

The Directors have pleasure in submitting their Report together with the audited Accounts for the year ended 31 December 2003.

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 18 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 19 and 20 to the Accounts respectively.

Earnings and Final Dividend

| | HK\$M |
|---|---------|
| Total earnings for the year | 7,687 |
| Less: Interim dividends (HK\$1.23 per share) paid | (2,962) |
| Balance after interim dividends | 4,725 |
| The Directors recommend that this balance be dealt with as follows: | |
| Final dividend (HK\$0.65 per share) | 1,565 |
| Special final dividend (HK\$0.10 per share) | 241 |
| Retained profits for the year | 2,919 |
| | 4,725 |

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 22 April 2004 (AGM), the final dividend and special final dividend will be paid on 23 April 2004.

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 40 to 66 of this Annual Report.

Share Capital

There was no movement in the share capital of the Company during the year.

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

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\$16,323 million as at 31 December 2003 (2002: HK\$16,340 million). 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 101 and 102 of this Annual Report.

Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK\$5,594 million (2002: HK\$4,935 million), comprising principally transmission and distribution equipment, land and buildings. As a result of the reclassification of Yallourn Energy and GPEC as subsidiary companies of the Group upon completion of the Group's acquisition of Powergen's remaining interests, fixed assets of these companies added to those of the Group upon acquisitions totalled HK\$12,504 million.

Additions to the fixed assets of the jointly controlled generating companies incorporated in Hong Kong totalled HK\$2,161 million for the year.

Details of movements in the fixed assets of the Group are shown under Note 16 to the Accounts.

Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2003 amounted to HK\$18,697 million (2002: HK\$9,297 million). Particulars of borrowings are set out in Note 28 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 in aggregate was about 25% of the Group's net assets as at 31 December 2003. 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 2003 in place of a proforma combined balance sheet of the affiliated companies in this Annual Report.

Details of the statement of indebtedness, contingent liabilities and capital commitments are shown under Note 34 to the Accounts.

Finance Costs Capitalised

Finance costs amounting to HK\$258 million (2002: HK\$203 million) were capitalised by the Group during the year as set out in Note 5 to the Accounts.

Donations

Donations by the Group for charitable and other purposes amounted to HK\$1,514,000 (2002: HK\$2,048,000).

Ten-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2003 and for the previous nine financial years is set out on pages 144 and 145 of this Annual Report.

Directors

With the exception of Dr. Y. B. Lee, the Directors of the Company, whose names appear on pages 12 and 13 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 set out in the Remuneration Report on pages 91 to 96 of this Annual Report.

Dr. Y. B. Lee, being a new Executive Director of the Company appointed by the Board on 4 August 2003, retires at the AGM in accordance with Article 109 of the Company's Articles of Association and, being eligible, offers himself for re-election.

Under the existing Articles of Association of the Company, apart from the Group Managing Director and Executive Directors, all the Directors are subject to retirement by rotation and re-election at the AGM. In accordance with Article 103 of the Company's Articles of Association, Mr. V. F. Moore, Mr. R. Bischof, Mr. Hansen Loh and Mr. W. E. Mocatta retire by rotation and, being eligible, offer themselves for re-election.

Subject to Shareholders' approval of the modification to the Company's Articles of Association as set out in the Notice of AGM, all Directors (including the Group Managing Director and Executive Directors) are subject to periodic retirement and re-election at the AGM. Subject to Shareholders' approval of the Ordinary Resolution for Executive Directors to enter rotation of Directors at the AGM, Mr. Peter P. W. Tse, being the Executive Director longest in office, will retire at the AGM and, being eligible, offer himself for re-election.

None of the Directors offering themselves for re-election at the AGM 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 2003 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 | } | |
| Mr. Peter W. Greenwood, alternate to Mr. J. A. H. Leigh | } | (for the year) |
| 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. P. C. Tan | } | |

Interests of Directors and Chief Executive Officer

The interests/short positions of each of the Directors and Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2003, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out below:

