructure Holdings Limited. Shareholders have been informed of the above agreement in a press announcement dated 28th March 2000 and the particulars thereof are herein disclosed pursuant to Rule 14.25(1) of the Listing Rules.

- (3) On 3rd August 2000, CKI/HEI Electricity Distribution Pty Ltd (the “Purchaser”), a company ultimately 50% owned by each of the Company and Cheung Kong Infrastructure Holdings Limited (the substantial shareholder of our Company), entered into an agreement with PacifiCorp International Group Holdings Company and ScottishPower plc to purchase 100% of the shares of Pan-Pacific Global Corporation and Eastern Investment Company which together indirectly owned all of the electricity distribution and retail assets in Australia of Powercor Australia Limited. The total consideration was A\$2,315 million (approximately HK\$10,001 million), of which A\$1,683 million (approximately HK\$7,271 million) was payable to the vendors and certain external creditors of the acquired entities on completion before 6th September 2000 and the balance on account of the US\$400 million (approximately HK\$3,120 million) note debt obligations of Powercor Australia, LLC (one of the acquired entities) was not due until 15th January 2008. The Company agreed to guarantee the Purchaser’s obligations under the agreement on a several basis pro rata to its shareholding interest in the Purchaser, and limited to A\$225 million (approximately HK\$972 million).

On 6th September 2000, HEI Transmission Finance (Australia) Pty Ltd (“HEITFA”), a wholly owned subsidiary of the Company, utilising funds from banking facilities guaranteed by the Company, advanced to the Purchaser and two of the acquired entities (being Powercor Australia Limited and Powercor Australia, LLC) a total sum of A\$844 million (approximately HK\$3,646 million) for completion of the purchase (including paying out certain external debt obligations of those acquired entities). The advance is unsecured, carries the same interest rates at which HEITFA obtained the funds from various financial institutions plus a margin in respect of the corporate guarantee and is repayable on demand (subject to a subordination arrangement agreed with Powercor group's senior creditors). Shareholders have been informed of the above transaction by a press announcement dated 3rd August 2000 and the particulars thereof are herein disclosed pursuant to Rule 14.25(2)(b) of the Listing Rules.

- (4) On 14th December 2000, HEC entered into an agreement (the “Agreement”) with HUD General Engineering Services Ltd. (“HUD”) whereby HUD agreed to supply with complete erection, inspection, testing and commissioning a circulating water system (the “System”) for the combined cycle plant at the Group's Lamma power station at a consideration of approximately \$11 million. The said sum which will be funded by internal resources is payable to HUD by progress payments for equipment delivered and work completed, subject to a retention of 5% which shall be released to HUD on the expiration of a 12 months' defects liability period from the date of the taking over certificate. The erection of the System is expected to be completed by June 2002.

HUD is 50% owned by Hutchison Whampoa Limited which in turn is the holding company of the substantial shareholder of the Company, Cheung Kong Infrastructure Holdings Limited. Shareholders have been informed of the above agreement in a press announcement dated 14th December 2000 and the particulars thereof are herein disclosed pursuant to Rule 14.25(1) of the Listing Rules.

- (5) The Stock Exchange of Hong Kong Limited (“Stock Exchange”) has granted a conditional waiver to the Company from the requirement of disclosure by press notice as stipulated in Chapter 14 of the Listing Rules in connection with the agreements set out below.

HEC has entered into two agreements with A.S. Watson Group (HK) Limited (“Watson”), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 1999, Watson agreed to supply and install different types of electric water heaters for private estates from 1st March 1999 to 28th February 2001. The unit prices of these heaters are fixed during the contract period and the price is payable by HEC within 30 days against certified invoices for water heaters installed. Pursuant to the agreement dated 17th January 2000, Watson agreed to supply and install different types of electric appliances to residents in certain public estates in the year 2000. The unit prices of these electric appliances are set out in the agreement. The difference between the price the residents pay and the unit price set out in the agreement is payable by HEC within 30 days after completion of installation and receipt of invoice. The aggregate amount incurred by HEC under the two agreements during the year is approximately \$8 million.

