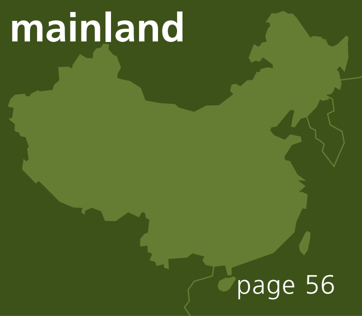
CLP ...

in Hong Kong

page 50

in the Chinese mainland



page 56

leveraging off its assets

page 64

The Management's Discussion and Analysis presents the CLP Group's "Financial Results and Position at a Glance" and then describes the various business streams within the Group, in each case setting out:–

- The description of the business;
- The relevant underlying business strategy;
- Operational and financial performance in 2002;
- Plans and activities for 2003; and
- Medium to longer-term perspectives.

The Management's Discussion and Analysis concludes with a report on the Group's financial results, funding and obligations.

CLP Group's Financial Results and Position at a Glance

Last Year's Balance Sheet (Restated) (Consolidated Balance Sheet at 31.12.2001)

	HK$M
Assets	
Fixed assets	33,577
Investments in affiliates and securities	17,747
1 Employee retirement benefit plan assets	1,194
Cash & cash equivalents	80
Other current assets	1,624
	54,222
Shareholders' Equity and Liabilities	
Share capital, premium & reserves	25,517
1 Retained earnings	9,651
Borrowings	5,567
Development Fund	3,177
Special provision account	766
Other liabilities	9,544
	54,222

Cash Flow For The Year (Consolidated Cash Flow Statement for the year ended 31.12.2002)

	HK$M
2 Cash inflow from operating activities	6,953
Dividends paid less dividends received	(1,305)
3 Investments in / advances to affiliates	(3,464)
Capital expenditure	(4,734)
4 Repurchase of ordinary shares	(397)
Net increase in borrowings	3,663
Other net cash outflow	(280)
Net increase in cash	436
Cash & cash equivalents at 31.12.2001	80
Cash & cash equivalents at 31.12.2002	516

Earnings For The Year (Consolidated Profit and Loss Account for the year ended 31.12.2002)

	HK$M
5 Turnover	26,134
6 Expenses	(19,611)
7 Property disposal gain	313
Operating profit	6,836
Net finance costs	(156)
8 Share of profits of affiliates	3,344
Profit before taxation	10,024
Taxation	(1,302)
Profit after taxation	8,722
9 Transfers under Scheme of Control	(1,643)
10 Total earnings	7,079

Earnings Retained (Consolidated Retained Earnings for the year ended 31.12.2002)

	HK$M
Balance at 1.1.2002	8,457
Surplus of employee retirement benefit plan assets over liabilities	1,194
Balance at 1.1.2002, restated	9,651
Repurchase of ordinary shares	(397)
Transfer from share premium	10,117
Total earnings	7,079
Dividends paid for the year	
2001 finals	(2,528)
2002 interims	(2,746)
Balance at 31.12.2002	21,176

1 As a result of the adoption of the SSAP No. 34 "Employee Benefits", the balance sheet at 31.12.2001 was restated to incorporate the employee retirement benefit plan assets of HK$1,194 million with corresponding increase to the retained earnings.

2 The Group's SoC operations continued to provide a stable source of cash inflow.

3 Investments in affiliates include investment in CLP Powergen joint venture – GPEC (HK$2,249 million), Guizhou CLP Power (HK$145 million), Ho-Ping Power Company (HK$136 million) and advances to Castle Peak Power Co. Ltd. (CAPCO) (HK$588 million).

4 During the year, the Company repurchased a total of 13,240,500 shares on The Stock Exchange of Hong Kong.

5 Turnover mainly represents sales revenue from the Hong Kong electricity business, which is regulated by the SoC. Local unit sales increased by 2.8%.

6 Expenses increased moderately by 2.9% due to higher government rent and rates and impairment charges.

7 Property disposal gain represents the capital gain from disposal of a site which was formerly used as staff quarters in Ho Man Tin Hill, Kowloon.

8 Profits before taxation of affiliates were mainly contributed by CAPCO (HK$1,572 million), Daya Bay (HK$757 million) and Hok Un property joint venture (HK$282 million).

9 According to the SoC, when revenue exceeds expenditure and permitted return, the surplus is transferred to a Development Fund. Transfers to Development Fund and rate reduction reserve were HK$1,420 million and HK$319 million respectively. Transfer from special provision account was HK$96 million.

10 Earnings after taxation amounted to HK$7,079 million, which comprised SoC earnings of HK$5,814 million, non-SoC earnings of HK$890 million, Hok Un redevelopment profit and property disposal gain of HK$546 million, offset by unallocated net finance costs of HK$54 million and unallocated Group expenses of HK$117 million.

Today's Balance Sheet (Consolidated Balance Sheet at 31.12.2002)

		HK$M
	Assets	
11	Fixed assets	36,550
	Investments in affiliates and securities	20,590
	Employee retirement benefit plan assets	1,138
	Cash & cash equivalents	516
	Other current assets	1,994
		60,788
	Shareholders' Equity and Liabilities	
	Share capital, premium & reserves	15,611
12	Retained earnings	21,176
13	Borrowings	9,297
14	Development Fund	3,372
15	Special provision account	670
16	Other liabilities	10,662
		60,788

11 During the year, the Group invested HK$4,935 million in fixed assets, mainly on transmission and distribution networks. According to the SoC, CLP Power's permitted return is based on a percentage of its net fixed assets.

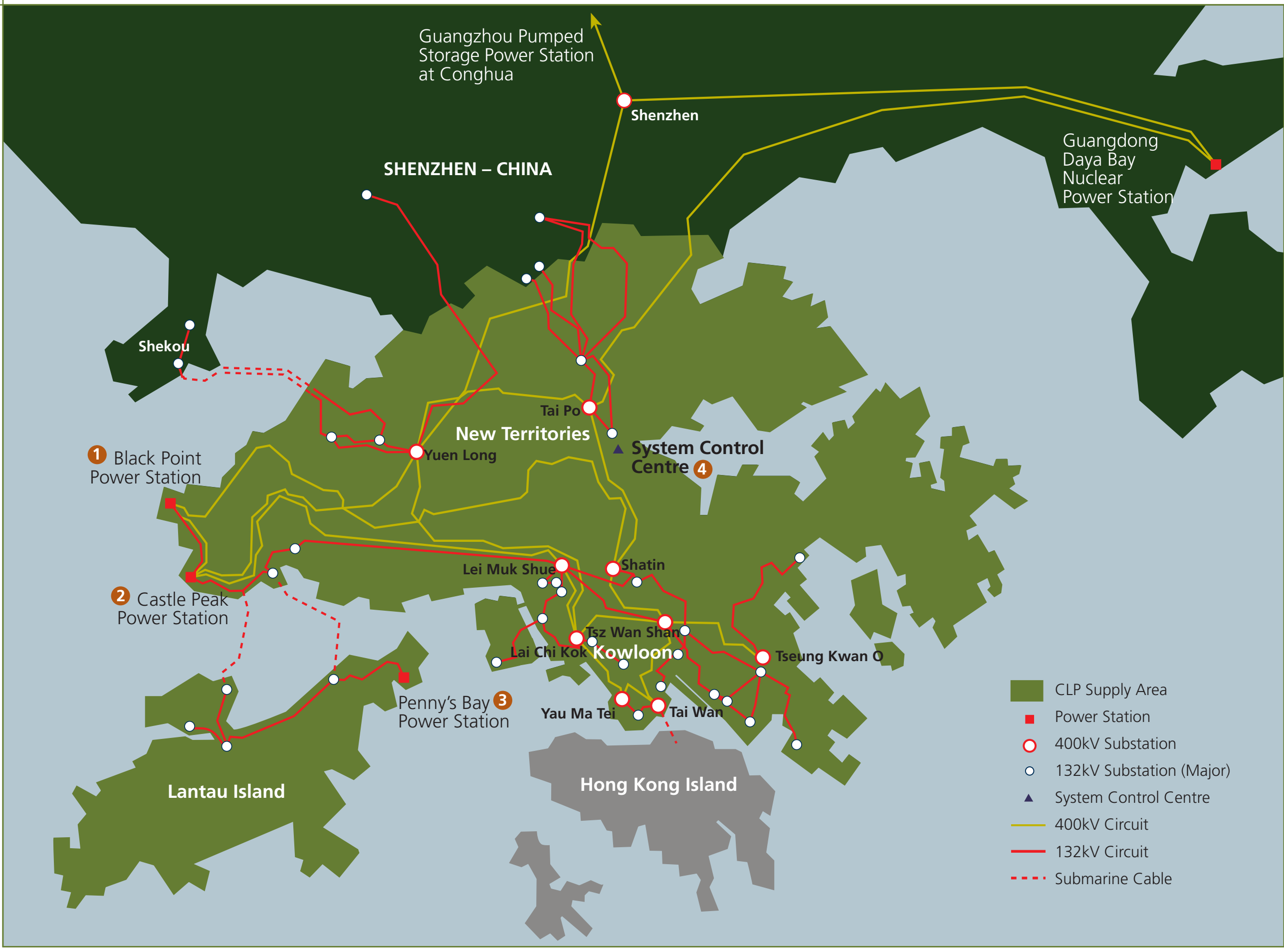
12 The retained earnings at 31 December 2001 was restated as prior year adjustment as a result of the adoption of the SSAP No. 34. Included in retained earnings are the proposed final dividend and special final dividend of HK$0.51 and HK$0.23 per share respectively. These result in total dividends for the year of HK$1.88 per share.

13 The Group's gearing, measured as total debt over total capital, remained at a healthy level of 20.2%.

14 Development Fund represents a liability of the Group. Its purpose is to assist in the acquisition of SoC fixed assets.

15 It was agreed with the Government in December 1999 to set aside HK$803 million from the Development Fund to which the deferral premium of units 7 & 8 of the Black Point Power Station is charged. As at the year end, a total of HK$133 million was paid.

