

## **REPORT OF THE DIRECTORS**

The Directors are pleased to present shareholders with the annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 2000.

### **PRINCIPAL ACTIVITIES**

The Company's principal activities during the year are development, investment and operation of infrastructure businesses in Hong Kong, the Mainland and Australia.

### **RESULTS AND DIVIDENDS**

Results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 47.

The Directors recommend the payment of a final dividend of HK\$0.40 per share which, together with the interim dividend of HK\$0.20 per share paid on 12th October, 2000, makes a total dividend of HK\$0.60 per share for the year.

### **FIXED ASSETS**

Movements in the Group's fixed assets during the year are set out in note 12 to the financial statements on page 60.

### **RESERVES**

Details of changes in the reserves of the Company and the Group are set out in note 27 to the financial statements on pages 68 and 69.

### **GROUP FINANCIAL SUMMARY**

Results, assets and liabilities of the Group for the last five years are summarised on pages 4 and 5.

### **PROPERTIES**

Particulars of major properties held by the Group are set out in Appendix 5 on page 82.

### **DIRECTORS**

The Directors of the Company are listed on page 96. The Directors' biographical information is set out on page 30.

In accordance with the Company's bye-laws, the Directors of the Company (other than the Chairman and the Managing Director) retire in each year by rotation. Mr. Fok Kin Ning, Canning, Mrs. Chow Woo Mo Fong, Susan and Mrs. Lee Pui Ling, Angelina retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## REPORT OF THE DIRECTORS (Cont'd)

### DIRECTORS' INTERESTS

As at 31st December, 2000, the interests of the Directors in the shares and debentures of the Company and its associated corporations as required to be recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

#### No. of Ordinary Shares/Amount of Debentures

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Company	Li Tzar Kuoi, Victor	–	–	–	1,912,109,945 (Note 1)	1,912,109,945
	Kam Hing Lam	100,000	–	–	–	100,000
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	–	–	971,000 (Note 5)	2,139,002,773 (Note 2)	2,139,973,773
	George Colin Magnus	880,000	9,900	–	–	889,900
	Fok Kin Ning, Canning	962,597	–	48,278 (Note 6)	–	1,010,875
	Lee Pui Ling, Angelina	38,500	–	–	–	38,500
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	100,000	–	–	–	100,000
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	–	–	–	829,599,612 (Note 3)	829,599,612
	Lee Pui Ling, Angelina	8,800	–	–	–	8,800
Husky Energy Inc.	Li Tzar Kuoi, Victor	–	–	–	137,103,086 (Note 7)	137,103,086
	Fok Kin Ning, Canning	–	–	300,000 (Note 6)	–	300,000
Partner Communications Company Ltd.	George Colin Magnus	25,000	–	–	–	25,000
	Fok Kin Ning, Canning	–	–	225,000 (Note 6)	–	225,000
Believewell Limited	Li Tzar Kuoi, Victor	–	–	–	1,000 (Note 4)	1,000

## REPORT OF THE DIRECTORS (Cont'd)

### No. of Ordinary Shares/Amount of Debentures (Cont'd)

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa Finance (CI) Limited	Fok Kin Ning, Canning	–	–	US\$11,000,000 6.95% Notes due 2007 (Note 6)	–	US\$11,000,000 6.95% Notes due 2007
Hutchison Delta Finance Limited	Frank John Sixt	US\$530,000 7% convertible bond due 2001	–	–	–	US\$530,000 7% convertible bond due 2001

#### Notes:

(1) The 1,912,109,945 shares in the Company comprise:

(a) 1,906,681,945 shares are held by a subsidiary of Hutchison Whampoa Limited (“Hutchison Whampoa”). Certain subsidiaries of Cheung Kong (Holdings) Limited (“Cheung Kong Holdings”) hold more than one-third of the issued share capital of Hutchison Whampoa. Li Ka-Shing Unity Trustee Company Limited (“TUT”) as trustee of The Li Ka-Shing Unity Trust (the “LKS Unity Trust”) and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. All issued and outstanding units in the LKS Unity Trust are held by Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, his wife and two daughters, and Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kuoi, Victor, as a discretionary beneficiary of such discretionary trusts and a Director of the Company, is taken to be interested in those shares of Cheung Kong Holdings and in those shares of Hutchison Whampoa as held by the subsidiaries of Cheung Kong Holdings and in those shares of the Company as held by the subsidiary of Hutchison Whampoa as aforesaid.

