

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 2005.

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 2005 is set out on page 47 and shows the Group profit after tax and Scheme of Control transfers, of \$8,562 million (2004 restated : \$6,256 million). The state of the Company's and the Group's affairs as at 31st December 2005 are set out in the financial statements on pages 47 to 101.

Dividends

An interim dividend of 58 cents (2004 : 58 cents) per share was paid to shareholders on 23rd September 2005 and the Directors recommend a final dividend of \$1.01 (2004 : \$1.19) per share and a special dividend of \$0.73 per share (2004 : \$nil) payable on 12th May 2006 to shareholders who are registered on the register of members on 11th May 2006.

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 pages 50 to 52.

Charitable Donations

Charitable donations made by the Group during the year amounted to \$2.3 million (2004 : \$2.6 million).

Fixed Assets

Additions of fixed assets for the year amounted to \$3,005 million (2004 : \$2,246 million). The movements in fixed assets during the year are set out in note 15 to the financial statements.

Subsidiaries

Particulars of the name, principal activities and place of operation and issued share capital of principal subsidiaries are set out in Appendix 2 on page 100 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 102 of the Annual Report.

Directors

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

Mr. George Colin Magnus retired from the office of Chairman and was re-designated from an Executive Director to a Non-executive Director on 1st November 2005. Mr. Canning Fok Kin-ning was appointed Chairman on the same date.

Mr. Neil Douglas McGee and Mr. Wan Chi-tin were appointed as Directors on 12th December 2005. They will retire from office at the forthcoming Annual General Meeting to be held on 11th May 2006 pursuant to Article 99 of the Articles of Association of the Company. Mr. Ralph Raymond Shea and Mr. Wong Chung-hin will retire by rotation under Article 116 and Code Provision A.4.2 set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). These Directors, 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) (2004 : 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 2005 and 2004.

The largest supplier of revenue items for the year represents 18.7% (2004 : 26.9%) of the Group's total purchase of revenue items, and the combined total of the largest five suppliers accounts for 63.2% (2004 : 65.5%).

At 31st December 2005, none of the Directors or shareholders to the knowledge of the Directors, have any interest in the above five largest suppliers.

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Connected Transactions

- (1) On 9th November 2005, 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 procure the sale to CKI of an approximate 22.07% attributable interest in each of ETSA Utilities (“ETSA”) and CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd (“CHEDHA”). ETSA owns an electricity distribution business in South Australia. CHEDHA is the holding company of CitiPower and Powercor, both of which own electricity distribution businesses in Victoria, Australia. The consideration was determined by reference to the aggregate of (i) the gross proceeds of the initial public offering (“IPO”) of Spark Infrastructure Fund (“Fund”) which consists of, inter alia, part of CKI’s attributable interests in ETSA and CHEDHA (together, the “Asset Companies”) to be disposed of by CKI to the Fund which was to be listed on the Australian Stock Exchange; and (ii) the proceeds of a bank financing to be undertaken by the Fund after deducting all the costs relating to the IPO. Accordingly, the minimum and the maximum consideration was expected to be between approximately A\$948 million (approximately HK\$5,432 million) and (but could be more than) approximately A\$1,039 million (approximately HK\$5,953 million) respectively.

The sale would allow the Company to re-allocate its capital for further developments and investments, while still retaining a significant attributable interest in the Asset Companies.

The Agreement constituted discloseable and connected transactions of the Company under the Listing Rules. Shareholders have been informed of the Agreement in a newspaper announcement published on 10th November 2005 and a circular to shareholders dated 25th November 2005, and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

- (2) On 23rd December 2005, CKI/HEI Infrastructure Holdings Pty Ltd (“CHIP”, formerly known as CKI/HEI Telecommunications Pty Ltd), a wholly owned subsidiary of CKI/HEI Electricity Holdings (Malaysian) Limited (“CHEM”), and Powercor Australia Holdings Pty Ltd (“Powercor”) entered into an agreement pursuant to which CHIP agreed to purchase from Powercor the entire issued share capital of Silk Telecom Pty Ltd (“Silk”, formerly known as Powercor Australia Telecommunications Pty Ltd). Silk had entered into agreements to acquire certain telecommunications assets. CHEM is indirectly owned as to 50% by the Company and as to 50% by CKI. CKI is a substantial shareholder holding 38.87% of the issued share capital of the Company, and as such, CHEM is a connected person of the Company under the Listing Rules. The Company was to provide financial assistance to CHEM in an amount of A\$8.5 million (approximately HK\$48 million) for completion of the purchase and an amount up to A\$4 million (approximately HK\$23 million) for Silk’s future operations. 75% of the abovementioned financial assistance, up to the amount of A\$9.4 million (approximately HK\$53 million) would be in the form of unsecured interest bearing loan, while the remaining 25%, up to the amount of A\$3.1 million (approximately HK\$18 million) would be in the form of non-interest bearing equity loan. The interest bearing portion of the financial assistance would be provided at an interest rate of 10.5% per annum and repayable on 30th December 2015 and in all other respects, on normal commercial terms.