16 Other liabilities included customers' deposits (HK$2,684 million), deferred taxation (HK$3,721 million) and trade and other payables (HK$3,091 million).



CLP in Hong Kong

CLP owns and operates the major electric utility business in the Hong Kong Special Administrative Region.

CLP supplies electricity to 2.1 million customers, representing a population of approximately 5.5 million in Kowloon, the New Territories, Lantau and a number of outlying islands. In addition to sales to Hong Kong customers, approximately 7% of CLP's electricity sales in 2002 was for distribution to customers in Guangdong Province.

CLP does not directly own generation facilities, but purchases its power from Castle Peak Power Company Limited (CAPCO), in which CLP owns a 40% interest and whose power stations are operated by CLP, and Guangdong Daya Bay Nuclear Power Station (GNPS), in which CLP owns a 25% interest. These sources of power, together with CLP's right to use 50% of the capacity of Phase 1 of the Guangzhou Pumped Storage Power Station, amount to a total installed capacity of 8,263MW.

Business Strategy

CLP delivers reliable energy supplies and high quality services at competitive prices to its customers, while meeting or exceeding all safety and environmental requirements, and providing a challenging and rewarding work environment for its employees.

The long-term interests of our shareholders are best served by ensuring that CLP's customers receive value for money and good service. If a public utility consistently fails to meet its customers' reasonable expectations, it cannot expect to continue to receive the support of the community it serves. Hence, customer satisfaction is a key element of CLP's overall strategy for creating value for its shareholders.

Assets	Equity Interest	Description
1 Black Point Power Station (2,500MW, when completed)	40%	• Gas-fired power station (with distillate as back-up) comprising eight combined cycle turbines of 312.5MW each • Six units in operation, with the final two units to be commissioned in 2005 and 2006 respectively
2 Castle Peak Power Station (4,108MW)	40%	• Commissioned between 1982 and 1990 • One of the world's largest coal-fired power station complexes, comprising eight units ranging from 350MW to 677MW • Two of the 677MW units are capable of burning gas and oil as alternative fuels
3 Penny's Bay Power Station (300MW)	40%	Three diesel-oil-fired units of 100MW each, commissioned in 1992
4 Transmission and Distribution System	100%	Our system covers a supply area of approximately 1,000 sq. km and includes:– • 534 km of 400kV lines • 1,019 km of 132kV lines • 9,229 km of 11kV lines • 52,863MVA transformers • 195 primary substations in operation • 11,539 secondary substations in operation

Operational Performance in 2002

CLP's generating plants performed well in 2002. The reliability of our Hong Kong generating plants has improved significantly now that the technical problems on the Black Point units have been resolved. The Hong Kong generating units were available for service 87.7% of the time, with 12% of the downtime due to scheduled maintenance programmes. Unplanned outages, measured by the equivalent forced outage rate, represented only 0.28% of the total operating period. The maximum demand for the year, including local Hong Kong demand and sales to Chinese mainland was 6,897MW, a 2.3% decrease over 2001, due primarily to intermittent rain in the summer.

In order to enhance our plant performance, supply quality and reliability, as well as to provide for demand created by new towns and infrastructure development projects in our supply area, CLP carried out a capital works programme amounting to HK$4.4 billion. Major projects included the Tseung Kwan O to Tai Wan 1,000MVA 400kV Circuit, 2nd Yau Ma Tei to Tai Wan 700MVA Circuit and Hung Hom Bay Bulk Substation. CLP also invested HK$523 million in customer services and other supporting facilities.

Demand for CLP's Hong Kong electricity services is greater than ever. On a typical working day, we lay about two kilometres of distribution cable, install one substation, process 790 account applications and amendments, and handle more than 6,610 telephone enquiries.

We continue to benchmark our performance against other utility companies and market leaders around the world. In 2002, we undertook a generation benchmarking study, which focused on operations and maintenance performance compared with world-class peers, CLP's generation business falls within the best performing quadrant for most activities, both in terms of service and cost levels. CLP's overall supply reliability, measured by unplanned customer minutes lost, is on a par with major world metropolitan cities such as New York and Tokyo.

Black Point Power Station

Financial Performance in 2002

Hong Kong Electricity Business	2002 HK$M	2001 HK$M
Turnover	**25,844**	24,806
Operating profits before financing and taxation		
— Sales of electricity	**7,147**	6,419
— Share of CAPCO's profits before taxation	**1,572**	1,491
	8,719	7,910
Transfers under SoC	**(1,643)**	(1,506)
Earnings:		
— SoC earnings	**5,814**	5,422
— China sales	**64**	44
Investments		
— Fixed assets	**36,279**	33,203
— Investments in affiliated companies	**5,109**	4,532
Development Fund	**3,372**	3,177
Special Provision Account	**670**	766
Equity	**MW**	MW
— Operational	**6,283**	6,283
— Construction	**625**	625

Turnover

Total unit sales to customers in Hong Kong increased by 2.8% for the year ended 31 December 2002. Electricity sales to the residential sector were up 2.6% due to higher average temperatures in the second quarter of 2002. Sales to the Commercial sector grew by 2.7%. The growth of the Commercial sector was mainly attributed to the sales growth of the retail and building management sub-sectors. The growth in the Government and other sectors was 7.0%, due to housing and infrastructure developments. This sector mainly consists of Government, hospitals, schools, water services and drainage, public transport corporations, the airport and container terminals. The Manufacturing sector recorded a 4.9% drop, which was attributed to the continuing decline of manufacturing industry in Hong Kong. The manufacturing sector now accounts for only 10.3% of total sales.

Sales to Guangdong Guang-Dian Power Grid Group Company Limited were 1,429GWh, representing 4.8% of total unit sales. Sales to Shekou increased by 11.0% to 746GWh. The total export sales of 2,175GWh in 2002 (2001: 1,581GWh) were the highest export sales in a year since 1996. This reflects the strong economic growth in Guangdong Province. CLP has concluded a third supply contract with Guangdong which extends into 2003. This will assist Guangdong to meet its electricity demand and provide additional sales revenue that will offset costs for CLP's Hong Kong customers and contribute to shareholder earnings. This is because the earnings from such sales are allocated on an 80/20 basis between customers and shareholders.

Overall total sales in 2002 grew by 4.8% over 2001. As there was no tariff increase in 2002, total turnover only increased by 4.2% to HK$25,844 million due to change in sales mix.

Electricity Sales	Number of Customers '000	Year ended 31.12.2002 GWh	Increase/ (Decrease) %	Average Annual Sales Change over 1998-2002 %
Commercial	**176**	**10,661**	2.7	4.3
Residential	**1,779**	**6,930**	2.6	3.5
Government & others	**61**	**7,036**	7.0	7.8
Excluding manufacturing	**2,016**	**24,627**	3.9	5.0
Manufacturing	**40**	**3,085**	(4.9)	(4.4)
Total local sales	**2,056**	**27,712**	2.8	3.7
Export sales	**—**	**2,175**	37.6	31.2
Total sales	**2,056**	**29,887**	4.8	4.7

Operating Expenses

The operating expenses of CLP's Hong Kong electricity business, including CAPCO's operating expenses, profits and taxes, increased by 1.3% to HK$18,791 million.

- *Operating Costs*

  Operating costs decreased by 3.9% to HK$2,848 million in 2002. The decrease was mainly due to lower operation and maintenance costs and staff related expenses.

- *Fuel*

  The energy sources for electricity distributed by CLP's Hong Kong electricity business for the year ended 31 December 2002 were: natural gas (30.6%), coal (33.1%), oil (0.4%) and uranium (35.9%, in the form of power purchased from GNPS).

  Fuel expense increased by 12.8% to HK$3,268 million in 2002 largely due to increased generation and also reflecting an increase in coal and gas prices. The average fuel cost for the year was about HK¢14.19 per unit generated, HK¢0.44 higher than in 2001.

- *Purchases of Nuclear Electricity*

  During the year, CLP purchased approximately 9,881 GWh (2001: 10,055GWh) of its power from GNPS under the offtake contract covering 70% of GNPS's output. Payments for nuclear electricity from GNPS are treated as part of CLP's SoC operating expenses.

- *Operating Interest*

  Lower operating interest was mainly due to the lower loan balance after scheduled loan repayments in CAPCO and a lower average interest rate in 2002.

- *CAPCO's Profits before Taxation*

  This represents CAPCO's share of the SoC profit and China sales profit before taxation. It forms part of CLP Power's power purchase cost from CAPCO.

Operating Profits Before Financing and Taxation

The operating profits before financing and taxation of CLP's Hong Kong electricity business in 2002 amounted to HK$7,147 million, an increase of 11.3% compared to 2001. This was due to growth in turnover, but with a corresponding lower increase in operating expenses.

Operating Expenses	2002 HK$M	2001 HK$M	Increase/(Decrease) %
Operating costs	**2,848**	2,964	(3.9)
Fuel	**3,268**	2,897	12.8
Purchases of nuclear electricity	**4,976**	5,013	(0.7)
Depreciation	**3,164**	3,026	4.6
Operating interest	**617**	931	(33.7)
CAPCO's profits before taxation	**3,918**	3,716	5.4
	18,791	18,547	1.3

Transfers under Scheme of Control

In accordance with the requirements of the SoC, the transfer to the Development Fund was HK$1,420 million in 2002 (2001: HK$1,201 million). The charge to the special provision account for deferral premium in relation to Units 7 & 8 of the Black Point Power Station during the year was HK$96 million (2001: nil). The transfer to the rate reduction reserve amounted to HK$319 million in 2002 (2001: HK$305 million), representing a charge of 8% per annum on the average balances of the sum of the Development Fund and the special provision account.

Transfers under SoC	2002 HK$M	2001 HK$M
To Development Fund	**(1,420)**	(1,201)
From special provision account	**96**	—
To rate reduction reserve	**(319)**	(305)
	(1,643)	(1,506)

Earnings

The Group's earnings from the Hong Kong electricity business, including its share of CAPCO's earnings, amounted to HK$5,814 million, an increase of 7.2% over last year. This resulted from the ongoing capital works programme to enhance services to customers and the lower interest cost borne by shareholders. Profits from China sales amounted to HK$64 million.