(b) 3,603,000 shares are held by Pennywise Investments Limited (“Pennywise”) and 1,825,000 shares are held by Triumphant Investments Limited (“Triumphant”). Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust. Mr. Li Tzar Kuoi, Victor is deemed to be interested in such shares of the Company held by Pennywise and Triumphant by virtue of his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above and as a Director of the Company.

(2) The 2,139,002,773 shares in Hutchison Whampoa comprise:

(a) 2,130,202,773 shares are held by certain subsidiaries of Cheung Kong Holdings. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hutchison Whampoa held by the subsidiaries of Cheung Kong Holdings by virtue of his deemed interests in the shares of Cheung Kong Holdings as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above; and

(b) 8,800,000 shares are held by a unit trust. All issued and outstanding units of such unit trust are held by discretionary trusts. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, his wife and two daughters, and Mr. Li Tzar Kai, Richard. Accordingly Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is deemed to be interested in such 8,800,000 shares in Hutchison Whampoa by virtue of his interests as described in this paragraph as a discretionary beneficiary of certain discretionary trusts.

(3) The 829,599,612 shares in Hongkong Electric Holdings Limited (“Hongkong Electric”) are held by certain subsidiaries of the Company. Mr. Li Tzar Kuoi, Victor, as a Director of the Company, is taken to be interested in such shares in Hongkong Electric held by the subsidiaries of the Company by virtue of his deemed interests in the shares of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above.

## REPORT OF THE DIRECTORS (Cont'd)

- (4) This company is an associated company of Hutchison Whampoa. By virtue of being a Director of the Company and his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, Mr. Li Tzar Kuoi, Victor is deemed to be interested in those shares of subsidiaries and associated companies of the Company and Hutchison Whampoa which are held by TUT (and companies it controls) as trustee of the LKS Unity Trust.
- (5) These shares are beneficially owned by a company in which Mr. Li Tzar Kuoi, Victor is entitled to exercise or control the exercise of one-third or more of the voting power at its general meetings.
- (6) These interests are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
- (7) These shares are held by a company in respect of which a trust company as trustee of The Li Ka-Shing Castle Discretionary Trust is indirectly entitled to substantially all the net assets thereof. Mr. Li Tzar Kuoi, Victor may be deemed to be interested in such shares by virtue of his interests as a discretionary beneficiary of certain discretionary trusts as described in Note 2(b) above.

Mr. Li Tzar Kuoi, Victor, by virtue of being a Director of the Company and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1(a) above, is deemed to be interested in those shares of subsidiaries and associated companies of the Company held through the Company and in those shares of the subsidiaries and associated companies of Hutchison Whampoa held through Hutchison Whampoa under the provisions of the SDI Ordinance.

Apart from the above, as at 31st December, 2000 there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

No other contracts of significance to which the Company or a subsidiary was a party and in which a Director had a material interest subsisted at the balance sheet date or at any time during the year.

At no time during the year was the Company or subsidiary a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

None of the Directors has any service contract with the Company or any of its subsidiaries.

### **SUBSTANTIAL SHAREHOLDERS**

In addition to the interests disclosed above in respect of the Directors, the Company was notified of the following interests in the issued ordinary share capital of the Company as at 31st December, 2000 as required to be recorded in the register maintained under Section 16(1) of the SDI Ordinance:

- (i) 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of Hutchison Whampoa. Its interests are duplicated in the interests of Hutchison Whampoa in the Company described in (ii) below.
- (ii) Hutchison Whampoa is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (i) above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited.

