

The Directors have pleasure in submitting their Report together with the audited Accounts for the year ended 31 December 2002.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the generation and supply of electricity. Particulars of the Company's principal subsidiary companies are shown under Note 16 to the Accounts.

Consolidated Accounts

The consolidated Accounts incorporate the Accounts of the Company and its subsidiaries (collectively referred to as the Group) together with the Group's interests in jointly controlled entities and associated companies. Details of the jointly controlled entities and associated companies are provided under Notes 17 and 18 to the Accounts.

Earnings and Final Dividend

	HK\$M	HK\$M
Group earnings for the year	7,079	
Less: Interim dividends (HK\$1.14 per share) paid	(2,746)	
Balance after interim dividends		4,333
The Directors recommend that this balance be dealt with as follows:–		
Final dividend (HK\$0.51 per share)		1,228
Special final dividend (HK\$0.23 per share)		554
Retained earnings for the year		2,551
		4,333

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 5 May 2003, the final dividend and special final dividend will be paid on 6 May 2003.

Performance

A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Management's Discussion and Analysis on pages 46 to 77 of this Annual Report.

Share Capital

Details of movements in the share capital of the Company during the year are set out in Note 25 to the Accounts.

Purchase, Sale or Redemption of the Company's Listed Shares

During the year, the Company repurchased a total of 13,240,500 shares of HK\$5.00 each of the Company on The Stock Exchange of Hong Kong Limited at an aggregate price of HK\$396 million. Details of the repurchases are set out in Note 25 to the Accounts. All the shares repurchased up to 31 December 2002 have been cancelled. The repurchases were effected by the Directors for the enhancement of long-term shareholder value.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Reserves

Distributable reserves of the Company amounted to HK\$16,340 million as at 31 December 2002 (2001: HK\$4,287 million as restated). Movements in the reserves of the Company and the Group during the year are set out in the Statement of Changes in Equity on pages 90 and 91 of this Annual Report.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK\$4,935 million (2001: HK\$4,653 million), comprising principally transmission and distribution equipment, land and buildings.

Additions to the fixed assets of the jointly controlled generating companies incorporated in Hong Kong totalled HK\$950 million for the year.

Details of movements in the fixed assets of the Group are shown under Note 15 to the Accounts.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2002 amounted to HK\$9,297 million (2001: HK\$5,567 million). Particulars of borrowings including bank overdrafts and bank loans are set out in Note 27 to the Accounts.

Financial Assistance and Guarantees to Affiliated Companies

The financial assistance given to affiliated companies and guarantees given for facilities granted to affiliated companies have in aggregate exceeded 25% of the Group's net assets as at 31 December 2002. Pursuant to Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), consent has been obtained from The Stock Exchange of Hong Kong Limited that the Company can include a statement of the indebtedness, contingent liabilities and capital commitments of the affiliated companies as at 31 December 2002 in place of a proforma combined balance sheet of the affiliated companies in this Annual Report.

Details of the statement of indebtedness, capital commitments and contingent liabilities are shown under Note 33 to the Accounts.

Finance Costs Capitalised

Finance costs amounting to HK\$203 million (2001: HK\$134 million) were capitalised by the Group during the year as set out in Note 4 to the Accounts.

Donations

Donations by the Group for charitable and other purposes amounted to HK\$2,048,000 (2001: HK\$1,588,000).

Ten-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2002 and for the previous nine financial years are set out on pages 136 and 137 of this Annual Report.

Directors

With the exception of Mr. P. C. Tan, who was appointed as a Director of the Company on 1 January 2003 in place of Mr. S. F. Goldmann who retired on 31 December 2002, the Directors of the Company, whose names appear on pages 16 and 17 of this Annual Report, were Directors for the whole year. Their biographical details as at the date of this Report are set out on the same pages. Details of Directors' remuneration are provided under Note 6 to the Accounts.

Mr. Michael Price retired as an Executive Director of the Company effective from 1 April 2002, after 24 years of service with the Group.

Mr. P. C. Tan, being a new Director appointed by the Board, retires at the forthcoming Annual General Meeting in accordance with Article 109 of the Company's Articles of Association and, being eligible, offers himself for re-election.

Apart from the Group Managing Director and Executive Directors, all the Directors are subject to retirement by rotation and re-election at the Annual General Meeting. In accordance with Article 103 of the Company's Articles of Association, Mr. R. J. McAulay, Dr. William K. Fung, Mr. I. D. Boyce and Mr. J. S. Dickson Leach retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

Alternate Directors

The Alternate Directors in office during the year ended 31 December 2002 were as follows:—

Mr. J. S. Dickson Leach, alternate to The Hon. Michael D. Kadoorie	}
Mr. W. E. Mocatta, alternate to Mr. J. S. Dickson Leach	}
Mr. J. A. H. Leigh, alternate to Mr. R. Bischof	} (for the year)
Mr. P. W. Greenwood, alternate to Mr. J. A. H. Leigh	}
Mr. I. D. Boyce, alternate to Mr. R. J. McAulay	}
Mr. I. D. Boyce, alternate to Mr. W. E. Mocatta	}
Ms. L. J. Ryerkerk, alternate to Mr. S. F. Goldmann	}

In light of Mr. S. F. Goldmann's retirement, Ms. L. J. Ryerkerk ceased to be Mr. Goldmann's alternate on 1 January 2003 and was appointed as Mr. P. C. Tan's alternate on the same date.