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

The interests of Directors and Chief Executive Officer in the shares of the Company (other than pursuant to equity derivatives such as shares options, warrants to subscribe or convertible bonds) as at 31 December 2003 were as follows:

| Directors | Capacity | Number of Ordinary Shares Held | % of the Issued Share Capital of the Company |
|--|------------------------------------|--------------------------------|--|
| The Hon. Michael D. Kadoorie | <i>Note (a)</i> | 475,381,026 | 19.7397 |
| W. E. Mocatta | Interest of controlled corporation | 250,000 | 0.0104 |
| J. S. Dickson Leach | Beneficial owner | 3,436 | 0.0001 |
| R. J. McAulay | <i>Note (b)</i> | 439,800,565 | 18.2623 |
| The Hon. Sir S. Y. Chung | Beneficial owner | 393,789 | 0.0164 |
| William K. Fung | Beneficial owner | 120,000 | 0.0050 |
| J. A. H. Leigh | Personal | 22,000 | 0.0009 |
| R. Bischof | Beneficial owner | 35,000 | 0.0015 |
| P. C. Tan | Interests held jointly with spouse | 5,000 | 0.0002 |
| Andrew Brandler (Chief Executive Officer) | <i>Note (c)</i> | 20,600 | 0.0009 |
| Peter P. W. Tse | <i>Note (c)</i> | 20,600 | 0.0009 |
| Peter W. Greenwood | Personal | 5,600 | 0.0002 |
| Y. B. Lee | Interests held jointly with spouse | 15,806 | 0.0007 |

Notes:

- (a) The Hon. Michael D. Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 475,381,026 shares in the Company. These shares were held in the following capacity:
- i) 1,243 shares were an interest of his spouse.
 - ii) 236,335,571 shares were held by discretionary trusts, of which The Hon. Michael D. Kadoorie is one of the beneficiaries.
 - iii) 239,044,212 shares were held by a discretionary trust, of which The Hon. Michael D. Kadoorie is a beneficiary and the founder.
- (b) Mr. R. J. McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 439,800,565 shares in the Company. These shares were held in the following capacity:
- i) 13,141 shares were held in a personal capacity
 - ii) 236,335,571 shares were held by discretionary trusts, of which Mr. R. J. McAulay is one of the beneficiaries.
 - iii) 203,451,853 shares were held by discretionary trusts, of which Mr. R. J. McAulay, his wife and members of his family are beneficiaries.
- (c) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.

Messrs. I. D. Boyce, V. F. Moore, Hansen C. H. Loh and Paul M. L. Kan who are Directors of the Company and Ms. L. J. Ryerkerk who is an Alternate Director have each confirmed that they had no interests in the shares of the Company as at 31 December 2003.

None of the Directors had interests in debentures, under equity derivatives or in underlying shares of the Company and its associated corporations.

2. Aggregate short position in shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors had short positions in respect of shares, debentures, under equity derivatives or interests in underlying shares of the Company and its associated corporations.

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors and the Chief Executive Officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

Interests of Substantial Shareholders

The interests/short positions of Substantial Shareholders in the shares and underlying shares of the Company as at 31 December 2003, as recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, are set out below:

1. Aggregate long position in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds) as at 31 December 2003:

| Substantial Shareholders | Capacity | Number of Ordinary Shares Held | % of the Issued Share Capital of the Company |
|-------------------------------|------------------------------------|---|--|
| Bermuda Trust Company Limited | Interest of controlled corporation | 682,978,836 <i>Notes (a)&(b)</i> | 28.36 |
| Esko Limited | Interest of controlled corporation | 236,335,571 <i>Notes (b)&(c)</i> | 9.81 |
| Hesko Limited | Interest of controlled corporation | 236,335,571 <i>Notes (b)&(c)</i> | 9.81 |
| Mikado Holding Inc. | Trustee | 239,044,212 <i>Notes (b)&(d)</i> | 9.93 |
| Mikado Investments Limited | Interest of controlled corporation | 239,044,212 <i>Notes (b)&(d)</i> | 9.93 |
| New Boron Holding Corporation | Trustee | 196,468,538 <i>Note (c)</i> | 8.16 |
| The Hon. Michael D. Kadoorie | <i>Note (e)</i> | 475,381,026 <i>Notes (b)&(e)</i> | 19.74 |

Notes:

- (a) The interests of Bermuda Trust Company Limited in shares of the Company include the shares held by discretionary trusts of which The Hon. Michael D. Kadoorie and/or Mr. R. J. McAulay are among the beneficiaries as disclosed in "Interests of Directors and Chief Executive Officer".
- (b) The interests of Esko Limited, Hesko Limited, Mikado Holding Inc., Mikado Investments Limited and New Boron Holding Corporation in the Company are duplicated by the interests in the Company held by Bermuda Trust Company Limited which effectively controls them. The attributable interests held by The Hon. Michael D. Kadoorie are those identified in "Interests of Directors and Chief Executive Officer", and apart from the interest of spouse so identified therein, they are also duplicated by the interests in the Company held by Bermuda Trust Company Limited.
- (c) Esko Limited and Hesko Limited jointly own the interests in the Company through the following companies:

| Name of Controlled Corporation | Number of Shares | % of Issued Share Capital Owned by Esko Limited | % of Issued Share Capital Owned by Hesko Limited |
|--------------------------------|------------------|---|--|
| New Boron Holding Corporation | 196,468,538 | 50 | 50 |
| Mercury Holding Corporation | 4,980,787 | 50 | 50 |
| Cobalt Holding Corporation | 34,886,246 | 50 | 50 |

The interests of New Boron Holding Corporation are duplicated by the interests of Esko Limited and Hesko Limited. They are also duplicated by the interests in the Company held by Bermuda Trust Company Limited.