## REPORT OF THE DIRECTORS (Cont'd)

- (iii) Cheung Kong Holdings is deemed to be interested in the 1,906,681,945 shares of the Company referred to in (ii) above as certain subsidiaries of Cheung Kong Holdings hold more than one-third of the issued share capital of Hutchison Whampoa.
- (iv) TUT as trustee of the LKS Unity Trust is deemed to be interested in those shares of the Company described in (iii) above as TUT and companies it controls as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings and in the 3,603,000 shares and 1,825,000 shares of the Company respectively held by Pennywise and Triumphant as Pennywise and Triumphant are companies controlled by TUT as trustee of the LKS Unity Trust.
- (v) Each of Mr. Li Ka-shing, Li Ka-Shing Unity Holdings Limited and Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust is deemed to be interested in the same block of shares TUT as trustee of the LKS Unity Trust is deemed to be interested in as referred to in (iv) above as all issued and outstanding units in the LKS Unity Trust are held by the Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust and by another discretionary trust. More than one-third of the issued share capital of TUT and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited. Mr. Li Ka-shing owns more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited.

### CONNECTED TRANSACTIONS

The Group has from time to time conducted transactions with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The following transactions which are normally subject to the disclosure and/or shareholders’ approval requirements under Chapter 14 of the Listing Rules occurring during the financial year ended 31st December, 2000 will continue or will or may occur between the Group and the Hutchison Whampoa Group:

- (i) Two term loan facility agreements were entered into in relation to Nanhai Power Plant I project in April 1995, one in respect of US\$40,000,000 (approximately HK\$312 million) and the other in respect of US\$90,000,000 (approximately HK\$702 million), and the borrower under such loans is the PRC project company undertaking the Nanhai Power Plant I. A shareholder support agreement (the “Shareholder Support Agreement”) was entered into between Cheung Kong Holdings, Hutchison Whampoa and Pennywise as obligors (the “Obligors”) and CEF (Capital Markets) Limited as agent for the lenders whereby each Obligor has undertaken, inter alia:
- (a) to procure Cheung Kong Hutchison Nanqiao Power Company Limited (the “Nanhai Foreign Party”), the foreign party to the PRC project company, to comply with its obligations under a construction and completion undertaking; and
- (b) to provide funds or assistance that the Nanhai Foreign Party may require in order to comply with its obligations under such undertaking in the following percentages:

Cheung Kong Holdings	68%
Hutchison Whampoa	23%
Pennywise	9%

and the maximum aggregate liability of the Obligors in respect of all claims for breaches of the provisions of the Shareholder Support Agreement shall not exceed the obligations of the borrower under the US\$40,000,000 facility and the liability of each Obligor shall be several and limited to the percentage set out against its name above.

## REPORT OF THE DIRECTORS (Cont'd)

The lenders in question have required the Shareholder Support Agreement to remain in place following the restructuring of the Company approved by the shareholders at the Special General Meeting of the Company held on 3rd March, 1997 (the "Cheung Kong Group Restructuring"). Pursuant to a deed of counter-indemnity given by the Company in favour of Cheung Kong Holdings, Hutchison Whampoa and Pennywise, the Company agreed with each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise to meet all future funding obligations of each of them which may be required under the Shareholder Support Agreement and to counter-indemnify each of Cheung Kong Holdings, Hutchison Whampoa and Pennywise in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under the Shareholder Support Agreement.

