Management Discussion and Analysis – Financial Review

Consolidated Financial Result

During the six-month period to 30 June 2002, local electricity unit sales in Hong Kong increased by 3.6%. Total unit sales, which include sales to the Chinese mainland, increased by 7.6%. There was no increase in basic tariff in 2002. Turnover registered a 5.8% increase.

Total earnings were HK$3,445 million, being HK$657 million higher than the corresponding period last year. Scheme of Control (SOC) earnings increased by 7.2% to HK$2,829 million while non-SOC operating earnings increased by HK$387 million. The increase in non-SOC operating earnings was mainly due to a higher share of profits from the investments in power projects outside Hong Kong.

Earnings Attributable to Shareholders

The contribution of each major activity to the Group earnings is analysed as follows:

6 months ended 30 June	2002		2001		Increase/ (decrease)
	HK$M	HK$M	HK$M	HK$M	%
Scheme of Control earnings		**2,829**		2,638	7.2
Non-Scheme of Control operating earnings					
Sales to the Chinese mainland	**35**		20		
Income from power projects outside Hong Kong	**632**		215		
Telecom business	**(68)**		(74)		
Other businesses	**(17)**	**582**	34	195	198.5
Unallocated net finance (costs) / income		**(41)**		5	
Unallocated Group expenses		**(59)**		(50)	18.0
		3,311		2,788	18.8
Hok Un redevelopment profit		**134**		–	
Group earnings attributable to shareholders		**3,445**		2,788	23.6
Earnings per share, HK$		**1.43**		1.11	28.8
Earnings per share excluding Hok Un, HK$		**1.37**		1.11	23.4

Earnings per share increased by 28.8%, higher than the increase in total group earnings of 23.6% as the result of the full year effect of the 76 million shares repurchased in 2001 and 13.2 million shares repurchased in January 2002. Excluding the Hok Un redevelopment profit, earnings per share increased by 23.4%.

Significant Investments

Fixed assets of the Group, mainly consisting of investment in the transmission and distribution network for the core Hong Kong electricity business, amounted to HK$34,555 million as at 30 June 2002. During the six months, the Group invested HK$1,866 million (2001: HK$1,845 million), of which HK$1,857 million (2001: HK$1,802 million) was made by CLP Power, in fixed assets. Capital expenditure by associated Hong Kong generating companies for the six months was HK$288 million (2001: HK$202 million).

The Group's investments in jointly controlled entities, associated company and investment securities in each geographical segment are shown below:

	30 June 2002		31 December 2001	
	HK$M	%	HK$M	%
Electricity Business				
Asia-Pacific Region	**7,873**	**43**	4,714	31
Chinese Mainland	**5,802**	**32**	6,181	40
Hong Kong	**4,655**	**25**	4,532	29
	18,330	**100**	15,427	100
Property and other Businesses	**1,491**		2,320	
	19,821		17,747	

Investment in the electricity business in the Asia-Pacific Region increased significantly mainly due to the acquisition of interests in Gujarat Paguthan Energy Corporation Private Limited which owns and operates a 655MW combined cycle power station in Gujarat, India.

Share Premium Reduction and Retained Profit

The share premium account of CLP Holdings was reduced by HK$10,117 million to HK$1,164 million and the same amount was credited to the retained profit upon confirmation of the High Court of Hong Kong of the reduction of the share premium account on 7 June 2002.

There are no immediate plans regarding the use of the increased distributable reserve. The Share Premium Reduction will, however, provide greater flexibility for CLP Holdings in terms of its dividend or share repurchase policies.

Liquidity and Capital Resources

As at 30 June 2002, the Group had liquid funds of HK$109 million, comprising HK$83 million cash and deposits and HK$26 million in trust funds which were established for the payments of unclaimed dividends and trade creditors for the purpose of the Share Premium Reduction. About 94% of these liquid funds were denominated in Hong Kong dollars and the remainder in foreign currency.

Financing facilities totalling HK$17.4 billion (HK$35.3 billion for the CLP Group and Castle Peak Power Company Limited (CAPCO) combined) were available, of which HK$9.1 billion (HK$22.1 billion for the CLP Group and CAPCO combined) had been drawn down.

As at 30 June 2002, the Group's total debt to total capital was 21.3% and interest cover was 30 times. On a most conservative basis, i.e. including 100% of CAPCO's debt, total debt to total capital increased to 35.2% and the interest cover was still maintained at a healthy ratio of 12 times.

