

# Directors' Report

The Directors have pleasure in submitting their Report together with the audited Accounts for the year ended 31 December 2004.

## 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

	2004 HK\$M	2003 HK\$M
Total earnings for the year	<b>8,614</b>	7,687
Less: interim dividends paid of HK\$1.35 (2003: HK\$1.23) per share	<b>(3,251)</b>	(2,962)
Balance after interim dividends	<b>5,363</b>	4,725
The Directors recommend that this balance be dealt with as follows:		
Final dividend of HK\$0.73 (2003: HK\$0.65) per share	<b>1,758</b>	1,565
Special final dividend of HK\$0.15 (2003: HK\$0.10) per share	<b>361</b>	241
Retained profits for the year	<b>3,244</b>	2,919
	<b>5,363</b>	4,725

Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting to be held on 28 April 2005 (AGM), the final dividend and special final dividend will be paid on 29 April 2005.

## 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 14 to 43 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\$17,616 million as at 31 December 2004 (2003: HK\$16,323 million). Movements in the reserves of the Group and the Company during the year are set out in the Statement of Changes in Equity on pages 130 and 131 respectively of this Annual Report.

## Fixed Assets

Additions to the fixed assets of the Group for the year totalled HK\$5,823 million (2003: HK\$5,594 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\$1,697 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 2004 amounted to HK\$18,774 million (2003: HK\$18,697 million). Particulars of borrowings are set out in Note 26 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 exceeded 8% of the Group's total assets as at 31 December 2004. Pursuant to rule 13.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), a proforma combined balance sheet of the affiliated companies as at 31 December 2004 is included in Note 32 to the Accounts in this Annual Report.

## Finance Costs Capitalised

Finance costs amounting to HK\$261 million (2003: HK\$258 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\$4,690,000 (2003: HK\$1,514,000).

## Ten-year Summary

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2004 and for the previous nine financial years are set out on pages 168 and 169 of this Annual Report.

## Directors

The Directors of the Company, whose names appear on pages 92 and 93 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 108 to 115 of this Annual Report.

Under the existing Articles of Association of the Company, 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. Andrew Brandler, The Hon. Michael D. Kadoorie, The Hon. Sir S. Y. Chung, Mr. J. A. H. Leigh and Mr. Paul M. L. Kan retire by rotation and, being eligible, offer themselves 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.

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

# Directors' Report

## Alternate Directors

The Alternate Directors in office during the year ended 31 December 2004 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. Peter 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	}	
Mr. Bradley W. Corson replaced Ms. L. J. Ryerkerk as alternate to Mr. P. C. Tan on 1 April 2004.		

## 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 2004, 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 the 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 2004 were as follows:

Directors	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
Dr. The Hon. Michael D. Kadoorie	<i>Note (a)</i>	475,381,026	19.7397
Mr. W. E. Mocatta	Founder of a discretionary trust	250,000	0.0104
Mr. J. S. Dickson Leach	Beneficial owner	3,436	0.0001
Mr. R. J. McAulay	<i>Note (b)</i>	439,800,565	18.2623
The Hon. Sir S. Y. Chung	Beneficial owner	393,789	0.0164
Dr. William K. Fung	Beneficial owner	120,000	0.0050
Mr. J. A. H. Leigh	<i>Note (c)</i>	34,908,246	1.4495
Mr. I. D. Boyce	<i>Note (c)</i>	34,886,246	1.4486
Mr. R. Bischof	Beneficial owner	50,000	0.0021
Mr. P. C. Tan	Interests held jointly with spouse	5,000	0.0002
Mr. Andrew Brandler (Chief Executive Officer)	<i>Note (d)</i>	10,600	0.0004

<b>Directors</b>	<b>Capacity</b>	<b>Total Interests in Number of Ordinary Shares of the Company</b>	<b>% of the Issued Share Capital of the Company</b>
Mr. Peter P. W. Tse	<i>Note (e)</i>	20,600	0.0009
Mr. Peter W. Greenwood	Personal	5,600	0.0002
Dr. Y. B. Lee	<i>Note (f)</i>	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 discretionary objects. (See also Note (c))
- iii) 239,044,212 shares were held by a discretionary trust, of which The Hon. Michael D. Kadoorie is one of the discretionary objects and the founder.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Michael D. Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the 239,044,212 shares referred to in (iii) above. The spouse of The Hon. Michael D. Kadoorie was therefore deemed to be interested in 239,045,455 shares in the Company, of which 1,243 shares were held by her as beneficial owner and 239,044,212 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 239,044,212 shares attributed to her for disclosure purposes.