Investments

During the year, CLP invested HK$4,923 million (2001: HK$4,580 million) in the SoC business. Capital expenditure by CAPCO and Hong Kong Pumped Storage Development Company, Limited (PSDC) was HK$950 million (2001: HK$604 million), making a total of HK$5,873 million for CLP Power, CAPCO and PSDC together (2001: HK$5,184 million).

Development Fund

The transfer from profit and loss account was HK$1,420 million. This was offset to some extent by the rebates to customers, which totalled HK$1,225 million. As a result, the Development Fund balance at 31 December 2002 increased by HK$195 million to HK$3,372 million (2001: HK$3,177 million). This represents 5.5% (2001: 5.3%) of the SoC average net fixed assets of CLP Power and CAPCO.

With the cost savings achieved through productivity enhancement in the past years and better than expected sales to the Mainland in 2002, the Company was able to provide each customer as at 31 December 2002 with a one-off rebate as an initiative to support the Company's customers in light of the difficult economic environment. This one-off rebate amounted to HK$882 million, with HK$558 million, HK$101 million and HK$223 million charged directly to the Development Fund, rate reduction reserve and the fuel clause account respectively. Furthermore, a business relief rebate to non-residential customers of HK$41 million was also charged directly to the Development Fund.

The main purpose of the Development Fund is to assist in financing the acquisition of SoC fixed assets. The accumulation of the Development Fund is, to a significant extent, attributable to previous electricity sales to the Mainland.

Special Provision Account

CLP and 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. During the year, HK$96 million deferral premium was charged to the special provision account (2001: nil).

US$300 million Notes Issue

CLP's good financial standing was illustrated by the issue of 10-year US$300 million notes in May 2002. The notes issue was priced at 105 basis points over the 10-year U.S. Treasury Note. This is the lowest Hong Kong based corporate coupon in the last 20 years. The transaction was eight times over-subscribed with over US$2.6 billion in orders from Asian and European investors.

Plans and Activities for 2003

During 2003, CLP's Hong Kong electricity business will focus on the following major plans and activities:–

- The current Financial Plan will expire in December 2004. Under the terms of the SoC, CLP has to submit a financial plan at least six months before the period covered by the previous financial plan expires. To meet the planning cycle, it is intended that the new financial plan will be prepared in 2003.
- CLP is relatively well positioned to cope with the current economic downturn, having already moved to cut operating costs aggressively in recent years. We are committed to increasing efficiency through the use of new technology, active fuel management, materials purchasing strategies and asset productivity measures.
- Despite Hong Kong's economic downturn, development projects and new infrastructure projects throughout Hong Kong, mostly in our supply area, will continue to require upgrades and extensions to the transmission and the distribution networks.
- CLP will continue its focus on delivering high performance and flexibility from its generating assets. The key challenge for the generation business is the completion of Castle Peak refurbishment projects and construction and commissioning of Black Point Units 7 & 8 to schedule and budget.
- The HKSAR/Guangdong Provincial Government Joint Statement on Improving Air Quality in the Pearl River Delta announced in April 2002 will have implications for the emission levels of the generating plants operated by CLP. We will be reviewing the means by which environmental performance may be further enhanced over time and seeking to work with the Hong Kong Government to continue our excellent track record in contributing to environmental improvement.
- While we have always prided ourselves in providing a good service, we recognise that there are areas where further improvements can and should be made. For example, CLP is undertaking a Customer Care & Marketing System project to enhance our customer services in areas such as marketing, automatic meter reading, integration with the Internet and e-commerce and relationship management.

Medium to Longer-term Perspectives

The current supply of gas to Black Point and Castle Peak Power Stations comes from the Yacheng-13 field in the South China Sea. In view of the lengthy lead-time for gas projects and the possibility of increased promotion of gas-fired generation over time due to environmental considerations, we shall start long-term planning of future arrangements for gas supply from other sources.

Beginning in 2003, CLP will hold discussions with the Government concerning the SoC interim review. Periodic amendments through such interim reviews are contemplated in the terms of the SoC Agreement, but only on a mutually agreed basis. The key challenge for CLP is the expiry in 2008 of the SoC Agreement. We keep an open mind on how best to serve all our stakeholders. Irrespective of the outcome of regulatory issues with the Government, CLP needs to strive for world-best practice in all aspects of its business activities to enhance our long-term competitiveness.

CLP in the Chinese Mainland

CLP is the largest external investor in the Mainland electricity industry.

Business Strategy

CLP is pursuing its strategy of growth in the Chinese mainland by:–

- Active participation in the management of its joint venture companies to add value to the joint ventures, deliver satisfactory returns on investment and meet safety, health and environmental objectives;
- Developing a balanced portfolio of greenfield, brownfield and operating projects, with a preference for evergreen ventures; and
- Establishing and reinforcing relationships with partners, government authorities and business associates.

Operational Performance in 2002

During the year, CLP's focus was on the management of its existing joint ventures and the completion of the Anshun II project in Guizhou, western China. All of the operating power stations in which CLP holds an interest are now covered by tariff arrangements which have been approved by the relevant authorities and implemented.

CLP Guohua Power Company Limited

This is a joint venture with Beijing Guohua Electric Power Corporation (Beijing Guohua). Total electricity sold by its three power plants for the year ended 31 December 2002 was 10,406GWh. Heat sales totalled 7.7 million gigajoules. Panshan and Sanhe Power Stations achieved

Investments	Equity Interest Gross/Equity MW	Description
1 CLP Guohua Power Company Limited (CLP Guohua)	49% 2,100/630MW	CLP Guohua holds interests in three coal-fired power stations, namely Beijing Yire Power Station in Beijing, Panshan Power Station in Tianjin, and Sanhe Power Station in Hebei, with a combined installed capacity of 2,100MW.
2 Shandong Zhonghua Power Company (SZPC)	29.4% 3,000/882MW	SZPC owns two existing operating power stations, Shiheng I and II (totalling 1,200MW), and has two power stations under construction, Liaocheng and Heze II (totalling 1,800MW).
3 Shenmu II	49% 200/98MW	Shenmu II Power Station has two 100MW coal-fired units. It is managed as part of CLP Guohua.
4 Guizhou CLP Power Company Limited (Guizhou CLP Power)	70% 600/420MW	Guizhou CLP Power develops, constructs and operates two 300MW coal-fired generating units to supply the Guizhou power grid and, through it, to supply Guangdong Province.
5 Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC)	25% 1,968/492MW	GNPJVC was established in 1985 to construct and operate GNPS at Daya Bay. GNPS is equipped with two 984MW Pressurised Water Reactors. The majority of the GNPS equipment was imported from France and the United Kingdom. The two units at GNPS commenced commercial operation in 1994. 70% of electricity generated is supplied to Hong Kong, with the remaining 30% sold to Guangdong.
6 Hong Kong Pumped Storage Development Company, Limited (PSDC)	49% 1,200/600MW	CLP owns 49% of PSDC which has the right to use half of the 1,200MW pumped storage capacity of Phase I of the Guangzhou Pumped Storage Power Station until 2034.
7 Huaiji Power Project	41.5% 98/41MW	This project comprises nine small hydro power stations in operation or under construction amounting to a total of 98MW.

three stars in the NOSA safety audit, whilst Yire achieved two stars. Further injection of Beijing Guohua generating assets into CLP Guohua is being studied.

Shandong Zhonghua Power Company

In Shandong, Shiheng Power Station (Phases 1 and 2) was awarded "International First Class Power Station" by the State Power Corporation of China, one of the only two stations in China to win such an award. Construction of the Heze II and Liaocheng Power Stations progressed well, meeting the quality requirements, within budget and ahead of schedule. Heze II Unit 1 is being prepared for commercial operation, while Heze II Unit 2 is undergoing performance and environmental tests. Liaocheng Unit 1 completed 168-hour reliability tests and is being prepared for performance tests. Electricity output from the operating power stations for the year ended 31 December 2002 amounted to 6,495GWh (2001: 6,346GWh), which was 4.7% higher than the annual generation quantity stipulated in the power purchase agreement. The Group's share of SZPC's profit was slightly lower than last year, mainly as a result of increased fuel price.

Shenmu II

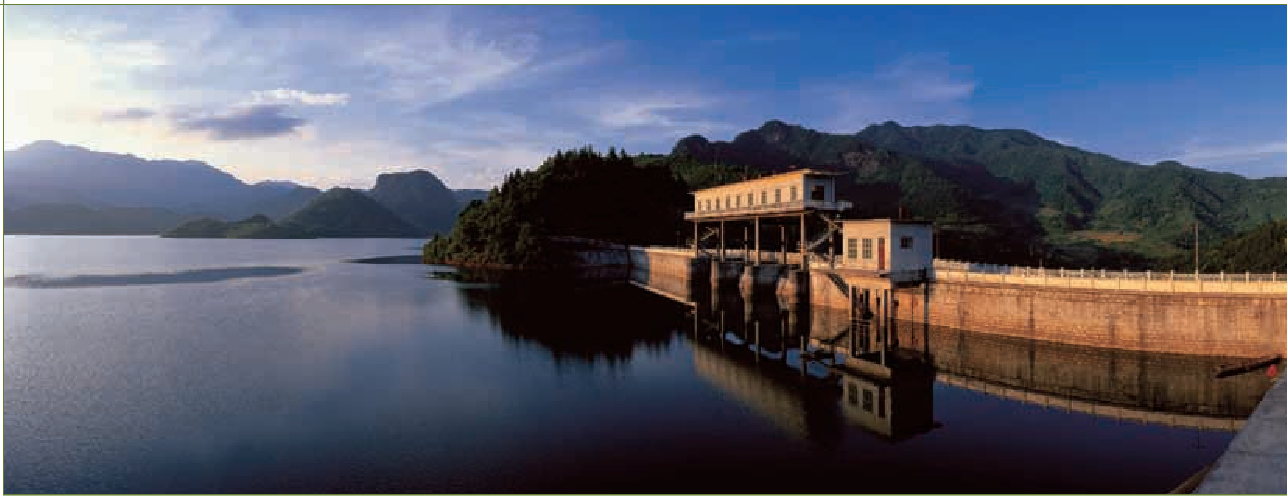
The Shenmu Power Station sold 1,298GWh of electricity during 2002, which is significantly higher than budget. The station had been operating at a temporary tariff until December 2002, when the regular tariff was approved and implemented.