HEC has entered into an agreement dated 16th April 1999 and a variation order dated 22nd May 2000 with Green Island Cement (Holdings) Limited (“GIC”), a subsidiary of Cheung Kong Infrastructure Holdings Limited, pursuant to which GIC agreed to supply limestone powder to HEC from 1st May 1999 to 30th April 2001. HEC will order limestone powder from GIC from time to time and the price is calculated according to the unit rates set out in the agreement and the variation order and is payable within 30 days upon receipt of an invoice from GIC. The amount incurred by HEC under the agreement during the year is approximately \$6 million.

In accordance with one of the conditions imposed by the Stock Exchange, the independent non-executive Directors of the Company have reviewed the transactions conducted pursuant to the above agreements (“Transactions”) in the year ended 31st December 2000 and confirm that:

- (a) the Transactions have been conducted by the Group in the ordinary and usual course of its business;
- (b) the Transactions have been entered into on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the Transactions have been carried out in accordance with the terms of the agreements governing such Transactions.

Arrangement to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate (1999 : Nil).

Code of Best Practice

With the exception that non-executive Directors have no set term of office but retire from office on a rotational basis, none of the Directors is aware of any information that would reasonably indicate the Company is not, or was not during the year in compliance with the Code of Best Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In accordance with the Code of Best Practice, the Board of Directors established an audit committee on 1st January 1999 to review and supervise the Group's financial reporting and internal control systems. The audit committee consists of three independent non-executive Directors and has met three times during the year.

Directors' Interests

At 31st December 2000, the interests of the Directors in the issued share capital of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)) as recorded in the register required to be kept under section 29 of the SDI Ordinance were as follows:

Name of Director	Number of Shares of \$1 each				Total
	Personal	Family	Corporate	Other	
Victor Li Tzar-kuoi	-	-	-	829,599,612 (Notes 1 & 2)	829,599,612
Ronald Joseph Arculli	-	-	2,011	-	2,011
Francis Lee Lan-yee	739	-	-	-	739

Notes:

- (1) *These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI"). Hutchison Whampoa Limited ("HWL") holds more than one-third of the issued share capital of CKI and certain subsidiaries of Cheung Kong (Holdings) Limited ("CKH") hold more than one-third of the issued share capital of HWL. Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust (the "LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of CKH. All the issued and outstanding units in the LKS Unity Trust are held by Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi, his wife and two daughters, and Mr. Richard Li Tzar-kai. Mr. Victor Li Tzar-kuoi, as a Director of the Company, is deemed to be interested in such shares of the Company as held by the subsidiaries of CKI under the SDI Ordinance by virtue of his interests as described herein as discretionary beneficiary of such discretionary trusts.*
- (2) *Mr. Victor Li Tzar-kuoi, by virtue of his interests as described in Note 1 above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated companies of the Company held through the Company under the SDI Ordinance.*

Save as disclosed herein, at 31st December 2000, none of the Directors had any interest in the equity or debt securities of the Company or any associated corporation.

Substantial Shareholders' Interests

At 31st December 2000, in addition to the interests disclosed above in respect of the Directors, the following companies and person were interested in 10% or more of the issued share capital of the Company according to the register kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") and information received by the Company:

- (1) Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust, Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and its subsidiaries, Hutchison International Limited and Hutchison Infrastructure Holdings Limited, Cheung Kong Infrastructure Holdings Limited and its subsidiary, Hyford Limited are each taken to have an interest in the same 829,599,612 shares of the Company as described in Note 1 under Directors' Interests in accordance with the provisions of the SDI Ordinance.
- (2) Li Ka-Shing Unity Holdings Limited is taken to have an interest in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance by virtue of its owning more than one-third of the issued share capital of the trustees of The Li Ka-Shing Unity Trust and The Li Ka-Shing Unity Discretionary Trust.
- (3) Mr. Li Ka-shing is taken to have an interest in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance by virtue of his owning more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited.
- (4) Monitor Equities S.A. and Univest Equity S.A., both subsidiaries of Hyford Limited are taken to have an interest in 287,211,674 shares and 279,011,102 shares respectively which are duplicated in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance.

