

# REPORT OF THE DIRECTORS

(Expressed in Hong Kong Dollars)

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

## Group Activities

The principal activity of the Group is the generation and supply of electricity.

## Accounts

The Consolidated Profit and Loss Account for the year ended 31st December 2002 is set out on page 34 and shows the Group profit, after tax and Scheme of Control transfers, of \$6,827 million (2001: \$6,507 million). The state of the Company's and the Group's affairs as at 31st December 2002 are set out in the accounts on pages 34 to 67.

## Dividends

An interim dividend of 58 cents (2001: 56 cents) per share was paid to shareholders on 27th September 2002 and the Directors recommend a final dividend of \$1.13 (2001: \$1.07) per share payable on 16th May 2003 to shareholders who are registered on the register of members on 15th May 2003.

## Reserves

Movements in the reserves of the Company and the Group during the year are set out in the Statement of Changes in Equity on the pages 37 and 38.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year (2001: Nil).

## Charitable Donations

Donations by the Group during the year amounted to \$1.5 million (2001: \$2 million).

## Fixed Assets

Additions to Group fixed assets for the year amounted to \$3,145 million (2001: \$4,134 million). The movements in fixed assets during the year are set out in note 12 on the accounts.

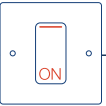
## Directors

The Directors in office at the date of this report are listed on page 76 of the Annual Report.

In accordance with Article 116 of the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting to be held on 15th May 2003 are Mr. Ralph Shea and Mr. Wong Chung-hin, who, being eligible, offer themselves for re-election.

## Directors' Service Contracts

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) (2001: Nil).



## Independent Non-executive Directors' Remuneration

A director's fee of \$50,000 per annum (2001: \$50,000 per annum) (or such amount on a pro-rata basis by reference to the period of service during the year) is payable to each independent non-executive Director of the Company. No other emoluments are paid or payable to the independent non-executive Directors of the Company during the year.

## Contracts of Significance

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## Major Customers and Suppliers

The Group's five largest customers combined did not exceed 30% of the Group's total turnover for the years ended 31st December 2002 and 2001.

The largest supplier of revenue items for the year represents 15.1% (2001: 24.9%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 61.9% (2001: 73.4%).

The holding company of a substantial shareholder who owns more than 5% of the Company's issued share capital, had a 50% interest (until August 2002) in one of the above five largest suppliers. Save as disclosed above, at 31st December 2002 and 2001, none of the Directors or shareholders to the knowledge of the Directors, had any interest in the above five largest suppliers.

## Connected Transactions

- (1) The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, had on 4th February 1986 entered into an agreement in the usual and ordinary course of its business with Total Energy Resources (Hong Kong) Limited ("Total Energy"), a company which was 50% owned by Hutchison Whampoa Limited (until August 2002), pursuant to which HEC agreed to purchase coal on normal commercial terms from Total Energy at a consideration to be reviewed annually. Hutchison Whampoa Limited is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. Approximately 15.1% (2001: 4.6%) of HEC's coal purchases during the year were supplied by Total Energy at a total value of approximately \$141 million (2001: \$43 million). The coal price was determined in 2002 by reference to the then prevailing market price for coal. The agreement has been disclosed to shareholders in a circular dated 16th May 1987. Information relating to the annual extension of the agreement is hereby disclosed in accordance with Rule 14.25(1) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").
- (2) The Stock Exchange of Hong Kong Limited ("Stock Exchange") has granted a conditional waiver to the Company from the requirement of disclosure by press notice as stipulated in Chapter 14 of the Listing Rules in connection with the agreements set out below.

HEC has entered into two agreements and a variation order with A.S. Watson Group (HK) Limited ("Watson"), a subsidiary of Hutchison Whampoa Limited. Pursuant to the agreement dated 7th January 2002, Watson agreed to supply and install electric appliances for newly developed residential premises from 1st January 2002 to 31st December 2003. The unit prices of these electric appliances are fixed during the contract period and the price

is payable by HEC within 30 days against certified invoices for electric appliances installed. Pursuant to the agreement dated 16th January 2002 and a variation order dated 19th March 2002, Watson agreed to supply and install different types of electric appliances to residents in certain residential estates in the year 2002. The unit prices of these electric appliances are set out in the agreement and the said variation order. The difference between the price the residents pay and the unit price set out in the agreement and the said variation order is payable by HEC within 30 days after completion of installation and receipt of invoice. The aggregate amount of orders made by HEC under the above agreements during the year is approximately \$2,350,000.

HEC has entered into an agreement dated 16th April 1999 and three variation orders dated 22nd May 2000, 24th March 2001 and 18th March 2002 respectively with Green Island Cement (Holdings) Limited ("GIC"), a subsidiary of Cheung Kong Infrastructure Holdings Limited, pursuant to which GIC agreed to supply limestone powder to HEC from 1st May 1999 to 30th April 2003. HEC will order limestone powder from GIC from time to time and the price is calculated according to the unit rates set out in the variation order dated 22nd May 2000 and is payable within 30 days upon receipt of an invoice from GIC. The amount of orders made by HEC during the year is approximately \$6,460,000.

