

## 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 2004.

### 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 2004 is set out on page 38 and shows the Group profit after tax and Scheme of Control transfers, of \$6,280 million (2003 : \$6,057 million). The state of the Company's and the Group's affairs as at 31st December 2004 are set out in the financial statements on pages 38 to 71.

### Dividends

An interim dividend of 58 cents (2003 : 58 cents) per share was paid to shareholders on 24th September 2004 and the Directors recommend a final dividend of \$1.19 (2003 : \$1.13) per share payable on 13th May 2005 to shareholders who are registered on the register of members on 12th May 2005.

### 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 41 and 42.

### Charitable Donations

Donations by the Group during the year amounted to \$2.6 million (2003 : \$1.7 million).

### Fixed Assets

Additions to Group fixed assets for the year amounted to \$2,246 million (2003 : \$2,106 million). The movements in fixed assets during the year are set out in note 12 on the financial statements.

### Subsidiaries

Particulars of the name, principal place of operation and issued share capital of subsidiaries are set out in Appendix 2 on page 70 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 74 of the Annual Report.

### 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 and Code Provision A.4.2 set out in Appendix 14 (which was effective from 1st January 2005) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Directors retiring by rotation at the forthcoming Annual General Meeting to be held on 12th May 2005 are Mr. George C. Magnus, Mr. Canning Fok Kin-ning, Mr. Tso Kai-sum, Mr. Ronald Joseph Arculli, Mrs. Susan M.F. Chow, Mr. Andrew J. Hunter, Mr. Kam Hing-lam, Mr. Holger Kluge, Mr. Victor Li Tzar-kuoi and Mr. Ewan Yee Lup-yuen, 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) (2003 : Nil).

### 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 2004 and 2003.

The largest supplier of revenue items for the year represents 26.9% (2003 : 22.1%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 65.5% (2003 : 68.9%).

At 31st December 2004, none of the Directors or shareholders to the knowledge of the Directors, had any interest in the above five largest suppliers.

### Connected Transaction

On 10th September 2004, the Company and Cheung Kong Infrastructure Holdings Limited ("CKI"), a substantial shareholder holding 38.87% of the issued share capital of the Company, entered into an agreement ("Agreement") pursuant to which the Company agreed to purchase or procure its wholly-owned subsidiary to purchase from CKI the entire issued share capital of Alpha Central Profits Limited ("Alpha") at a consideration of \$1.00. Alpha owns 19.9% of the issued share capital of Gas Network Limited ("Gas Network"). Gas Network has on 31st August 2004 entered into an agreement ("Blackwater Agreement") with Blackwater F Limited ("Blackwater") and Transco plc ("Transco") (a wholly-owned subsidiary of National Grid Transco plc), pursuant to which Gas Network has an option to require Transco to sell to it the entire issued share capital of Blackwater. On or prior to completion of the Blackwater Agreement, Transco will sell to Blackwater the North of England Gas Distribution Network business in the United Kingdom ("Network Business") presently carried on by Transco. Therefore, on completion of the Agreement and the Blackwater Agreement, the Company will own, indirectly through Alpha, a 19.9% interest in Gas Network and Blackwater, and consequently a 19.9% interest in the Network Business.

Under the Agreement, the Company agrees to undertake on or before completion of the Agreement:

- (a) to procure Alpha to subscribe prior to the completion of the Blackwater Agreement approximately £104,276,000 (HK\$1,558,666,000) for new share capital in Gas Network, which represents approximately 19.9% of the net consideration payable by Gas Network on completion of the Blackwater Agreement.
- (b) to procure Alpha to subscribe approximately £2,782,020 (HK\$41,584,000) for new shares in Gas Network, which represents approximately 19.9% of the break fee which may in certain circumstances become payable by Gas Network to Transco if the Blackwater Agreement is terminated.

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- (c) to assume responsibility for 19.9% of certain costs and expenses incurred by CKI and Gas Network in connection with the Blackwater Agreement.
- (d) to execute an undertaking letter to the banks who are parties to a number of agreements and side letters dated 30th August 2004 (collectively "Finance Agreements") under which certain finance facilities in connection with the Network Business are to be provided to Blackwater, to the effect that the Company will assume CKI's obligations under the Finance Agreements to the extent they arise from its interest in 19.9% of Gas Network.