- (ii) A sponsors/shareholders' undertaking has been provided by each of Cheung Kong Holdings and Hutchison Whampoa in relation to the loan facilities in relation to the Zhuhai Power Plant. Pursuant to the sponsors/shareholders' undertaking, each of Cheung Kong Holdings and Hutchison Whampoa shall be severally liable for 50 per cent. of certain obligations of the foreign party (the "Zhuhai Foreign Party") to the PRC project company undertaking the Zhuhai Power Plant. The Zhuhai Foreign Party, which is an indirect wholly-owned subsidiary of the Company, has a 45 per cent. interest in the PRC project company. Pursuant to the deed of counter-indemnity referred to in paragraph (i) above, the Company has agreed with each of Cheung Kong Holdings and Hutchison Whampoa to meet all future funding obligations of each of them which may be required under such sponsors/shareholders' undertaking and to counter-indemnify each of Cheung Kong Holdings and Hutchison Whampoa in respect of any sum provided by each of them and generally in respect of each of their liabilities and obligations under such sponsors/shareholders' undertaking.
- (iii) Each of Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant had given representations and warranties to the Company under the restructuring agreement dated 1st July, 1996 (the "Restructuring Agreement") entered into, among others, Cheung Kong Holdings, Hutchison Whampoa, Pennywise, Triumphant and the Company in relation to ownership of certain shares and in relation to the companies in the Group, and undertakings to indemnify the Company against liabilities incurred as a result of breach of warranties given by each of them subject to certain limitations and matters disclosed in respect of the Restructuring Agreement. Under this arrangement, the Company will be indemnified in respect of certain breaches, which indemnity is for the benefit of the shareholders of the Company.
- (iv) Cheung Kong Holdings, Hutchison Whampoa, Pennywise and Triumphant had, pursuant to a deed of indemnity, agreed to indemnify the Company pro rata in the proportions of 94.22 per cent., 5.24 per cent., 0.36 per cent. and 0.18 per cent. respectively, in respect of Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the placing and new issue of shares by the Company pursuant to the prospectus of the Company dated 4th July, 1996 (the "Prospectus") in respect of the restructuring becomes unconditional. Under this arrangement, the Group will be indemnified in respect of estate duty, which indemnity is for the benefit of the shareholders of the Company.

In the opinion of the Directors of the Company, the transactions referred to above are in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties, and are fair and reasonable so far as the shareholders of the Company are concerned, having regard to the circumstances in which they were entered into.

## REPORT OF THE DIRECTORS (Cont'd)

On 12th August, 1996, the Hong Kong Stock Exchange granted waivers (the "Waivers") from strict compliance with the disclosure and shareholders' approval requirements under Chapter 14 of the Listing Rules in respect of, inter alia, the abovementioned transactions (the "Transactions") on the following bases:

- (1) the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (iii) fair and reasonable so far as shareholders of the Company are concerned;
- (2) brief details of such Transactions as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the 1996 annual report and each successive annual report; and
- (3) the independent non-executive directors of the Company shall review annually the Transactions and confirm in the 1996 annual report and each successive annual report that the Transactions are conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

As a further condition of granting the Waivers, the Company is required to engage its auditors to provide the Board with a letter (the "Auditors' Letter") in respect of the Transactions occurring during the financial year ended 31st December, 1996. Where the Transactions will extend beyond one financial year, those requirements will apply for each successive financial year. The Auditors' Letter is to be provided by the Company to the Hong Kong Stock Exchange.

The Auditors' Letter must state that:

- The Transactions received the approval of the Company's Board of Directors; and
- The Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

The Hong Kong Stock Exchange reserves the right to revoke or modify any waiver granted by the Waivers in the event of any change in the terms of the Transactions for which such waivers were granted (including any extension or renewal of the agreements evidencing such Transactions) or in the circumstances under which such waivers were granted. In any such case, the Company has to comply with provisions of Chapter 14 of the Listing Rules dealing with connected transactions unless it applies for and obtains a separate waiver from the Hong Kong Stock Exchange.

The Transactions have been reviewed by the Directors of the Company (including the independent non-executive directors). The Directors of the Company have confirmed that the Transactions have been entered into or the terms of the respective agreements governing such Transactions are (a) in the ordinary and usual course of business of the Company; (b) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (c) fair and reasonable so far as the shareholders of the Company are concerned.