In accordance with one of the conditions imposed by the Stock Exchange, the independent non-executive Directors of the Company have reviewed the transactions conducted pursuant to the above agreements ("Transactions") in the year ended 31st December 2002 and confirm that:

- (a) the Transactions have been conducted by the Group in the ordinary and usual course of its business;
- (b) the Transactions have been entered into on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the Transactions have been carried out in accordance with the terms of the agreements governing such Transactions.

### **Arrangement to Purchase Shares or Debentures**

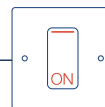
At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate (2001: Nil).

### **Code of Best Practice**

With the exception that non-executive Directors have no set term of office but retire from office on a rotational basis in accordance with the Articles of Association of the Company, the Company has complied throughout the year ended 31st December 2002 with the Code of Best Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **Audit Committee**

In accordance with the Code of Best Practice, the Board of Directors established an audit committee on 1st January 1999 to review and supervise the Group's financial reporting and internal control systems. The audit committee consists of three independent non-executive Directors and has met twice during the year.



## Directors' Interests

At 31st December 2002, the interests of the Directors in the issued share capital of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register required to be kept under section 29 of the SDI Ordinance were as follows:

Name of Director	Number of Shares of \$1 each				Total
	Personal	Family	Corporate	Other	
Victor Li Tzar-kuoi	–	151,000	–	829,599,612 (Notes 1 & 2)	829,750,612
Ronald Joseph Arculli	–	–	2,011	–	2,011
Francis Lee Lan-yea	739	–	–	–	739

### Notes:

- (1) *These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI"). Hutchison Whampoa Limited ("HWL") holds more than one-third of the issued share capital of CKI and certain subsidiaries of Cheung Kong (Holdings) Limited ("CKH") hold more than one-third of the issued share capital of HWL. 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 CKH. All the 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. Victor Li Tzar-kuoi, his wife and two daughters, and Mr. Richard Li Tzar-kai. Mr. Victor Li Tzar-kuoi, as a Director of the Company, is deemed to be interested in such shares of the Company as held by the subsidiaries of CKI under the SDI Ordinance by virtue of his interests as described herein as discretionary beneficiary of such discretionary trusts.*
- (2) *Mr. Victor Li Tzar-kuoi, by virtue of his interests as described in Note (1) above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated companies of the Company held through the Company under the SDI Ordinance.*

Save as disclosed herein, at 31st December 2002, none of the Directors had any interest in the equity or debt securities of the Company or any associated corporation.

## Substantial Shareholders' Interests

At 31st December 2002, in addition to the interests disclosed above in respect of the Directors, the following companies and person were interested in 10% or more of the issued share capital of the Company according to the register kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and information received by the Company:

- (1) Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust, Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and its subsidiaries, Hutchison International Limited and Hutchison Infrastructure Holdings Limited, Cheung Kong Infrastructure Holdings Limited and its subsidiary, Hyford Limited are each taken to have an interest in the same 829,599,612 shares of the Company as described in Note (1) under Directors' Interests in accordance with the provisions of the SDI Ordinance.
- (2) Li Ka-Shing Unity Holdings Limited is taken to have an interest in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance by virtue of its owning more than one-third of the issued share capital of the trustees of The Li Ka-Shing Unity Trust and The Li Ka-Shing Unity Discretionary Trust.

(3) Mr. Li Ka-shing is taken to have an interest in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance by virtue of his owning more than one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited.

(4) Monitor Equities S.A. and Univest Equity S.A., both subsidiaries of Hyford Limited are taken to have an interest in 287,211,674 shares and 279,011,102 shares respectively which are duplicated in the same 829,599,612 shares of the Company mentioned above in accordance with the provisions of the SDI Ordinance.

### **Directors' Interests in Competing Business**

Messrs. George Magnus, Canning Fok, K.S. Tso, Victor Li, H.L. Kam, Frank Sixt and Mrs. Susan Chow, Directors of the Company ("Relevant Directors"), are also directors of Cheung Kong Infrastructure Holdings Limited ("CKI") whose principal activities are the investment and operation of infrastructure businesses in Hong Kong, Mainland China and other countries in the Asia-Pacific Region. These activities may be in competition with one of the Group's businesses of investment overseas in power generation, transmission and distribution facilities ("Overseas Business"). The Board is of the view that the Group is capable of carrying on its Overseas Business independently of, and at arms length from the business of CKI. When making decisions on the Overseas Business, the Relevant Directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the commercial best interest of the Group and all its shareholders.

### **Subsidiaries**

Particulars of the name, principal place of operation and issued share capital of subsidiaries are set out in Appendix 2 on page 66 of the Annual Report.

### **Summary of Five Year Financial Results**

The summary of five year financial results of the Group is set out on page 70 of the Annual Report.

### **Auditors**

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in Auditors in any of the preceding three years.

By Order of the Board

**George C. Magnus**

Chairman

Hong Kong, 6th March 2003