The Agreement constituted discloseable and connected transactions for the Company under the Listing Rules. Shareholders have been informed of the Agreement in a newspaper announcement published on 13th September 2004 and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

### 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 2004 with the Code of Best Practice contained in Appendix 14 (which was in force during the said period) to the Listing Rules. The Company's Articles of Association have been amended on 13th May 2004 to provide that all Directors shall retire in such manner of rotation as required by the Listing Rules, i.e. once every three years.

The Code of Best Practice contained in Appendix 14 to the Listing Rules has been replaced by the Code on Corporate Governance Practices with effect from 1st January 2005 and the new Code will apply for subsequent reporting periods.

### Audit Committee

The Audit Committee of the Board of Directors reviews and supervises the Group's financial reporting and internal control systems, and has met twice during the year. It currently consists of three independent non-executive Directors and one non-executive Director.

The Terms of Reference of the Audit Committee have been revised on 1st January 2005 to meet the requirements set out in the Code on Corporate Governance Practices (effective from 1st January 2005) contained in Appendix 14 to the Listing Rules.

### 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 (2003 : Nil).

### 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 (2003 : Nil).

### Model Code for Securities Transactions by Directors

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 to the Listing Rules as its own code. Having made specific enquiry with all Directors, the Company has ascertained that all of its Directors have complied with the required standards set out in the Model Code during the accounting period covered by this Annual Report.

## Directors' Interests

At 31st December 2004, 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:

### Long Positions in Shares

Name of Director	Capacity	Personal	Number of Ordinary Shares			Total	Approximate Percentage of Shareholding
			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 2004, 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 Model Code in the Listing Rules.

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### Interests of Shareholders Discloseable under the SF Ordinance

According to the register kept under Section 336 of the SF Ordinance and information received by the Company, at 31st December 2004, 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:

#### Long Positions in Shares

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.*
- (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 2004, 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.

### **Confirmation of Independence of Independent Non-executive Directors**

The Company has received confirmation from each of Messrs. Wong Chung-hin and Ralph Raymond Shea, Independent Non-executive Directors of the Company, that they have met all the factors concerning their independence as set out in Rule 3.13 of the Listing Rules and that there are no other factors which may affect their independence. The Board considers these Independent Non-executive Directors to be independent.

Mr. Holger Kluge, another Independent Non-executive Director of the Company, has made similar confirmation to the Company, save as mentioned below:

- (a) He was previously a Director of Husky Oil Holdings Limited ("HOHL"), a private company in which Hutchison Whampoa Limited ("HWL") has a 49% interest. HWL is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. He has already resigned from HOHL in June 2004. The Board is satisfied with Mr. Kluge's independence as HOHL has been dormant since August 2000.
- (b) In addition, Mr. Kluge was previously a director of (i) certain trustee companies of discretionary trusts ("DTs") (including Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Discretionary Trust) in which the discretionary objects include Mr. Victor Li Tzar-kuoi and his spouse and children; (ii) certain trustee companies of unit trusts ("UTs") (including Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust) in which the DTs hold units; (iii) the holding companies of the above trustee companies (which do not carry on other businesses); and (iv) certain companies wholly owned by the UTs (derived from his directorships in the above trustee companies). Mr. Kluge has already resigned from his directorships referred to in (i) to (iv) above in September 2004. The Board has considered Mr. Kluge's past directorships referred to in (i) to (iv) above and is satisfied with his independence having regard to all relevant factors including the fact that Mr. Kluge has not received any remuneration or derived any other benefit for his roles as such in (i) to (iv), that Mr. Kluge did not control any of such boards of directors, and when performing their functions as trustees of the DTs and UTs, they exercised their power to hold interests in the trust assets independently without reference to the holding companies of the above trustee companies or any of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai as a holder of shares of these holding companies.

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### 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 C. Magnus, Canning Fok Kin-ning, Tso Kai-sum, Victor Li Tzar-kuoi, Kam Hing-lam, Frank John Sixt and Mrs. Susan M.F. 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. These activities may be in competition with the Group's business of investing 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.

### Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2004 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

#### Proforma Combined Balance Sheet of the Affiliated Companies as at 31st December 2004

	\$ million
Non-current assets	51,542
Current assets	5,363
Current liabilities	(6,313)
Non-current liabilities	(48,112)
Net assets	2,480
Share capital	336
Reserves	2,144
Capital and reserves	2,480

As at 31st December 2004, the consolidated attributable interest of the Group in these affiliated companies amounted to \$9,187 million.

### 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, 10th March 2005