Guizhou CLP Power Company Limited

CLP's investment in the Guizhou Anshun II Project was finalised and the joint venture company, Guizhou CLP Power Company Limited, was incorporated in September 2002. This is the first power project in the Chinese mainland in which CLP holds a majority share. The power station is now under construction.

Guangdong Nuclear Power Joint Venture Company, Limited

GNPS continued to operate smoothly with high levels of safety and reliability. In 2002, a total of 14,116GWh of electricity (2001: 14,365GWh) was sent out by GNPS. The annual station capacity factor was 86%. The profit of GNPJVC is calculated by reference to the shareholders' funds of the Company and the capacity factor.



Xiazhu power station, part of the Huaiji Power Project

Hong Kong Pumped Storage Development Company, Limited

In 2002, the pumped storage units at Conghua, Guangzhou generated 285GWh for CLP with an overall efficiency above 75%, a similar level to 2001. There were over 1,000 unit starts during the year to fulfil CLP's system requirements, mainly during peak lopping and backup operations.

Huaiji Power Project

The Yutiao and Gaotang Hydro Power Stations were commissioned. The Changdiao Power Station is being prepared for commissioning. The 110kV transmission line connecting the 98MW joint venture hydro power stations at Huaiji County to the Zhaoqing power grid has been put into operation. The collection of electricity charges from the offtakers continued to be slow and required intense monitoring.

Financial Performance in 2002

In 2002, the Group's share of profit from GNPJVC was HK$676 million, slightly lower than the previous year's level of HK$700 million due to lower generation. In early 2002, the three power stations in CLP Guohua implemented the new revised tariff enabling them to improve profit contributions to the Group. Earnings from SZPC and PSDC were similar to last year. Provisions for unrealised exchange losses (compared to an exchange gain in 2001) and for impairment of assets have been made in line with the Group's prudent financial accounting policies.

The income from this business is derived from joint ventures. In accordance with generally accepted accounting principles in Hong Kong, their revenues are not consolidated in the Group's turnover.

Electricity Business in the Chinese Mainland	**2002 HK$M**	2001 HK$M
Profits before financing and taxation	**969**	1,017
Earnings:		
— GNPJVC	**676**	700
— PSDC	**70**	71
— Other projects	**95**	123
	841	894
Investments		
— Investments in affiliated companies	**6,328**	6,181
Equity	**MW**	MW
— Operational	**2,206**	2,191
— Construction	**957**	552

Plans and Activities for 2003

CLP will continue to manage existing investments in order to achieve satisfactory returns on investment and add value to the joint ventures. We will proceed cautiously and with flexibility in the pace of new developments to allow time to assess the impact of the recent power sector reform and changing market conditions, notably downward pressure on electricity tariffs to generating companies.

The geographical focus for expanding our electricity business in the Chinese mainland will be in three strategic markets, namely Guangdong (including investments in generating assets in the western provinces for eastward supply to Guangdong), the Beijing-Tianjin-Tangshan area, where we have already established a strong presence, and the East China region (including Shanghai).

CLP aims to complete the commissioning of Unit 1 of Anshun II power station.

Medium to Longer-term Perspectives

The future direction of the power industry in the Chinese mainland has become clearer with the approval of the power sector reform by the Chinese government. The resulting split-up of the State Power Corporation will eventually lead to more competition among the five national generating companies and other IPPs, but will also open up more opportunities for acquisition of generation assets. The regulatory environment will gradually become more open and transparent to create a level playing field for all market participants, both local and foreign.

Guangdong Daya Bay Nuclear Power Station

Whilst the economy and the electricity market in the Chinese mainland continued to grow strongly during 2002 and similar levels of growth are expected in the medium term, electricity tariffs have seen downward pressure. It is likely that some form of more transparent pricing will gradually replace the current tariff setting mechanism.

CLP, as the largest external investor, with a long-standing presence and experience in the Mainland electricity industry, is well positioned to manage the challenges and take advantage of the opportunities ahead. In particular, CLP will:–

- Actively manage existing investments to achieve a reasonable return on equity;
- Maintain the geographical focus for expanding our business. CLP aims for a well-balanced geographical spread covering the major economic centres on the Chinese mainland;
- Preserve and enhance the relationship with current and prospective strategic partners such as Beijing Guohua;
- Examine the possibility of injecting existing investments as equity for new projects and expansion of existing joint ventures; and
- Continue our established policy of supporting renewable energy development by developing hydro and wind power stations.

CLP in the Asia-Pacific Region

CLP is a leading private sector power company in the Asia-Pacific region.

Business Strategy

CLP's strategy is to:–

- Develop effective investment partnerships and seek to establish a meaningful presence in each of its target markets; and
- Build a balanced portfolio across its selected Asia-Pacific countries, with a suitable mix of plant and fuels, and with a combination of operating assets, projects under construction and a pipeline of development projects.

Operational Performance in 2002

CLP completed the acquisition from Powergen of an 80% share in the 655MW GPEC combined cycle power station in 2002.

Later in the year, CLP reached agreement with Powergen to acquire all of Powergen's remaining interests in GPEC (20%), Yallourn Energy (18.4%) and BLCP (10%). In respect of GPEC and Yallourn Energy, completion of the acquisition is subject to certain consents from lenders and relevant regulatory authorities. Upon completion, CLP will own 100% of GPEC, 92% of Yallourn Energy and a 50% interest in BLCP. The agreement also provides for the termination of put and call arrangements whereby the joint venture might have acquired Powergen's 35% interest in PT Jawa Power in Indonesia.

Gujarat Paguthan Energy Corporation Private Limited, India

Operation of the power station has been restricted for some time due to a shortfall in the supply of natural gas. Naphtha is available and the plant has run when required,

Projects/Company	Equity Interest Gross/Equity MW	Description
1 **Gujarat Paguthan Energy Corporation Private Limited (GPEC), India**	80% 655/524MW	GPEC operates a 655MW combined cycle power station in Gujarat, India.
2 **Ho-Ping Power Company (Ho-Ping), Taiwan**	40% 1,320/528MW	Ho-Ping owns a 1,320MW coal-fired power station at Ho-Ping, Taiwan. This has been the first IPP project to obtain private sector project financing in Taiwan.
3 **Electricity Generating Public Company Limited (EGCO), Thailand**	22.4% 2,207/495MW	EGCO operates two of the newest, most efficient power stations in Thailand (2,056MW). It has also invested in a number of small power projects in Thailand and the Philippines, totalling 151 equity MW.
4 **BLCP Power Limited (BLCP), Thailand**	50% 1,434/717MW	BLCP is the developer of a 1,434MW coal-fired power project at Map Ta Phut, Thailand.
5 **YTL Power International Berhad (YTL Power), Malaysia**	5% 1,212/61MW	YTL Power is an IPP in Malaysia and owns and operates two gas-fired power stations with a total generating capacity of 1,212MW.
6 **Yallourn Energy Pty Limited (Yallourn Energy), Australia**	73.6% 1,450/1,067MW	Yallourn Energy owns and operates a 1,450MW coal-fired plant and dedicated coal mine in Victoria, Australia.

but the cost is significantly higher than for operation on gas. GPEC has secured a new gas supply, which has enabled the plant to operate efficiently to meet the Gujarat system requirements. The Gujarat Electricity Board (GEB) continued to have difficulty in making timely payment to GPEC for electricity and has disputed a portion of these payments. The position on overdue and disputed receivables remains a concern and is being actively pursued with GEB.

Ho-Ping Power Company, Taiwan

Ho-Ping Power Company, which CLP owns in partnership with Taiwan Cement Corporation, completed construction of the Ho-Ping power station project and achieved commercial operation of the plant on schedule and within budget. A separate joint venture company was established to manage the operations and maintenance of the two Ho-Ping units.

Electricity Generating Public Company Limited, Thailand

CLP maintained a 22.4% interest in EGCO. The performance of that investment remained unsatisfactory, as EGCO's share price remained below its fair value. CLP's nominees on the EGCO Board (four out of 13 Directors) continued to make an active contribution to the strategic direction of EGCO's affairs, with a view to enhancing EGCO's performance and return to shareholders.

EGCO

GPEC


Yallourn Energy

BLCP Power Limited, Thailand

In January 2003, CLP acquired an additional 10% interest in the BLCP coal-fired development project, making a total interest of 50% in the project, which is being developed in partnership with Banpu.

YTL Power International Berhad, Malaysia

The three-year period during which CLP has agreed not to sell its 5% shareholding in YTL Power expired during 2002. In the absence of any movement towards privatisation of the Malaysian power industry, CLP is reviewing the strategic rationale of its shareholding in YTL Power.

Yallourn Energy Pty Limited, Australia

Yallourn Energy completed the process of contracting out its mine operations and maintenance activities, which has been a strategic objective aimed at improving the performance of the asset. At the same time, considerable progress was made in the introduction of new mining technology and in the plans to extend the life of the mine. The original control and instrumentation equipment of the Yallourn Power Station plant is being replaced and upgraded. Clearer divisions between front, middle and back offices, enhanced reporting, clear trading rules and active compliance monitoring helped strengthen the risk management function for trading and marketing.

Financial Performance in 2002

The Asia-Pacific region business turned profitable and recorded profits of HK$309 million in 2002, compared to a loss of HK$318 million in 2001. The major factor is the turnaround of Yallourn Energy, which operated smoothly without major industrial relations or technical issues in 2002. This enabled it to provide a profit to the Group, as opposed to a loss in 2001. GPEC, which was acquired in 2002, and Ho-Ping, which commenced commercial operation, started to provide earnings to the Group. Other investments, namely EGCO and YTL Power, were also contributing in 2002.