(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 discretionary objects. (See also Note (c))
- iii) 203,451,853 shares were held by a discretionary trust, of which Muriel, Lady Kadoorie, mother-in-law of Mr. R. J. McAulay, is the founder and a beneficiary and Mr. R. J. McAulay, his wife and members of his family are discretionary objects.

(c) Messrs. I. D. Boyce and J. A. H. Leigh were deemed to be interested as trustees in the 34,886,246 shares, being shares in which the trust of which The Hon. Michael D. Kadoorie and Mr. R. J. McAulay are discretionary objects was also deemed to be interested. Accordingly, the said 34,886,246 shares duplicated with the 236,335,571 shares referred to in notes (a)(ii) and (b)(ii) above. 22,000 shares were held by Mr. J. A. H. Leigh as beneficial owner.

(d) 600 shares were held in a personal capacity and 10,000 shares were held in a beneficial owner capacity.

(e) 600 shares were held in a personal capacity and 20,000 shares were held in a beneficial owner capacity.

(f) 600 shares were held in a personal capacity and 15,206 shares were held jointly with spouse.

Messrs. V. F. Moore, Hansen C. H. Loh and Paul M. L. Kan who are Directors of the Company and Mr. Bradley W. Corson who is an Alternate Director have each confirmed that they had no interests in the shares of the Company as at 31 December 2004.

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

## Directors' Report

### 2. Aggregate short position in the 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 period 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 2004, 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 2004.

Substantial Shareholders	Capacity	Total Interests in Number of Ordinary Shares of the Company	% of the Issued Share Capital of the Company
Bermuda Trust Company Limited	Trustee/ interests of controlled corporations	682,978,836 <i>Note (a)</i>	28.36
Bermuda Trust (Cayman) Limited	Trustee	203,451,853 <i>Note (b)</i>	8.45
Esko Limited	Interest of controlled corporation/ Beneficiary of trusts	236,335,571 <i>Note (a)</i>	9.81
Hesko Limited	Interest of controlled corporation/ Beneficiary of trusts	236,335,571 <i>Note (a)</i>	9.81
Mikado Holding Inc.	Trustee	239,044,212 <i>Note (a)</i>	9.93
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	239,044,212 <i>Note (a)</i>	9.93
Muriel, Lady Kadoorie	Founder and Beneficiary	203,451,853 <i>Note (b)</i>	8.45
New Boron Holding Corporation	Trustee	196,468,538 <i>Note(a)</i>	8.16

<b>Substantial Shareholders</b>	<b>Capacity</b>	<b>Total Interests in Number of Ordinary Shares of the Company</b>	<b>% of the Issued Share Capital of the Company</b>
Oak CLP Limited	Beneficiary	203,451,853 <i>Note (b)</i>	8.45
Oak (Unit Trust) Holdings Limited	Trustee	203,451,853 <i>Notes (a) &amp; (b)</i>	8.45
Mr. R. Parsons	Trustee	196,554,172 <i>Note (c)</i>	8.16
Sir Sidney Gordon	Trustee	241,294,165 <i>Note (c)</i>	10.02
Dr. The Hon. Michael D. Kadoorie	<i>Note (d)</i>	475,381,026 <i>Note (d)</i>	19.74
Mr. R. J. McAulay	<i>Note (e)</i>	439,800,565 <i>Note (e)</i>	18.26
Guardian Limited	Beneficiary/interests in controlled corporation	196,554,172 <i>Note (c)</i>	8.16

*Notes:*

- (a) The interests of Bermuda Trust Company Limited in the shares of the Company include the interests in the Company held by Esko Limited, Hesko Limited, Mikado Holding Inc, Mikado Investments Limited, Oak (Unit Trust) Holdings Limited and New Boron Holding Corporation.

The interests of Bermuda Trust Company Limited in the shares of the Company also include the shares held by discretionary trusts of which The Hon. Michael D. Kadoorie and/or Mr. R. J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".

Bermuda Trust Company Limited was deemed to be interested in the shares in which Esko Limited, Hesko Limited, Mikado Holding Inc, Mikado Investments Limited and Oak (Unit Trust) Holdings Limited are interested, either in the capacity as trustee or by virtue of having direct or indirect control over such companies.