## REPORT OF THE DIRECTORS (Cont'd)

The independent non-executive directors of the Company have confirmed that for the year 2000 the Transactions were conducted in the manner as stated in condition (1) above or in accordance with the terms of the respective agreements governing such Transactions.

The auditors of the Company have also confirmed that for the year 2000 the Transactions received the approval of the Company's Board of Directors; and the Transactions have been entered into on normal commercial terms or in accordance with the terms of the agreement governing the Transactions, or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

In view of the fact that the Waivers were only granted on the basis of the facts and circumstances described in the Prospectus and the original submission made by the Company prior to its listing, an application has been made to the Hong Kong Stock Exchange to confirm that such Waivers shall continue to be effective despite the change of circumstances which may result from the implementation of the Cheung Kong Group Restructuring. The Hong Kong Stock Exchange has indicated that such Waivers shall continue to be effective on the same bases as referred to above.

(v) On 3rd June, 2000, the Group entered into an agreement with a third party to establish a joint venture, in which the Group would hold a 60% interest. In accordance with the agreement, the Group granted to the joint venture a working capital loan facility up to approximately HK\$23 million. The third party is a connected person of the Group by virtue of his 40% interest in the joint venture. The loan facility remained undrawn at 31st December, 2000.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the Group's recognised sales attributable to the Group's five largest customers were less than 30 per cent. of the Group's sales and the Group's purchases attributable to the Group's five largest suppliers were less than 30 per cent. of the Group's purchases.

### **COMPETING BUSINESS INTERESTS OF DIRECTORS**

During the year, the interests of Directors in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Listing Rules were as follows:

#### **(a) Core business activities of the Group**

- (1) Development, investment and operation of power plants and distribution facilities.
- (2) Development, investment and operation of toll roads, toll bridges, tunnel and ancillary businesses and services.
- (3) Development, investment and operation and commercialisation of infrastructure materials including cement, concrete and asphalt products.
- (4) Investment holding and project management.
- (5) Securities investment.
- (6) Information technology, e-commerce and new technology.



REPORT OF THE DIRECTORS (Cont'd)

(b) Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman	(4), (5) & (6)
	Hutchison Whampoa Limited	Deputy Chairman	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
George Colin Magnus	Cheung Kong (Holdings) Limited	Deputy Chairman	(4), (5) & (6)
	Hutchison Whampoa Limited	Executive Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Chairman	(1), (4), (5) & (6)
	Paul Y.-ITC Construction Holdings Limited	Non-executive Director	(4), (5) & (6)
Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Group Managing Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Deputy Chairman	(1), (4), (5) & (6)
	Hanny Holdings Limited	Non-executive Director	(4), (5) & (6)
	Paul Y.-ITC Construction Holdings Limited	Non-executive Director	(4), (5) & (6)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Executive Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Executive Director	(4), (5) & (6)
	CATIC International Holdings Limited	Non-executive Director	(4) & (5)
	Excel Technology International Holdings Limited	Non-executive Director	(4), (5) & (6)
	Hanny Holdings Limited	Non-executive Director	(4), (5) & (6)
	Paul Y.-ITC Construction Holdings Limited	Non-executive Director	(4) & (5)
	Shougang Concord International Enterprises Company Limited	Executive Director	(4) & (5)
	TOM.COM LIMITED	Non-executive Director	(4), (5) & (6)
	Town Health International Holdings Company Limited	Non-executive Director	(4), (5) & (6)
	Trasy Gold Ex Limited	Non-executive Director	(4), (5) & (6)
Frank John Sixt	Cheung Kong (Holdings) Limited	Non-executive Director	(4), (5) & (6)
	Hutchison Whampoa Limited	Group Finance Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Executive Director	(1), (4), (5) & (6)
	TOM.COM LIMITED	Chairman	(4), (5) & (6)