A substantial part of the Group's income from these businesses is derived from its joint ventures. In accordance with generally accepted accounting principles in Hong Kong, their revenues are not consolidated in the Group's turnover.

Electricity Business in the Asia-Pacific Region	2002 HK$M	2001 HK$M
Profits /(Losses) before financing and taxation	**330**	(311)
Earnings /(Losses)	**309**	(318)
Investments		
— Investments in affiliated companies	**7,593**	4,071
— Other investment	**671**	643
— Investment securities	**264**	79
Equity	**MW**	MW
— Operational	**2,675**	1,623
— Construction	**—**	528


Ho-Ping Power Station

Plans and Activities for 2003

CLP will concentrate on managing the existing investments and introducing strategic partners to its projects, while maintaining a watching brief on other Asian markets. As regards those existing investments,

- In Thailand, we will seek a stronger role in EGCO Management, in particular to encourage more active and focused business development. We shall be looking to make substantial progress towards financial close on the BLCP project.
- In Taiwan, we will establish reliable operation of the Ho-Ping plant and explore further business opportunities with our partner Taiwan Cement Corporation.
- In Australia, we shall complete the agreed exit of Powergen from Yallourn Energy, increase production and maintain progress in improved industrial relations. More broadly, the search for growth through partnerships, mergers, acquisitions and the pursuit of opportunities to build a more diversified asset portfolio will continue.
- In India, we look to make substantial progress towards implementation of a more sustainable billing and payment position, settlement of the current overdue and disputed receivables position with GEB and reduction of costs where possible. We shall continue the progress made in 2002 towards stable operation on the new gas supply. We aim to develop closer relations with GEB and we will be exploring the possibilities for introducing a strategic partner to GPEC.

Medium to Longer-term Perspective

With its growing strength in the Asia-Pacific region, CLP is well placed to participate in the private sector development of the electricity industry in selected countries.

Significant growth is returning to most Asian economies. The excess generating capacity that exists in many countries will gradually be taken up by increased demand. CLP has demonstrated its ability to expand existing investments and to develop new greenfield projects, and is able to exploit further opportunities as they arise.

The continued withdrawal from Asia of U.S. and European power companies in order to concentrate on their domestic markets should provide opportunities for CLP to acquire assets at attractive prices. However, CLP will only make acquisitions which form a logical part of its development strategy in target markets.

Laguna Verde

CLP Leveraging off its Assets

CLP's financial, physical and human resources allow us to develop activities beyond our electricity business.

Business Strategy

CLP explores opportunities in Hong Kong and the Chinese mainland to develop electricity-related activities by making use of CLP's existing assets and skills. These activities are carried out on a limited and selected basis, reflecting the Group's overriding focus on its electricity businesses.

Operational Performance in 2002

Property Business

CLP pursues the redevelopment of sites in Hong Kong which are no longer required for electricity purposes.

CLP's major project is the residential redevelopment of the former power station at Hok Un, named Laguna Verde. This 50/50 joint venture project, led by CLP Property and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, comprises 4,735 flats, 1,692 parking spaces and 270,000 sq. ft. of commercial space. Over 90% of the residential units in the redevelopment had been sold by the end of December 2002.

Towards the end of 2002, CLP sold the site at Ellyridge, on 15 Ho Man Tin Hill Road, Kowloon, to a property developer for HK$410 million.

Public Lighting and Engineering Services

Through our wholly-owned subsidiary, CLP Engineering, we offer contracting and consultancy services in power engineering, telecommunications, building services, energy services, road lighting and facility management for customers in Hong Kong and the neighbouring areas.

CLP has built a strong presence in transmission and distribution projects in 2002 and is considered as a reliable, high quality and competitive contractor with capability in the full range of substation and cable projects including design, supply, installation, refurbishment and maintenance services. Contracting services to major developers and government departments such as Water Supplies Department and Electrical & Mechanical Services Department will also be explored.

The four-year Management, Operation and Maintenance Contract for the design, supply, installation, maintenance and operation of the public lighting system in Kowloon and the New Territories East has been secured, commencing from October 2002. This will position CLP to take a more active part in private road lighting.

With the award of a three-year maintenance contract of electrical services in buildings from Hong Kong Airport Authority, CLP made a good start in facility management.

The economic fundamentals remain weak and competition in the contracting business is expected to be high. CLP is developing more consultancy business and exploring businesses with new technology that can give us a better edge and higher profit margins.

IT Operations Centre

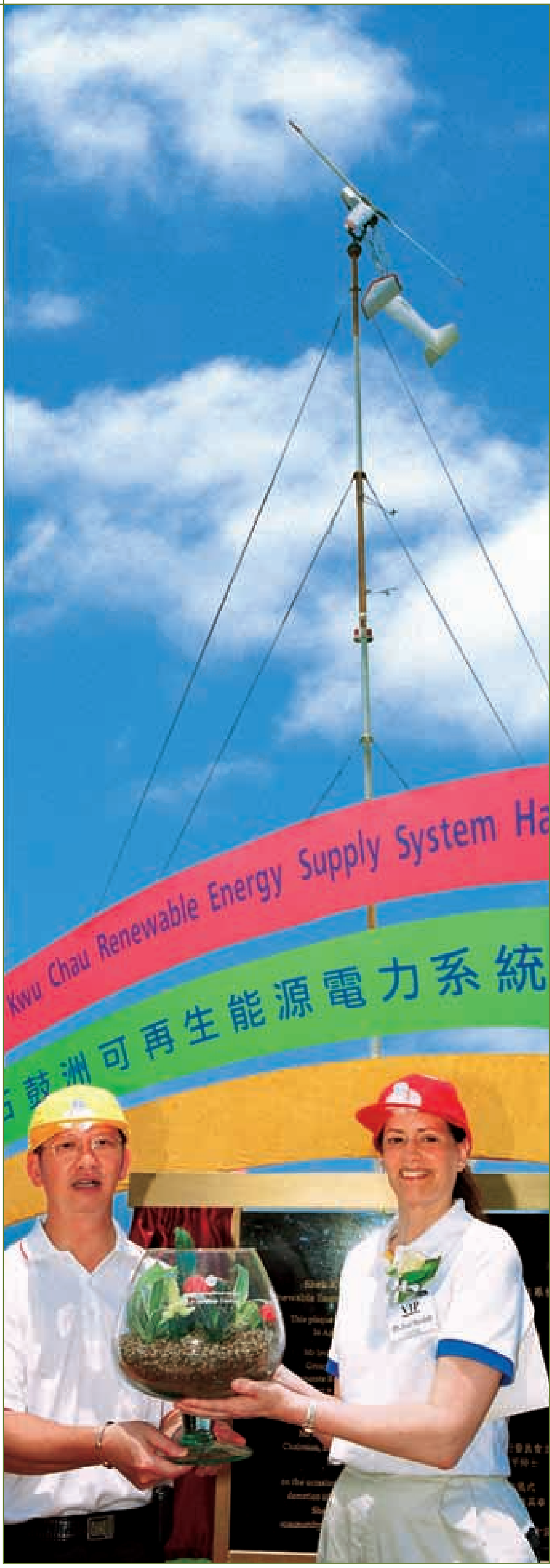
Telecommunications

2002 has been another difficult year for telecommunications business globally. Following a strategic review of its business model, in light of competitive market conditions, CLP TeleCom partnered with Cheung Kong Enterprises Limited to launch a new broadband service using powerline carrier technology. CLP's retail telecommunications operations carried on under the "Oxygen" brand were transferred into this new joint venture, PowerCom Network Hong Kong Limited, in which CLP owns a 19% interest.

The "ChinaLink" cross-border network services business has been growing steadily after market consolidation and recovery. CLP will work with strategic partners in Hong Kong and the Chinese mainland to provide quality and competitive network services to the service provider and corporate markets.

Information Technology (IT)

CLP IT Solutions and its two subsidiaries (DataMetro and CLP DataStorage) were set up in early January 2002 to explore IT services business opportunities in Hong Kong and the Chinese mainland, by using the CLP Group's IT expertise.



DataMetro was formed with a focus on IT operations and management services which make use of CLP's accumulated expertise in SAP Enterprises Resources Planning Application support.

CLP DataStorage was formed to focus on data storage and disaster recovery services. Partnering with a pioneer data storage services provider in Taiwan (StorageBank Incorporated), expertise is being offered to Hong Kong companies to assist in technical support for this complex operation.

CLP IT Solutions has made a minor strategic investment (a 5.23% interest) in an IT company listed on the Hong Kong Growth Enterprises Market, DataSys Technology Holdings Limited, as a means of expanding services in the Mainland over the longer term.

CLP increased its shareholding in Precision Marketing Inc. (PMI), a market research company which provides CLP with access to database management skills and technology, from 27.3% to 40% at a nominal price. Our investment in PMI is under review and the purpose of the increased shareholding was to tighten control over the use of our invested funds.

Research and Development Activities

The primary efforts of CLP's research and development activities, led by CLP Research Institute, centred on three topics: environmental policy, sustainable development and renewable energy.

During the year, we reviewed and reported on international environmental practices in the electric power sector, and engaged staff throughout CLP in discussion and analysis of the essential elements of our environmental policy.

Sustainable development has become a prominent theme in government, academic, and business communities, notably in the electric power sector and in the communities served by CLP. We sponsored stakeholder engagement in the community and other forms of outreach to academic, business, and professional audiences, on the topic of sustainable development. Our efforts were aimed at developing an understanding of how CLP can contribute to sustainability, providing economic value, supporting social development, and practising environmental stewardship throughout our business activities.

CLP has conducted studies on the applications of renewable energy for electric power generation in Hong Kong. In 2002, we studied the performance of the hybrid renewable energy system on the island of Shek Kwu Chau. Progress was also made towards the side-by-side comparison study of the performance of different photovoltaic panels at the Ma Wan School, jointly sponsored by CLP and the Hong Kong Innovation and Technology Fund.

