

# Report of the Directors

(Expressed in Hong Kong Dollars)

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31st December 2003.

## Group Activities

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

## Financial Statements

The Consolidated Profit and Loss Account for the year ended 31st December 2003 is set out on page 35 and shows the Group profit, after tax and Scheme of Control transfers, of \$6,057 million (2002 : \$6,624 million). The state of the Company's and the Group's affairs as at 31st December 2003 are set out in the financial statements on pages 35 to 69.

## Dividends

An interim dividend of 58 cents (2002 : 58 cents) per share was paid to shareholders on 26th September 2003 and the Directors recommend a final dividend of \$1.13 (2002 : \$1.13) per share payable on 14th May 2004 to shareholders who are registered on the register of members on 13th May 2004.

## 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 38 and 39.

## 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 (2002 : Nil).

## Charitable Donations

Donations by the Group during the year amounted to \$1.7 million (2002 : \$1.5 million).

## Fixed Assets

Additions to Group fixed assets for the year amounted to \$2,106 million (2002 : \$3,145 million). The movements in fixed assets during the year are set out in note 12 on the financial statements.

## Directors

The Directors in office at the date of this report are listed on page 80 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 13th May 2004 are Mr. Francis Lee Lan-yeek and Mr. Frank J. Sixt, 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) (2002 : Nil).

## Independent Non-executive Directors' Remuneration

A director's fee of \$50,000 per annum (2002 : \$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 2003 and 2002.

The largest supplier of revenue items for the year represents 22.1% (2002 : 15.1%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 68.9% (2002 : 61.9%).

At 31st December 2003, none of the Directors or shareholders to the knowledge of the Directors, had any interest in the above five largest suppliers.

## Connected Transactions

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.

The Hongkong Electric Company, Limited ("HEC"), a wholly-owned subsidiary of the Company, has entered into two agreements and several variation orders with A.S. Watson Group (HK) Limited ("Watson"), a subsidiary of Hutchison Whampoa Limited. Hutchison Whampoa Limited is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. 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 17th February 2003 and variation orders dated 30th May 2003, 3rd September 2003 and 7th October 2003, Watson agreed to supply and install different types of electric appliances to residents in certain residential estates in the year 2003. The unit prices of these electric appliances are set out in the agreement and the said variation orders. The difference between the price the residents pay and the unit price set out in the agreement and the said variation orders 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 \$3,088,000.

HEC has entered into an agreement dated 16th April 1999 and four variation orders dated 22nd May 2000, 24th March 2001, 18th March 2002 and 13th February 2003 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 2004. 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 \$6,331,000.

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 2003 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 (2002 : 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 2003 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' Emoluments

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of the Directors of the Company for 2003 are as follows:

	Fees HK\$M	Basic Salaries, Allowances & Other Benefits HK\$M	Retirement Scheme Contributions HK\$M	Bonuses HK\$M	Total Emoluments HK\$M
<b>Executive Directors</b>					
George C. Magnus <i>Chairman</i>	0.10	0.03	–	–	0.13
Canning Fok Kin-ning <i>Deputy Chairman</i>	0.05	0.23	–	–	0.28
Tso Kai-sum <i>Group Managing Director</i>	0.05	6.13	–	5.76	11.94
Andrew J. Hunter <i>Group Finance Director</i>	0.05	4.02	0.47	2.76	7.30
Kam Hing-lam	0.05	0.04	–	–	0.09
Francis Lee Lan-yee <i>Director &amp; General Manager (Engineering)</i>	0.05	4.58	0.01	2.97	7.61
Victor Li Tzar-kuoi	0.05	0.16	–	–	0.21
Frank John Sixt	0.05	0.04	–	–	0.09
<b>Non-executive Directors</b>					
Ronald Joseph Arculli	0.05	0.06	–	–	0.11
Susan M.F. Chow	0.05	0.02	–	–	0.07
Holger Kluge	0.05	–	–	–	0.05
Ralph Raymond Shea	0.05	0.03	–	–	0.08
Wong Chung-hin	0.05	0.06	–	–	0.11
Ewan Yee Lup-yuen	0.05	0.03	–	–	0.08
	0.75	15.43	0.48	11.49	28.15

## Report of the Directors

## Directors' Interests

At 31st December 2003, the interests of the Directors in the issued share capital of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SF Ordinance")) as recorded in the register required to be kept under section 352 of the SF Ordinance were as follows:

Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate Percentage of Shareholding
		Personal	Family	Corporate	Other		
Victor Li Tzar-kuoi	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 (Notes 1 & 2)	829,750,612	38.88%
Ronald Joseph Arculli	Interest of controlled corporation	–	–	2,011	–	2,011	≈ 0%
Francis Lee Lan-ye	Beneficial owner	739	–	–	–	739	≈ 0%

Notes:

(1) These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI").

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, *inter alia*, Mr. Victor Li Tzar-kuoi, his wife and children, and Mr. Richard Li Tzar-kai. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited ("HWL"). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH, Mr. Victor Li Tzar-kuoi is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH, the shares of CKI held by the subsidiary of HWL and the shares of the Company held by the subsidiaries of CKI under the SF Ordinance as a Director of the Company. Although Mr. Richard Li Tzar-kai is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SF Ordinance.

(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 SF Ordinance.

Save as disclosed above, at 31st December 2003, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SF Ordinance) which were required to be notified to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SF Ordinance or which were recorded in the register required to be kept by the Company under Section 352 of the SF Ordinance, or which were required to be notified to the Company and the Stock Exchange pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## Substantial Shareholders' Interests

According to the register kept under Section 336 of the Securities and Futures Ordinance (the "SF Ordinance") and information received by the Company, at 31st December 2003, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SF Ordinance were as follows:

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & Interest of controlled corporation	287,211,674 (Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	38.87%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	38.87%

### Notes:

- (1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in (2) below.
- (2) Cheung Kong Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 829,599,612 shares of the Company as referred to in (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in the Company described in (3) below.
- (3) HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in (2) 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 ("HIH"). HIH holds more than one-third of the issued share capital of CKI.
- (4) Cheung Kong (Holdings) Limited ("CKH") is deemed to be interested in the 829,599,612 shares of the Company as referred to in (3) above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.
- (5) Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1") is deemed to be interested in those shares of the Company described in (4) above as TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of CKH.

## Report of the Directors

(6) Each of Mr. Li Ka-shing, Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in (5) above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of another discretionary trust. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

Save as disclosed above, at 31st December 2003, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Part XV of the SF Ordinance, or which were recorded in the register required to be kept by the Company under Section 336 of the SF Ordinance.

### Sufficiency of Public Float

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

### 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 68 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 72 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, 4th March 2004