## REPORT OF THE DIRECTORS (Cont'd)

### (b) Interests in Competing Business (Cont'd)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(4), (5) & (6)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (4), (5) & (6)
	TOM.COM LIMITED	Non-executive Director	(4), (5) & (6)
Tso Kai Sum	Hongkong Electric Holdings Limited	Group Managing Director	(1), (4), (5) & (6)

Note: Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

### FINANCIAL RESOURCES, TREASURY ACTIVITIES AND GEARING RATIO

The Group's capital expenditure and investments for the year were funded from cash on hand, internal cash generation, the syndication loan drawn since September 1997 and new project loans drawn during the year.

The Group maintained bank balances and cash totalling HK\$2,169 million as at 31st December, 2000, of which more than 90 per cent. were denominated in Hong Kong dollars or U.S. dollars.

At the end of 2000, total borrowings of the Group amounted to HK\$10,546 million, which included Hong Kong dollar syndication loan of HK\$3,800 million, foreign currency bank borrowings of HK\$6,628 million, RMB bank loans of HK\$113 million and Canadian dollar debentures of HK\$5 million. Of the total borrowings, 34 per cent. were repayable in 2001, 37 per cent. repayable in 2002 and the remaining portion repayable in 2003 to 2005. Committed borrowing facilities available to the Group, but not yet drawn as at 31st December, 2000, amounted to HK\$311 million. Of these undrawn facilities, 95 per cent. will expire in 2001 and the remaining portion will expire in 2003. Given the positive responses from local and overseas bankers on the Group's financing activities during the year, the Group believes that its bankers will continue to support the Group's future financing needs.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in Hong Kong or U.S. dollars. The Group's liquidity and financing requirements are frequently reviewed. In anticipation of new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

## REPORT OF THE DIRECTORS (Cont'd)

As at 31st December, 2000, the Group maintained a gearing ratio at 35 per cent. which was based on its net debt of HK\$8,377 million and equity of HK\$23,862 million. This ratio was higher than the gearing ratio of 11 per cent. at the year end of 1999 as a result of the new financing requirements for the acquisitions of ETSA Utilities and Powercor Australia Limited during the year of 2000. As at 31st December, 2000, HK\$6,165 million of the loans related to these two projects remained outstanding, including a short-term Australian dollar bridging loan of approximately HK\$3,421 million which will be repaid in 2001. In view of the expiry of the HK\$3,800 million syndication loan in 2002 and potential project financing requirements from business growth, the Group has established a medium term note programme of up to US\$2 billion in March 2001.

To minimise currency risk exposure, the Group has a policy of hedging its investments in other countries with the appropriate level of borrowings denominated in the currencies of those countries. As at 31st December, 2000, the Group has swapped the floating interest rates of its borrowings totalling HK\$4,717 million into fixed interest rates. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

### **CHARGE ON GROUP ASSETS**

As at 31st December, 2000, a bank deposit of HK\$52 million and certain of the Group's land and buildings with a net book value of HK\$51 million were pledged to secure the Group's bank loans totalling HK\$89 million. Moreover, the assets of a non-wholly owned subsidiary with net book value of HK\$50 million were pledged as a floating charge to secure the debentures with face value totalling HK\$5 million issued by the aforesaid subsidiary.

### **CONTINGENT LIABILITIES**

As at 31st December, 2000, the Group was subject to outstanding performance bonds totalling HK\$5 million.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws although there are no restrictions against such rights under the laws of Bermuda.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### **EMPLOYEES**

The Group, including its subsidiaries but excluding associated companies, employs a total of 2,363 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$449 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company had been given to its employees who had submitted the pink application forms to subscribe for shares of HK\$1.00 each in the Company at HK\$12.65 per share on flotation of the Company in 1996. The Group does not have any share option scheme for employees.

### **DONATIONS**

Donations made by the Group during the year amounted to HK\$22,346,000.