Within CLP, one of the primary functions of the Research Institute is to facilitate and promote knowledge sharing throughout the Group on all of our research topics. These activities include both electronic media and face-to-face exchanges. Via computer, we host a knowledge sharing website, introducing the topics of wind power and sustainable development to CLP staff. We also created an electronic news service for our staff, to provide updates on emerging energy issues and technologies around the world. Covering topics that range from fuel cells to photovoltaic cells, from the Kyoto Protocol to the Asian Brown Cloud, from spent nuclear fuel storage to superconducting cables, CLP's research and development activities provide information and insight to colleagues within the CLP Group on developments that may be important to our business future.

Financial Performance in 2002

Investments in Electricity-related Activities	Property Business		Telecom Business		Other Activities		Total	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M	**2002 HK$M**	2001 HK$M	**2002 HK$M**	2001 HK$M
Turnover	**30**	18	**71**	9	**154**	149	**255**	176
Profits / (Losses) before financing and taxation	**595**	1,752	**(182)**	(192)	**(134)**	39	**279**	1,599
Earnings / (Losses)	**546**	1,468	**(182)**	(192)	**(142)**	33	**222**	1,309
Investments	**1,123**	2,178	**150**	—	**23**	63	**1,296**	2,241

The Group's share of profit from the sale of the residential units and parking spaces in the Hok Un redevelopment amounted to HK$233 million (2001: HK$1,468 million); the disposal of the former staff quarters site in Ho Man Tin Hill also brought profits of HK$313 million. The total cost to the Group of the telecommunications business, including the write-down of assets, amounted to HK$182 million. The losses shown under the "Other Activities" included the provision for loss on curtailment of the retirement benefit scheme of HK$83 million.

The CLP Group's Financial Results

Financial Performance

Consolidated Financial Results

The contributions of the Group's principal activities to the consolidated results are summarised as follows:–

	Turnover		Profits/(Losses) Before Financing and Taxation	
	2002 HK$M	2001 HK$M	**2002 HK$M**	2001 HK$M
Electricity business in Hong Kong	**25,844**	24,806	**8,719**	7,910
Electricity business in Chinese mainland	**—**	—	**969**	1,017
Electricity business in Asia-Pacific region	**35**	17	**330**	(311)
Electricity-related and other activities	**255**	176	**279**	1,599
Unallocated Group expenses	**—**	—	**(117)**	(105)
	26,134	24,999	**10,180**	10,110

The Profits/(Losses) Before Financing and Taxation are stated after taking into account the Group's share of the results of jointly controlled entities and associated companies.

Group Earnings

The SoC earnings increased by 7.2% to HK$5,814 million. The non-SoC operating earnings increased by HK$429 million to HK$890 million. The major contributing factor for the increase is the improvement of the Asia-Pacific electricity business from a loss of HK$318 million in 2001 to a profit of HK$309 million this year. It should also be noted that the achieved results have incorporated provisions for impairment in asset value against investments in Hong Kong, the Chinese mainland and the Asia-Pacific region. The total operating earnings of the Group increased by 12.9% to HK$6,533 million. In 2001, the Hok Un redevelopment profit amounted to HK$1,468 million. In the current year, the total profits from sale of the Hok Un units and disposal of the former staff quarters site in Ho Man Tin Hill amounted to HK$546 million. As a result of lower profit from property sales, the total earnings of HK$7,079 million were HK$178 million (2.5%) lower than last year.

Earnings per share for recurring operations increased by 16.3% to HK$2.71 per share, reflecting the enhancement by the repurchase of a total of 76 million shares in 2001 and 13 million shares in 2002. Total earnings per share were HK$2.94 per share, an increase of 0.7%.

Earnings Attributable to Shareholders

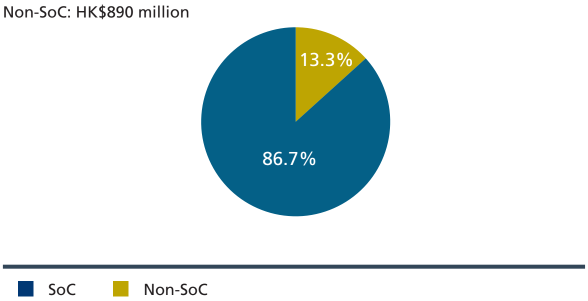
	2002		2001		Increase/ (Decrease)
	HK$M	**HK$M**	HK$M	HK$M	%
SoC earnings		**5,814**		5,422	7.2
Non-SoC operating earnings					
in Hong Kong	**64**		44		
in Chinese mainland	**841**		894		
in Asia-Pacific region	**309**		(318)		
Electricity-related and other activities					
Telecom business	**(182)**		(192)		
Other businesses	**(142)**		33		
		890		461	
Unallocated net finance (costs) / income		**(54)**		11	
Unallocated Group expenses		**(117)**		(105)	
Group operating earnings		**6,533**		5,789	12.9
Hok Un redevelopment profit/property disposal gain		**546**		1,468	
Group earnings attributable to shareholders		**7,079**		7,257	(2.5)
Weighted average number of shares in issue[1], million shares		**2,408.78**		2,486.58	
Earnings per share [1], HK$		**2.94**		2.92	0.7
Earnings per share [1] excluding Hok Un redevelopment profit/property disposal gain, HK$		**2.71**		2.33	16.3

[1] After taking into account the repurchase of 76 million shares in 2001 and 13 million shares in 2002.

SoC and Non-SoC Operating Earnings 2002

(excluding Property Profits and unallocated costs)

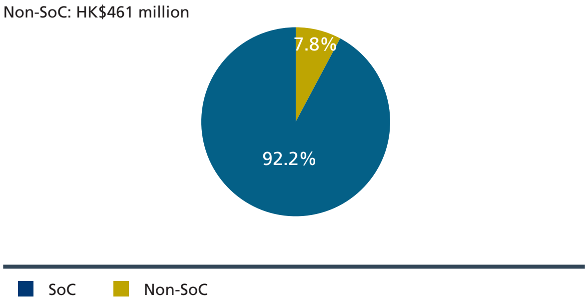
SoC: HK$5,814 million
Non-SoC: HK$890 million



SoC and Non-SoC Operating Earnings 2001

(excluding Property Profits and unallocated costs)

SoC: HK$5,422 million
Non-SoC: HK$461 million



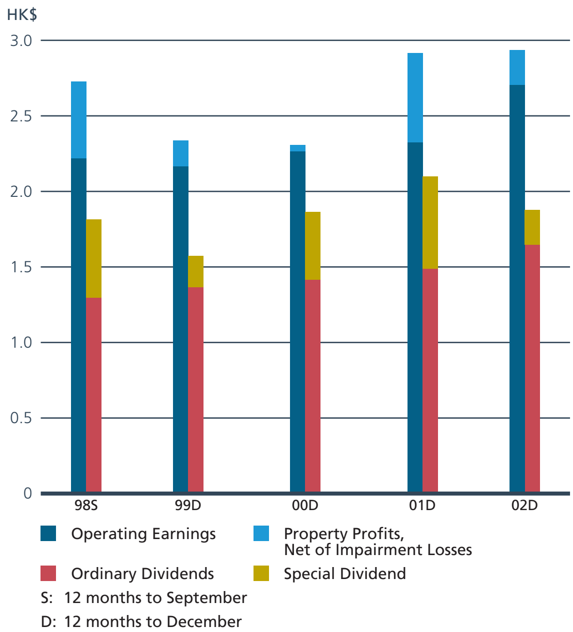
Effective Tax Rate

The Group's effective tax rate for the year was 13.0% compared to 11.9% in 2001. The increase in the effective tax rate was principally due to the lower tax rate in 2001 because of the write-back of a tax provision of HK$269 million, arising from the change in financial year end date in 1999.

Dividends

During the year, three interim dividends each of HK$0.38 per share were paid, totalling HK$1.14 per share. The Board has recommended that a final dividend of HK$0.51 per share and a special final dividend of HK$0.23 per share be proposed for approval at the forthcoming Annual General Meeting, making a total of HK$1.88 per share for the year (2001: ordinary dividends of HK$1.49 per share and special dividend of HK$0.61 per share). The ordinary dividend payout ratio, i.e. the ratio of ordinary dividends over recurring operating earnings, is 60.8% (2001: 63.3%).

Earnings and Dividends Per Share



In 1999, the financial year end of the Group was changed from 30 September to 31 December. Details are set out on page 136.

Financial Position

Fixed Assets and Capital Expenditure

As at the year end, fixed assets amounted to HK$36,550 million, an increase of HK$2,973 million or 8.9% from last year. During the year, the Group invested HK$4,935 million (2001: HK$4,653 million) in fixed assets, of which HK$4,923 million (2001: HK$4,580 million) was invested by CLP Power for the SoC business.

Interests in Jointly-Controlled Entities, Associated Companies and Investment Securities

The summary of the Group's interests in each geographical region is shown below:–

	2002 HK$M	2001 HK$M
Electricity Business		
Asia-Pacific region	**8,528**	4,793
Chinese mainland	**6,328**	6,181
Hong Kong	**5,109**	4,532
	19,965	15,506
Property and other businesses	**1,296**	2,241
	21,261	17,747

Current Assets and Liabilities

As at 31 December 2002, the Group had liquid funds of HK$516 million (2001: HK$80 million), all of which were denominated in HK dollars. Other current assets comprised mainly the receivables (HK$1,256 million) and the other investment representing a 5% shareholding in YTL Power International Berhad, a listed company in Malaysia (HK$671 million).

Total current liabilities at 31 December 2002, including customers' deposits of HK$2,684 million amounted to HK$7,053 million. With the projected cash flow from operations and credit facilities arranged, the Group will have sufficient funds to meet these liabilities.

