

# **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 2001.

### **Group Activities**

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

### **Accounts**

The Consolidated Profit and Loss Account for the year ended 31st December 2001 is set out on page 24 and shows the Group profit, after tax and Scheme of Control transfers, of \$6,507 million (2000 : \$5,535 million). The state of the Company's and the Group's affairs as at 31st December 2001 are set out in the accounts on pages 24 to 58.

### **Dividends**

An interim dividend of 56 cents (2000 : 54 cents) per share was paid to shareholders on 3rd October 2001 and the Directors recommend a final dividend of \$1.07 (2000 : 97.5 cents) per share payable on 10th May 2002 to shareholders who are registered on the register of members on 9th May 2002.

### **Reserves**

Movements in the reserves of the Company and the Group during the year are set out in note 23 on the accounts.

### **Share Capital**

Particulars of the movements in share capital are set out in note 22 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 (2000 : Nil).

### **Charitable Donations**

Donations by the Group during the year amounted to \$2 million (2000 : \$2 million).

### **Fixed Assets**

Additions to Group fixed assets for the year amounted to \$4,134 million (2000 : \$3,549 million). The movements in fixed assets during the year are set out in note 12 on the accounts.

### **Directors**

The Directors in office at the date of this report are listed on page 2 of the Annual Report.

In accordance with Article 116 of the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting to be held on 9th May 2002 are Mr. Ronald J. Arculli and Mr. Ewan Yee Lup-yuen, 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) (2000 : Nil).

### **Independent Non-executive Directors' Remuneration**

A director's fee of \$50,000 per annum (2000 : \$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 2001 and 2000.

The largest supplier of revenue items for the year represents 24.9% (2000: 29.5%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 73.4% (2000: 64.6%).

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 2001 and 2000, 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 4.6% (2000 : 6.0%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately \$43 million (2000 : \$46 million). The coal price was determined in 2001 by reference to the then prevailing market price for coal. The agreement has been disclosed to shareholders in a circular dated 16th May 1987. Information relating to the annual extension of the agreement is 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 2nd April 2001, HEC awarded a sub-contract to HUD General Engineering Services Ltd. (“HUD”) whereby HUD agreed to carry out works for the general electrical and mechanical erection of a steam cycle bottoming system (“System”) at the Group's Lamma power station at a consideration of approximately \$42.8 million (“Sub-contract Price”). HUD is required to enter into a sub-contract containing terms to be determined by HEC with the main contractor which is not a connected person (as defined in the Listing Rules) of the Company or its associate (as defined in the Listing Rules). The Sub-contract Price which will be funded by internal resources, is payable to HUD by monthly progress payments for 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 July 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 subcontract arrangement in a press announcement dated 2nd April 2001 and the particulars thereof are herein disclosed pursuant to Rule 14.25(1) of the Listing Rules.

- (3) 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 and various variation orders with A.S. Watson Group (HK) Limited (“Watson”), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 1999 and a variation order dated 9th February 2001, Watson agreed to supply and install different types of electric water heaters for private estates from 1st March 1999 to 31st December 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 18th January 2001 and two variation orders dated 29th June 2001 and 13th September 2001 respectively, Watson agreed to supply and install different types of electric appliances to residents in certain public estates in the year 2001. The unit prices of these electric appliances are set out in the agreement and the said variation orders. The difference between the price the residents pay and the unit price set out in the agreement and the said variation orders is payable by HEC within 30 days after completion of installation and receipt of invoice. The aggregate amount incurred by HEC under the above agreements during the year is approximately \$5 million.

HEC has entered into an agreement dated 16th April 1999 and two variation orders dated 22nd May 2000 and 24th March 2001 respectively 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 2002. 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 variation order dated 22nd May 2000 and is payable within 30 days upon receipt of an invoice from GIC. The amount incurred by HEC 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 2001 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 (2000 : 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 in accordance with the Articles of Association of the Company, the Company has complied throughout the year ended 31st December 2001 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.

### **Audit Committee**

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 2001, 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:

<b>Name of Director</b>	<b>Number of Shares of \$1 each</b>				<b>Total</b>
	<b>Personal</b>	<b>Family</b>	<b>Corporate</b>	<b>Other</b>	
Victor Li Tzar-kuoi	-	-	-	829,599,612 <i>(Notes 1 &amp; 2)</i>	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 2001, 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 2001, 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 (“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 all its shareholders.

#### **Subsidiaries**

Particulars of the name, principal place of operation and issued share capital of subsidiaries are set out in Appendix 2 on page 57 of the Annual Report.

#### **Summary of Five Year Financial Results**

The summary of five year financial results of the Group is set out on page 61 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, 7th March 2002