## REPORT OF THE DIRECTORS (Cont'd)

### CODE OF BEST PRACTICE

The Company has complied with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by this annual report.

### AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established in December 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. Regular meetings have been held by the Committee since its establishment and the Committee met twice in 2000.

The Audit Committee is answerable to the Board and the principal duties of the Committee include the review and supervision of the Company's financial reporting process and internal controls.

### PRACTICE NOTE 19 TO THE STOCK EXCHANGE LISTING RULES

The following information is disclosed in accordance with the Practice Note 19:

- (a) The Group has entered into a syndicated loan facility agreement of HK\$3.8 billion of which the whole amount was drawn as at 31st December, 2000. The facility will mature in 2002. Under the provision of the loan agreement, it is an event of default if Hutchison Whampoa (the Company's controlling shareholder) ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (b) A sponsors/shareholders' undertaking referred to in paragraph (ii) of the Connected Transactions has been provided by Hutchison Whampoa, the Zhuhai Foreign Party and the other parties in relation to two loan facilities of the PRC project company undertaking the Zhuhai Power Plant. The two loans, in the amounts of US\$125.5 million and US\$670 million are repayable by installments with the final repayment due in 2008 and 2012 respectively. It is an event of default for both facilities if Cheung Kong Holdings and Hutchison Whampoa collectively own directly or indirectly less than 51 per cent. of the shareholding in the Zhuhai Foreign Party. Pursuant to the sponsors/shareholders' undertaking, Hutchison Whampoa, together with the other parties, shall undertake certain obligations and inter alia, shall be severally liable for providing funds for cost overrun of the Zhuhai Power Plant, if any. The liabilities and obligations of Hutchison Whampoa have been counter-indemnified by the Company pursuant to the deed of counter-indemnity referred to in paragraph (ii) of the Connected Transactions. There is no breach in respect of all of the obligations under the sponsors/shareholders' undertaking.
- (c) The Group has entered into a transferable loan facility agreement of A\$33 million of which the whole of the loan amount was drawn as at 31st December, 2000. The facility will mature in 2003. Under the provision of the loan agreement, it is an event of default if Hutchison Whampoa ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (d) The Group has entered into a loan facility agreement of A\$75 million of which A\$4 million remained undrawn as at 31st December, 2000. The facility will mature in 2003. Under the provision of the loan agreement, it is an event of default if Hutchison Whampoa ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.

## REPORT OF THE DIRECTORS (Cont'd)

- (e) The Group has entered into a long term syndicated facility agreement of A\$500 million of which the whole amount was drawn as at 31st December, 2000. The facility will mature in 2004. Under the provision of the loan agreement, it is an event of default if Hutchison Whampoa ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (f) The Group has entered into two long term loan facility agreements of A\$45 million and A\$90 million respectively, of which the whole amounts were drawn as at 31st December, 2000. The facilities will mature in 2004 and 2005 respectively. Under the provision of the loan agreements, it is an event of default if Hutchison Whampoa ceases to own (directly or indirectly) at least 35 per cent. of the issued share capital of the Company. The obligation has been complied with.
- (g) As at 31st December, 2000, the Group has granted to certain affiliated companies loans and advances totalling HK\$8,704 million, equivalent to approximately 36 per cent. of the Group's net assets. Proforma combined balance sheet of the affiliated companies as at 31st December, 2000 is set out below:

HK\$ million	
Non-current assets	32,941
Current assets	3,427
Current liabilities	(11,053)
Non-current liabilities	(25,913)
<b>Net assets</b>	<b>(598)</b>
Share capital	840
Reserves	(1,438)
<b>Capital and reserves</b>	<b>(598)</b>

As at 31st December, 2000, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$9,105 million.

### AUDITORS

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who retire and offer themselves for re-appointment.

On behalf of the Board

**LI TZAR KUOI, VICTOR**

Chairman

Hong Kong, 15th March, 2001