Shareholders' Funds

During the year, CLP Holdings undertook a restructuring of its balance sheet by the transfer of HK$10,116,789,910 from the Share Premium account to the distributable reserve of the Company. The increase in distributable reserve will provide greater flexibility for CLP Holdings in terms of its dividend or share repurchase policies. There are no immediate plans regarding the use of the increased distributable reserve. The Retained Profits at 31 December 2002 amounted to HK$21,176 million.

Total shareholders' funds at 31 December 2002 increased 4.6% to HK$36,787 million from HK$35,168 million at 31 December 2001.

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 Power, the timing differences mainly arise between depreciation allowances in tax computations and the depreciation charges in financial accounts. In accordance with the SoC, CLP Power fully recognises deferred taxation arising from timing differences with no regard for crystallisation. This policy does not comply with the ruling Statement of Standard Accounting Practice (SSAP) No. 12 "Accounting for Deferred Tax" issued by the Hong Kong Society of Accountants (HKSA), which states that deferred taxation should not be provided if it is unlikely that a liability will crystallise in the foreseeable future.

HKSA has issued a revised SSAP No. 12 "Income Taxes" to take effect from 1 January 2003. The method of deferred tax provision currently being adopted by CLP Power is similar to that in the revised SSAP.

The deferred taxation balance increased from HK$3,391 million to HK$3,721 million during the year, mainly due to capital works of CLP Power to improve its transmission and distribution network and customer services.

Borrowings and Capital Resources

The business expansion of the Group, 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.

Financing facilities totalling HK$17.2 billion (HK$33.8 billion for CLP Group and CAPCO combined) were available, of which HK$9.3 billion (HK$21.1 billion for CLP Group and CAPCO combined) had been drawn down.

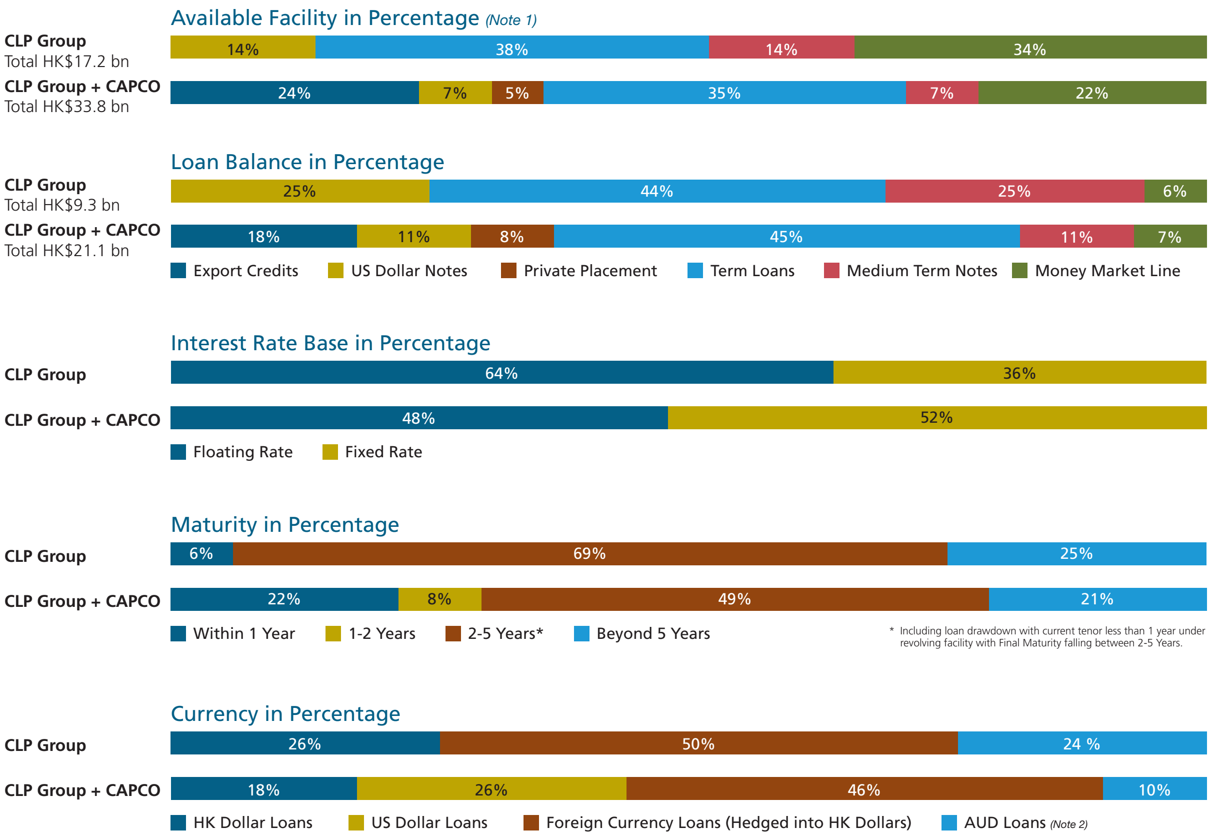
Total debt to total capital of the Group at 31 December 2002 was 20.2% and the interest cover was 29 times. On a most conservative basis, i.e. including 100% of CAPCO's debt, total debt to total capital increased to 32.3% and the interest cover was still maintained at a very healthy ratio of 13 times.

The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of the jointly controlled entities and associated company as at 31 December 2002 are shown on pages 76 and 77.

The Group adopts a prudent approach to all our financial arrangements, while at the same time aiming to achieve cost efficient funding. In 2002, CLP Power set up a Medium Term Note 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, US$300 million 6.25% fixed rate notes due 2012 were issued under the Programme. In addition, during the last quarter of 2002, CAPCO arranged a new loan facility of HK$2.3 billion to refinance certain US dollar and HK dollar loans at lower interest rates and all related drawdowns were made in January 2003. After taking into account this refinancing arrangement, the percentage of the unhedged US dollar loans to total loans would be reduced from 26% to 17%.

Debt Profile

The charts below show the type, interest rate, maturity and currency profiles of borrowings of the Group and CAPCO at 31 December 2002:–



Note: *(1) 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.*

(2) The Australian dollar loans were incurred to hedge against currency exposure of the Group's investment in Yallourn Energy.

Credit Rating

The Group's financial strength has long been recognised by Standard & Poor's (S&P) and Moody's. Our credit ratings are 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. The current credit ratings of CLP Holdings and CLP Power are as follows:–

	CLP Holdings		CLP Power		HKSAR Government	
	S&P	Moody's	S&P	Moody's	S&P	Moody's
Long-term Rating						
Foreign currency	A+	A3	A+	A3	A+	A3
Local currency	A+	Aa2	A+	Aa1	AA-	Aa3
Outlook	Stable	Positive	Stable	Positive	Stable	Positive
Short-term Rating						
Foreign currency	A-1	P-1	A-1	P-1	A-1	P-1
Local currency	A-1	—	A-1	—	A-1+	—

Risk Management

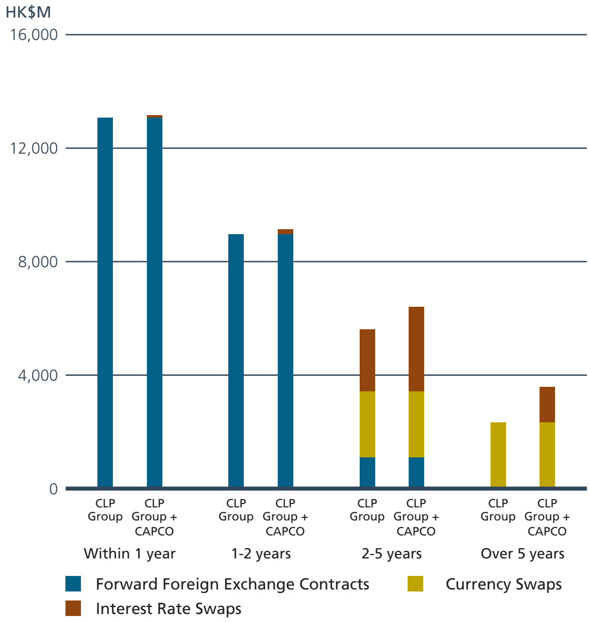
The Group uses derivative instruments, including forward foreign exchange contracts, currency swaps and interest rate swaps, to manage its exposure to foreign currency and interest rate risks with an objective to minimise the impact of exchange rate and interest rate fluctuation on earnings, reserves and tariff charges to customers. The Group's interest rate risks are managed according to our preferred interest rate mix model. Foreign currency exposures mainly arise from loan repayment obligations, purchases of goods and services and overseas investment activities. Derivative instruments are employed solely for hedging purposes, 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. Other than derivative instruments, the Group also adopts an approach of financing its investments by borrowings of matching currency where appropriate to mitigate its currency risk.

During 2002, the Group hedged the currency exposure arising from its investments in Yallourn Energy by refinancing the investment with borrowing in Australian dollars. In addition, the Group has swapped its full US dollar obligation related to the US$300 million notes issued in 2002 into HK dollars to eliminate the currency exposure, and swapped part of the floating rate obligations into fixed rate to achieve the preferred interest rate mix. CAPCO also entered into interest rate swaps with notional principal amount of HK$2.3 billion to hedge the interest rate exposure of the floating rate loan arranged for refinancing certain existing loans.

Forward contracts and currency swaps 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 31 December 2002, the Group had outstanding forward foreign exchange contracts, currency swaps and interest rate swaps amounting to HK$30.0 billion (HK$32.3 billion for CLP Group and CAPCO combined). Out of this total, interest rate swaps accounted for about 7.2% and US dollar forward foreign exchange contracts and currency swaps accounted for about 90.6%. The fair value for these off-balance sheet financial instruments was HK$370 million (HK$325 million for CLP Group and CAPCO combined), which represents the net proceeds we would receive if these forward foreign exchange contracts, currency swaps and interest rate swaps were closed out at 31 December 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 Group has no significant operating lease commitments or sale and leaseback arrangements.

Maturity Profile of Off-Balance Sheet Financial Instruments

as at 31 December 2002



Cash Flows – Group

Cash used in investment activities included the capital expenditure of CLP Power as well as investments in power projects in the Chinese mainland and the Asia-Pacific region, partly offset by dividends received from CLP Power and affiliated companies, as well as profit received from the Hok Un joint venture.