- (d) Mikado Investments Limited owns the interests in the Company through Mikado Holding Inc. The interests of Mikado Holding Inc. are duplicated by the interests of Mikado Investments Limited. They are also duplicated by the interests in the Company held by Bermuda Trust Company Limited.
- (e) The aggregate long position in shares of the Company of The Hon. Michael D. Kadoorie are listed below:

Interests in Ordinary Shares of the Company

| Number | Capacity |
|-------------|---|
| 1,243 | Interest of spouse |
| 239,044,212 | Founder of a discretionary trust |
| 475,379,783 | Beneficiary of various discretionary trusts |

The interests of The Hon. Michael D. Kadoorie as a founder of a discretionary trust and a beneficiary of one of the discretionary trusts are duplicated between each other. His interests, apart from the interest of spouse, are also duplicated by the interests in the Company held by Bermuda Trust Company Limited and certain discretionary trusts of which Mr. R. J. McAulay is one of the beneficiaries as disclosed above by the Directors.

As at 31 December 2003, the Company had not been notified of any substantial shareholders' interests under equity derivatives or in underlying shares of the Company.

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2003, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Interests of Any Other Persons

As at 31 December 2003, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Senior Management

The biographical details of the Senior Management as at the date of this Report are set out on pages 12 and 13 of this Annual Report. Details of the remuneration of the Senior Management are set out in the Remuneration Report on pages 93 to 96 of this Annual Report.

Major Customers and Suppliers

Purchases from the Group's five largest suppliers together accounted for 93.58% of the Group's total purchases during the year.

Castle Peak Power Company Limited (CAPCO) was the largest supplier (60.79%) of which Ms. L. J. Ryerkerk, Mr. W. E. Mocatta and Mr. Andrew Brandler are directors and Mr. J. A. H. Leigh and Mr. Peter W. Greenwood are alternate directors. CAPCO is 40% owned by CLP Power Hong Kong Limited (CLP Power Hong Kong) and supplies electricity to CLP Power Hong Kong only. CLP Power Hong Kong is a wholly-owned subsidiary of the Company.

The second largest supplier to the Group was Guangdong Nuclear Investment Company, Limited (GNIC) (19.23%) in which the Group has no interest.

The third largest supplier to the Group was Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) (10.69%) of which Mr. W. E. Mocatta, Mr. Andrew Brandler, Mr. Peter P. W. Tse and Dr. Y. B. Lee are directors. GNPJVC is 25% and 75% owned by the Group and GNIC respectively and supplies electricity to the Group.

The fourth largest supplier to the Group was Hong Kong Pumped Storage Development Company, Limited (PSDC) (1.80%) of which Ms. L. J. Ryerkerk, Mr. W. E. Mocatta and Mr. Andrew Brandler are directors. PSDC is 49% owned by CLP Power Hong Kong who has the right to use 50% of the capacity of Phase I of the Guangzhou Pumped Storage Power Station.

The fifth largest supplier to the Group was Kum Shing (KF) Construction Co. Ltd. (Kum Shing) (1.07%) in which the Group has no interest. Kum Shing is a contractor providing engineering services to the Group.

As at 31 December 2003, Bermuda Trust Company Limited, Esko Limited, Hesco Limited, Mikado Holding Inc., Mikado Investments Limited, New Boron Holding Corporation and The Hon. Michael D. Kadoorie, who are substantial shareholders of the Company, had indirect interests in CAPCO, GNPJVC and PSDC, which interests arose from the interests as disclosed in "Interests of Substantial Shareholders" in this Report. Mr. W. E. Mocatta is also a director of Esko Limited, Hesco Limited, Mikado Holdings Inc., Mikado Investments Limited and New Boron Holding Corporation.

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 33 to the Accounts. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

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 14 to 21 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 2003, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable 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 AGM of the Company.

By Order of the Board



W.E. Mocatta

Vice Chairman

Hong Kong, 25 February 2004