Esko Limited and Hesko Limited together controlled New Boron Holding Corporation and were therefore deemed to be interested in the shares in which such company was deemed interested.

- (b) The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the interests in the Company in which Oak CLP Limited, Oak (Unit Trust) Holdings Limited and Muriel, Lady Kadoorie were deemed to be interested.

The interests of Muriel, Lady Kadoorie in 203,451,853 shares of the Company include shares in which Mr. R. J. McAulay, Mr. R. Parsons and Sir Sidney Gordon were deemed to be interested.

Bermuda Trust (Cayman) Limited was interested in the 203,451,853 shares by virtue of its capacity as trustee of a trust of which Muriel, Lady Kadoorie is the founder and a beneficiary and Mr. R. J. McAulay is one of the discretionary objects. Bermuda Trust (Cayman) Limited, in its capacity as trustee of a discretionary trust, controlled Oak CLP Limited and was therefore deemed to be interested in the shares in which Oak CLP Limited was interested.

- (c) Mr. R. Parsons and Sir Sidney Gordon, in their capacities as trustees of certain trusts, jointly controlled Guardian Limited and therefore were deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 196,554,172 shares in which Guardian Limited was interested is duplicated within the interests attributed to each of Sir Sidney Gordon and Mr. R. Parsons.

Sir Sidney Gordon was also deemed to be interested in 44,739,993 shares in his capacity as trustee of certain trusts.

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- (d) The aggregate long position in the shares of the Company of The Hon. Michael D. Kadoorie is listed below:

Interests in the Ordinary Shares of the Company Number	Capacity
1,243	Interest of spouse
239,044,212	Founder of a discretionary trust
475,379,783	Discretionary object of various discretionary trusts

The interests of The Hon. Michael D. Kadoorie as a founder of a discretionary trust and a discretionary object of various discretionary trusts are duplicated between each other. His interests, apart from the interest of his 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 discretionary objects as disclosed in Note (e) below.

For the purpose of the Securities and Futures Ordinance, the spouse of The Hon. Michael D. Kadoorie was taken to have a discloseable duty in Hong Kong in relation to the 239,044,212 shares referred to above. The spouse of The Hon. Michael D. Kadoorie was therefore deemed to be interested in 239,045,455 shares in the Company, of which 1,243 shares were held by her as beneficial owner and 239,044,212 shares were attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in these 239,044,212 shares attributed to her for disclosure purposes.

- (e) See Note (b) under "Interests of Directors and Chief Executive Officer".

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

As at 31 December 2004, the Company had not been notified of any short positions being held by any substantial shareholder in the shares and underlying shares of the Company.

## Interests of Any Other Persons

As at 31 December 2004, 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 page 93 of this Annual Report. Details of the remuneration of the Senior Management are set out in the Remuneration Report on pages 113 to 115 of this Annual Report.

## Major Customers and Suppliers

Purchases from the Group's five largest suppliers together accounted for 88.95% of the Group's total purchases during the year.

Castle Peak Power Company Limited (CAPCO) was the largest supplier (59.7%) of which Mr. Bradley W. Corson, 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) (16.74%) in which the Group has no interest.

The third largest supplier to the Group was Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) (9.3%) 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) (2.01%) of which Mr. Bradley W. Corson, Mr. W. E. Mocatta, and Mr. Andrew Brandler are directors. PSDC is 49% owned by CLP Power Hong Kong which 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 Gujarat State Petroleum Corporation Limited (GSPC) (1.2%) in which the Group has no interest. GSPC supplies natural gas to Gujarat Paguthan Energy Corporation Private Limited, a wholly-owned subsidiary of the Company.

As at 31 December 2004, Bermuda Trust Company Limited, Bermuda Trust (Cayman) Limited, Esko Limited, Hesco Limited, Mikado Holding Inc., Mikado Investments Limited, Muriel, Lady Kadoorie, New Boron Holding Corporation, Oak CLP Limited, Oak (Unit Trust) Holdings Limited, Mr. R. Parsons, Sir Sidney Gordon, The Hon. Michael D. Kadoorie, Mr. R. J. McAulay and Guardian Limited, who are substantial shareholders of the Company, had indirect interests in CAPCO, GNPJVC and PSDC, which interests arose from Company's interests in CAPCO, GNPJVC and PSDC.

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

## Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 94 to 107 of this Annual Report.

## 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



The Hon. Michael D. Kadoorie  
Chairman  
Hong Kong, 28 February 2005