Net cash provided by operating activities increased by HK$815 million in 2002, reflecting the good performance of CLP Power in 2002. Net cash used in financing activities in 2002 primarily reflects the payment of dividends, partly offset by increase in borrowings.

Cash Flows (Group)	2002 HK$M	2001 HK$M	Change HK$M
Cash provided by / (used in):			
Operating activities	**6,953**	6,138	815
Investing activities	**(4,509)**	(4,730)	221
Financing activities	**(2,008)**	(3,500)	1,492
	436	(2,092)	2,528

Funding Position - Company

CLP Holdings	2002 HK$M	2001 HK$M	Increase/ (Decrease)%
Dividends received			
SoC business	**6,261**	5,499	13.9
Non-SoC business	**1,068**	251	
Total ordinary dividends received	**7,329**	5,750	27.5
Property business	**1,293**	2,019	
Total dividends received	**8,622**	7,769	11.0
Less:			
Company's expenditures	**(85)**	(123)	
Net financing income/(expense)	**(101)**	(16)	
Net cash inflow	**8,436**	7,630	10.6
Less:			
Ordinary dividends paid	**(3,805)**	(3,645)	
Special dividends paid	**(1,469)**	(562)	
Net cash inflow after dividends paid	**3,162**	3,423	(7.6)
Less:			
Investment in subsidiaries	**(3,887)**	(2,099)	
Share repurchase	**(397)**	(2,282)	
Capital expenditure	**(6)**	(2)	
Net cash (outflow)	**(1,128)**	(960)	17.5
Company debt	**(2,113)**	(960)	120.1
Bank balances	**25**	—	

Net cash inflow of the Company was in the form of dividends from subsidiaries and affiliated companies. After the dividend payment to shareholders, the Company had HK$3,162 million surplus in 2002 available for making investments and for share repurchases. In 2002, the Company obtained loans of HK$1,153 million from banks to fund investments and share repurchases. As a result, the Company's debt increased to HK$2,113 million for 2002 (2001: HK$960 million).

New Accounting Pronouncements

In December 2001, the Hong Kong Society of Accountants issued one new accounting standard that affects the Group's consolidated financial statements for the year 2002. This is Statement of Standard Accounting Practice (SSAP) No. 34 "Employee Benefits".

CLP continues to monitor and adopts, as far as practicable, best practice in reporting standards and disclosure in its financial statements. Note 8 to the Accounts for the year 2002 presents the accounting treatment and the disclosure relating to staff retirement benefits of the Group as required in SSAP No. 34.

The adoption of SSAP No. 34 has resulted in the recognition of employee retirement benefit plan assets of HK$1,194 million with a corresponding increase in the Retained Profits, as a prior year adjustment at 31 December 2001, in accordance with the transitional arrangements arising from the adoption of this SSAP.

Financial Information on Jointly Controlled Entities and Associated Companies

As the proportion of the Group's business activities carried out through affiliated companies increases, their financial importance to the Group grows. Hence, additional financial information on our significant jointly controlled entities, namely CAPCO, GNPJVC and the CLP Powergen joint ventures – Yallourn Energy and GPEC, is provided in Note 17 to the Accounts.

Information for American Depositary Receipts (ADR) Holders

The principal trading market for the CLP Holdings shares is the Stock Exchange of Hong Kong. The shares are also traded in the over-the-counter market in the United States in the form of ADR. As required by the relevant laws, the Company will file an annual report in Form 20-F with the United States Securities and Exchange Commission before 30 June 2003.

The Group's financial statements are prepared in accordance with Hong Kong (HK) generally accepted accounting principles (GAAP) modified as necessary to comply with the Scheme of Control. HK GAAP differs in certain respects from United States (US) GAAP. The Form 20-F to be filed will contain a summary of the differences between HK GAAP and US GAAP which have an effect on the consolidated profit or shareholders' funds of the Group.

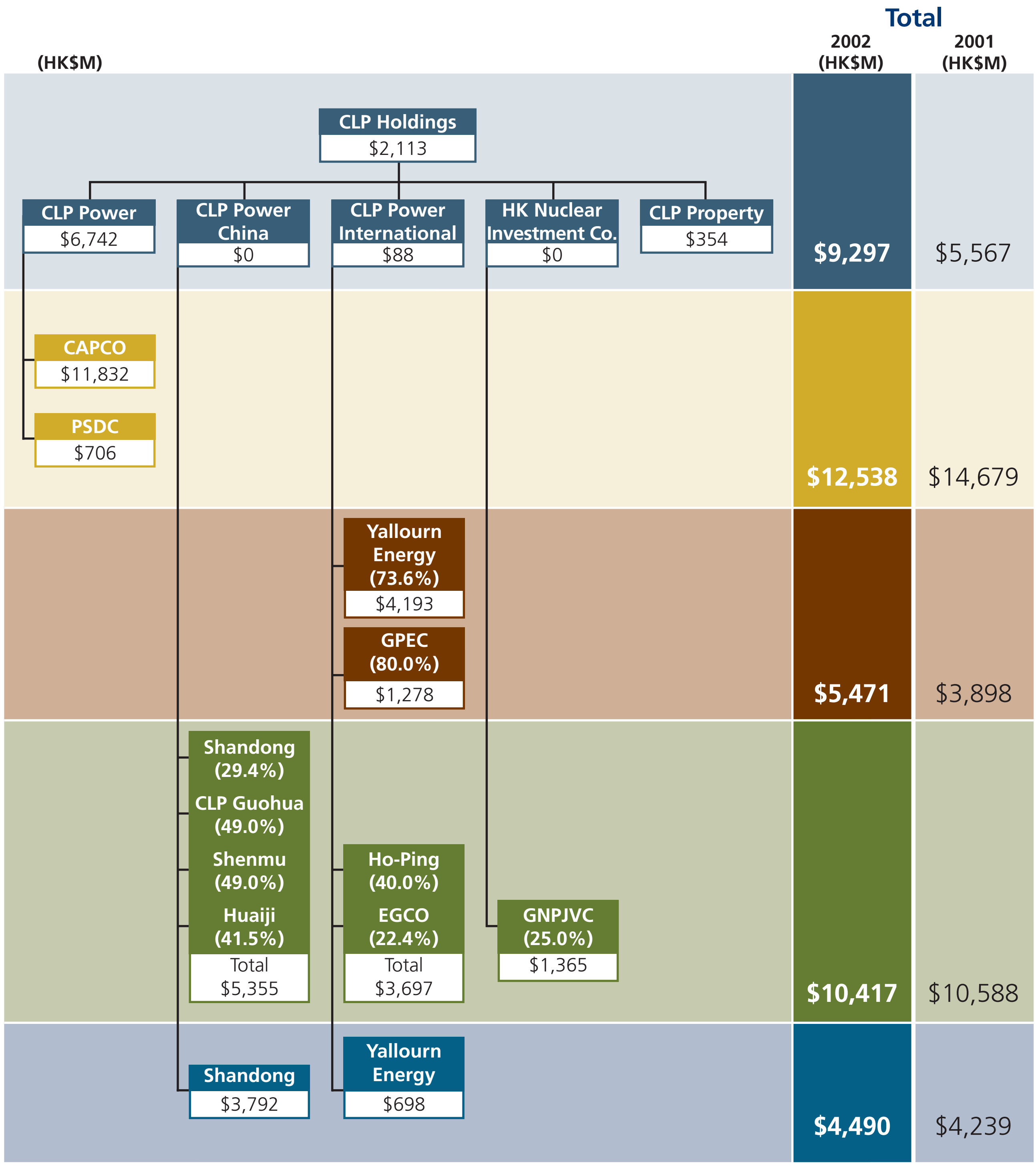
CLP Group's Financial Obligations at a Glance as at 31 December 2002

In recent years, market concerns have grown regarding the financial risks associated with borrowings and unconsolidated financial obligations of listed companies. It is our policy to adopt a prudent approach to such matters. The purpose of the following chart is to explain the total financial obligations of the CLP Group by classifying them into five categories according to their degree of recourse to CLP Holdings.

Category

1	**Borrowings of CLP Holdings & Subsidiaries**	Debts of the Company and its subsidiaries. (As set out in Note 27 to the Accounts)
2	**Borrowings of CAPCO & PSDC**	100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power has commitments to these companies through power purchase and service agreements, which are further explained in the Scheme of Control Statement on page 134 and Note 32 to the Accounts.
3	**Share of debts of jointly controlled entities with majority ownership***	Share of debts of jointly controlled entities in which the Group holds an interest of 50% or more. These debts are non-recourse to the Company and its subsidiaries.
4	**Share of debts of affiliates with minority ownership***	Share of debts of affiliated companies in which the Group holds less than a 50% interest. These debts are non-recourse to the Company and its subsidiaries.
5	**Contingent liabilities**	Contingent liabilities of the Company and its subsidiaries, arising from undertakings given to third parties. Details of these are set out in Note 31 to the Accounts.

* In respect of Categories 3 and 4, the share of debts are calculated by reference to the Group's shareholding in the relevant affiliated companies


Total
2002 (HK$M)
2001 (HK$M)
(HK$M)
CLP Holdings
$2,113
CLP Power
$6,742
CLP Power China
$0
CLP Power International
$88
HK Nuclear Investment Co.
$0
CLP Property
$354
$9,297
$5,567
CAPCO
$11,832
PSDC
$706
$12,538
$14,679
Yallourn Energy (73.6%)
$4,193
GPEC (80.0%)
$1,278
$5,471
$3,898
Shandong (29.4%)
CLP Guohua (49.0%)
Shenmu (49.0%)
Huaiji (41.5%)
Total
$5,355
Ho-Ping (40.0%)
EGCO (22.4%)
Total
$3,697
GNPJVC (25.0%)
$1,365
$10,417
$10,588
Shandong
$3,792
Yallourn Energy
$698
$4,490
$4,239