Directors' Interests

The interests of Directors in the shares of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) as at 31 December 2002 were as follows:—

Directors	No. of Ordinary Shares Held				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
The Hon. Michael D. Kadoorie	—	1,243	—	472,423,717 Notes (1) & (2)	472,424,960
W. E. Mocatta	—	250,000	—	—	250,000
J. S. Dickson Leach	3,436	—	—	—	3,436
R. J. McAulay	13,141	—	—	439,787,424 Notes (1) & (3)	439,800,565
The Hon. Sir S. Y. Chung	393,789	—	—	—	393,789
William K. Fung	120,000	—	—	—	120,000
R. Bischof	35,000	—	—	—	35,000
Andrew Brandler	20,600	—	—	—	20,600
Peter P. W. Tse	20,600	—	—	—	20,600
Peter W. Greenwood	5,600	—	—	—	5,600

Notes :

- (1) 233,379,505 shares were held by discretionary trusts, of which The Hon. Michael D. Kadoorie and Mr. R. J. McAulay are two of the beneficiaries.
- (2) 239,044,212 shares were held by discretionary trusts, of which The Hon. Michael D. Kadoorie is a beneficiary.
- (3) 206,407,919 shares were held by discretionary trusts, of which Mr. R. J. McAulay, his wife and members of his family are beneficiaries.

Mr. S. F. Goldmann had disclosed personal interests in 2,400 American Depositary Receipts for CLP Holdings shares as at 31 December 2002.

Mr. P. C. Tan, who was appointed as a Director of the Company on 1 January 2003, had disclosed family interests in 5,000 shares of the Company as at the date of this Report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangement to enable any Director of the Company or the spouse or children under 18 years of age of any Director to acquire benefits by an acquisition of shares in the Company or any other body corporate.

No contracts of significance, in relation to the Company's business, to which the Company and any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders' Interests

As at 31 December 2002, Bermuda Trust Company Limited (BTCL) had disclosed interests in 682,978,836 ordinary shares of the Company as recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance.

The interests of BTCL in the Company are duplicated by the interests in the shares of the Company held by discretionary trusts as disclosed above by the Directors.

As recorded on 30 December 2002 in the Register of Shareholdings under Rule 26.6 of the Hong Kong Code on Takeovers and Mergers maintained by the Securities and Futures Commission, BTCL, The Hon. Michael D. Kadoorie, Mr. R. J. McAulay, The Sir Horace Kadoorie International Foundation and The Incorporated Trustees of the Kadoorie Foundation (the Parties) had registered their aggregated interests in 839,028,074 ordinary shares in CLP Holdings as at 19 October 2001, representing 33.96% of the issued share capital of the Company on that date. The Parties' aggregated interests in CLP Holdings as at the date of this Report have increased accordingly to 34.84% as a result of repurchases made by the Company pursuant to its longstanding opportunistic on-market Share Repurchase Programme.

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on page 25 of this Annual Report. Details of the remuneration of the Senior Management are provided under Note 7 to the Accounts.

Major Customers and Suppliers

Purchases from the Group's five largest suppliers together accounted for 95.73% of the Group's total purchases during the year.

Castle Peak Power Company Limited is the largest supplier (61.91%) of which Ms. L. J. Ryerkerk, Mr. W. E. Mocatta and Mr. Andrew Brandler are Directors and Mr. J. S. Dickson Leach and Mr. Peter W. Greenwood are Alternate Directors.

The second largest supplier to the Group is Guangdong Nuclear Investment Company, Limited (19.43%) in which the Group has no interest.

The third largest supplier to the Group is Guangdong Nuclear Power Joint Venture Company, Limited (10.80%) of which Mr. W. E. Mocatta, Mr. Andrew Brandler and Mr. Peter P. W. Tse are Directors and Mr. J. S. Dickson Leach is an Alternate Director.

The fourth largest supplier to the Group is Hong Kong Pumped Storage Development Company, Limited (2.55%) of which Ms. L. J. Ryerkerk, Mr. W. E. Mocatta and Mr. Andrew Brandler are Directors and Mr. J. S. Dickson Leach is an Alternate Director.

The fifth largest supplier to the Group is Kum Shing (KF) Construction Co. Ltd. (1.04%) in which the Group has no interest.

The first, third and fourth largest suppliers are jointly controlled entities of the Group. With the exception of Kum Shing (KF) Construction Co. Ltd. which is a contractor providing engineering services, all the above entities supply electricity to the Group.

Sales to the Group's five largest customers together represented less than 30% of the Group's total turnover during the year.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 32 to the Accounts. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

Standard Accounting Practices

The Company does not comply with Statement of Standard Accounting Practice No. 12 "Accounting for Deferred Tax" issued by the Hong Kong Society of Accountants. The reason for the departure from Standard Accounting Practice is described under Note 1(B) to the Accounts.

Corporate Governance

The Accounts for the year have been reviewed by the Audit Committee of the Board. All of its members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters.

The Company has complied with the Code of Best Practice contained in Appendix 14 of the Listing Rules throughout the year. Further details on the subject of corporate governance and a summary of the terms of reference of each of the Committees appointed by the Board are set out on pages 18 to 24 of this Annual Report.

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2002, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent, fair and reasonable; stated the reason for departure from Statement of Standard Accounting Practice No. 12 and prepared the accounts on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditors

The Accounts for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the Annual General Meeting of the Company.

By Order of the Board

The Hon. Michael D. Kadoorie

Chairman

Hong Kong, 24 February 2003