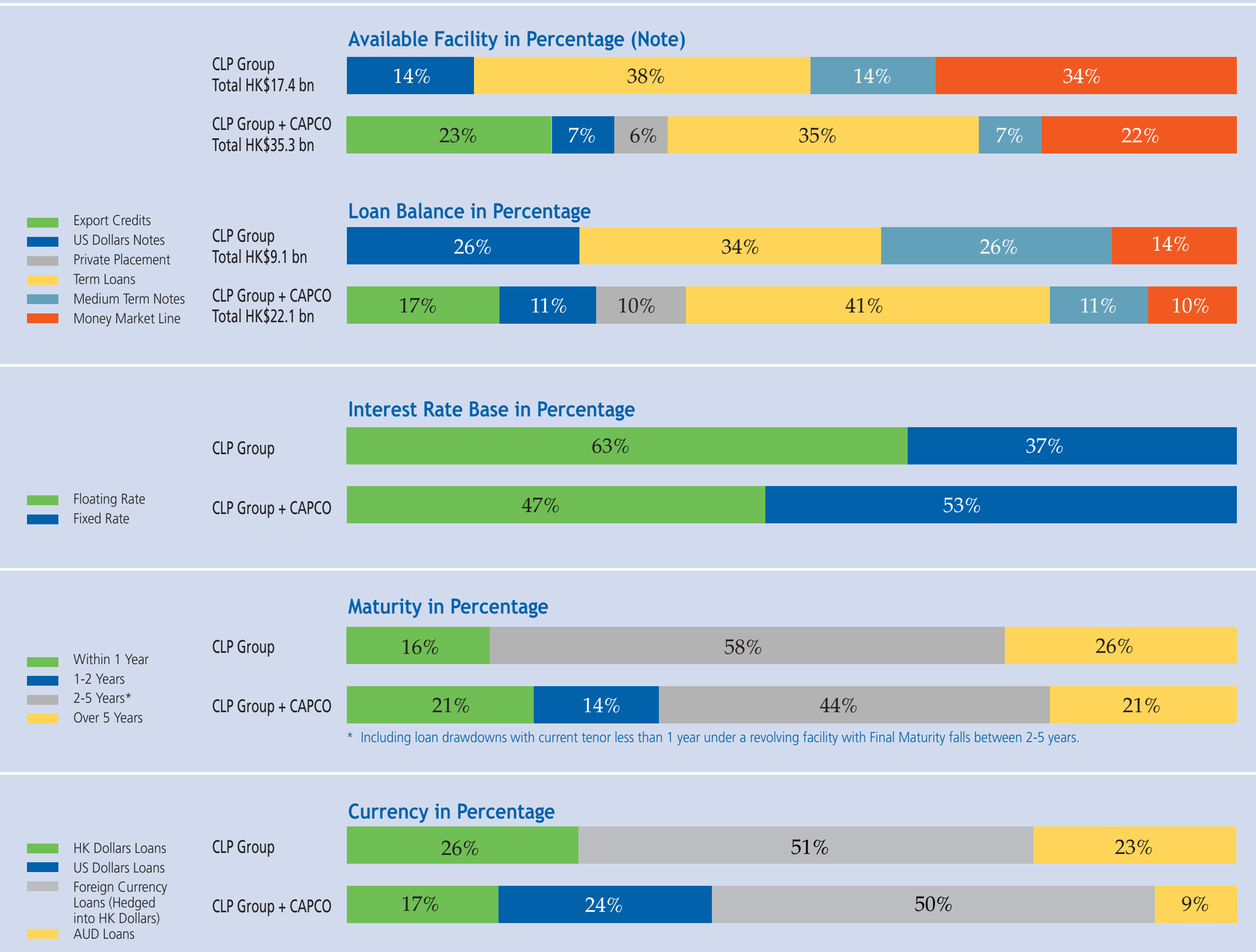
Financing

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

The Group adopts a prudent approach to its financial arrangements while at the same time aiming to achieve cost efficient funding. In the second quarter of 2002, CLP Power set up a Medium Term Note Programme (the Programme) through its wholly-owned subsidiary CLP Power Hong Kong Financing Limited. Under the Programme, notes in an aggregate amount of up to US$1.5 billion may be issued which will be unconditionally and irrevocably guaranteed by CLP Power. In May 2002, US$300 million 6.25% fixed rate notes due in 2012 were issued under the Programme. In order to hedge its currency risk, the Group has swapped these US dollar notes into HK dollar obligations. In addition, the Group has borrowed Australian dollar loans to hedge currency exposure arising on the Group's investments in the CLP-Powergen joint venture - Yallourn Power Station.

The charts below show the type, interest rate, maturity and currency profiles of borrowings of the Group and CAPCO as at 30 June 2002:

Debt Profile



Note : For the Medium Term Note Programme, only the amount (US$300 million) of the Notes issued was included in the total amount of Available Facility.

Credit Rating

The Group's strong financial strength has continued to receive high recognition from Standard & Poor's (S&P) and Moody's. It is supported by the strong cash flow generating ability and prudent financial structure of the Group. 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. There has been rating agency comment on potential changes to our risk profile due to increasing investment outside the SOC business. The Group recognises the risks associated with these diversification initiatives and will continue to maintain its long-standing policy of prudent financial and risk management strategies.

	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	–

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.

Forward contracts are utilised, when suitable opportunities arise, to hedge the Group's US dollar exposure on loan interest/repayments, fuel-related payments and other projected expenditures. As at 30 June 2002, the Group had outstanding forward foreign exchange contracts and currency and interest rate swaps amounting to HK$35.2 billion (at 31 December 2001: HK$35.5 billion). US dollar forward foreign exchange contracts and currency and interest rate swaps accounted for about 99% of this total. The fair value for these off-balance sheet financial instruments was HK$74 million, which represents the net proceeds we would receive if these forward foreign exchange contracts and currency and interest rate swaps were closed out at 30 June 2002. 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 currency and interest rate swaps and forward foreign exchange contracts is shown in the chart below:

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