Directors' Interests in Competing Business

Messrs. George Magnus, Canning Fok, K.S. Tso, Victor Li, H.L. Kam, Frank Sixt and Mrs. Susan Chow, Directors of the Company ("Relevant Directors"), are also directors of Cheung Kong Infrastructure Holdings Limited ("CKI") whose principal activities are the investment and operation of infrastructure businesses in Hong Kong, Mainland China and other countries in the Asia-Pacific Region. These activities may be in competition with one of the Group's businesses of investment overseas in power generation, transmission and distribution facilities ("Overseas Business").

The Board is of the view that the Group is capable of carrying on its Overseas Business independently of, and at arms length from the business of CKI. The Company has a total of 14 directors. Apart from the Relevant Directors, the board also consists of two other executive directors, one non-executive director and four independent non-executive directors who are totally independent of CKI. When making decisions on the Overseas Business, the Relevant Directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the commercial best interest of the Group and its shareholders without regard to the interest of CKI.

Subsidiaries

Particulars of the name, principal place of operation and issued share capital of subsidiaries are set out in note 12 on the accounts.

Capital Expenditure, Liquidity and Financial Resources

The Group continued to utilise the re-invested profits generated from both utility and non-utility related business, finance from long-term suppliers' credits and export credits to fund the capital expenditure programme. Internal cash generation provided a substantial proportion of the total capital requirements in 2000 and the Group expects to continue financing its capital expansion from internal sources and, to the extent required, external financial fundings and borrowings from banks and the capital markets.

As at 31st December 2000, the Group had outstanding borrowings of \$17,983 million (1999 : \$12,244 million), comprising unsecured bank loans and overdrafts of \$13,713 million (1999 : \$8,965 million), unsecured deferred creditors of \$1,570 million (1999 : \$2,079 million) and fixed rate notes of \$2,700 million (1999 : \$1,200 million).

As at 31st December 2000, the Group's net borrowings amounted to \$17,189 million (1999 : \$11,049 million), shareholders' funds amounted to \$28,445 million (1999 : \$24,987 million) and gearing ratio was 0.60 (1999: 0.44).

Treasury Policies and Capital Structure

As at 31st December 2000, external borrowings of the Group amounted to \$17,983 million with the following profile:

- (1) 65% were either denominated or effectively hedged into Hong Kong dollars and 34% were denominated in Australian dollars;
- (2) 76% are long term loans;
- (3) 9% are repayable beyond 5 years;
- (4) 61% are fixed rate based.

At the end of the year, committed banking facilities available to the Group, but undrawn, amounted to \$4,981 million (1999 : \$7,700 million).

The overall treasury policy of the Group continues to be one of financial risk management and control with transactions being directly related to the underlying business of the Group. As the Group's revenue is primarily denominated in Hong Kong dollars, it has always been the Group's policy to secure financing in Hong Kong or US dollars or hedge the currency risk arising from other foreign currency borrowings through the use of derivative instruments. As at 31st December 2000, approximately 99% of the Group's borrowings in connection with its local business were either denominated in or effectively swapped to Hong Kong dollars. Foreign currency exposures arising from overseas investments have been hedged by arranging a similar level of local currency borrowings to finance those acquisitions. Various hedging instruments including foreign exchange forward contracts, interest rate and cross currency swaps have been employed to manage currency and interest exposures. As at 31st December 2000, outstanding commitments to such hedging instruments amounted to \$9,885 million (1999 : \$4,416 million) equivalent.

Contingent Liabilities

As at 31st December 2000, the Company has executed a guarantee in respect of banking facilities available to an associate amounting to \$8 million (1999: \$8 million).

As at 31st December 2000, the Company has given banking and other guarantees amounting to \$9,663 million (1999 : \$1,394 million) in respect of subsidiaries.

Summary of Five Year Financial Results

The summary of five year financial results of the Group is set out on page 50 of the Annual Report.

Auditors

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in Auditors in any of the preceding three years.

By Order of the Board

George C. Magnus
Chairman

Hong Kong, 8th March 2001