The above financing arrangement constituted a connected transaction of the Company under the Listing Rules. Shareholders have been informed of this arrangement in a newspaper announcement published on 28th December 2005 and the particulars thereof are herein disclosed pursuant to Rule 14A.45 of the Listing Rules.

Directors' Interests

At 31st December 2005, 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 and Underlying Shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Number of Underlying Shares Held	Total	Approximate % of Shareholding
Victor Li Tzar-kuoi	Interest of child or spouse	Family	151,000	–	850,740,813	39.86%
	Beneficiary of trusts	Other	829,599,612 (Note 1)	20,990,201 (Note 2)		
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	2,011	–	2,011	≈ 0%
Francis Lee Lan-ye	Beneficial owner	Personal	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) Such underlying shares of the Company are held by an indirect wholly owned subsidiary of CKH by virtue of the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme.

By virtue of the interests in the shares of CKH taken to have by Mr. Victor Li Tzar-kuoi under the SF Ordinance as described in Note (1) above which represent more than one-third of the issued share capital of CKH and as a Director of the Company, Mr. Victor Li Tzar-kuoi is taken to have a duty of disclosure in relation to the said interest in the underlying shares of the Company under the SF Ordinance.

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.

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Short Positions in Underlying Shares of the Company

As at 31st December 2005, Mr. Victor Li Tzar-kuoi, as a Director of the Company, was deemed to be interested in the 20,990,201 underlying shares of the Company by virtue of the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme held by a wholly owned subsidiary of CKH by virtue of his interests in the shares of CKH as described in Note (1) above.

Save as disclosed above, at 31st December 2005, 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 for Securities Transactions by Directors in the Listing Rules.

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 2005, 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 and Underlying Shares of the Company

Name	Capacity	Number of Shares Held	Number of Underlying Shares Held	Total	Approximate % of Shareholding
Silchester International Investors Limited	Investment Manager	106,773,457	–	106,773,457	5.00%
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	–	186,736,842	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	–	197,597,511	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	–	279,011,102	13.07%
Monitor Equities S.A.	Beneficial owner & Interest of controlled corporation	287,211,674 (Note 1)	–	287,211,674	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	–	829,599,612	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	–	829,599,612	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	–	829,599,612	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	–	829,599,612	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	–	829,599,612	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	20,990,201 (Note 7)	850,589,813	39.85%
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)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	20,990,201 (Note 7)	850,589,813	39.85%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	20,990,201 (Note 7)	850,589,813	39.85%

Short Positions in Underlying Shares of the Company

Name	Capacity	Number of Underlying Shares Held	Approximate % of Shareholding
Cheung Kong (Holdings) Limited	Interest of a controlled corporation	20,990,201 <i>(Note 7)</i>	0.98%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	20,990,201 <i>(Note 7)</i>	0.98%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	20,990,201 <i>(Note 7)</i>	0.98%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	20,990,201 <i>(Note 7)</i>	0.98%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	20,990,201 <i>(Note 7)</i>	0.98%

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 Note (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 Note (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 Note (3) below.
- (3) HWL is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (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 Note (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 Note (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) By virtue of the SF Ordinance, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") for the purpose of the SF Ordinance, Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of DT2 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 Note (5) above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. 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.
- (7) The references to 20,990,201 underlying shares of the Company relate to the same block of interest and short position in the underlying shares of the Company which were derived from the HK Dollar equity-linked notes due 2007 issued under HK\$10,000,000,000 retail note issuance programme held by a wholly-owned subsidiary of CKH. By virtue of the SF Ordinance, each of TUT1, TDT1, TDT2 and Mr. Li Ka-shing is deemed to be interested in the same block of interest and short position in the 20,990,201 underlying shares of the Company held by CKH as described in Note (6) above.

Save as disclosed above, at 31st December 2005, 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.

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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 (2004 : 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 (2004 : Nil).

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

During the year, the interests of Directors in the businesses which may compete with the Group's business of investing overseas in power generation, transmission and distribution facilities ("Overseas Business") were as follows:

Name of Director	Name of Company	Nature of Interests
Canning Fok Kin-ning	Cheung Kong Infrastructure Holdings Limited	Executive Director
Tso Kai-sum	Cheung Kong Infrastructure Holdings Limited	Executive Director
Susan Chow Woo Mo-fong	Cheung Kong Infrastructure Holdings Limited	Executive Director
Kam Hing-lam	Cheung Kong Infrastructure Holdings Limited Spark Infrastructure Group	Executive Director Non-executive Director
Victor Li Tzar-kuoi	Cheung Kong Infrastructure Holdings Limited	Executive Director
George Colin Magnus	Cheung Kong Infrastructure Holdings Limited	Executive Director
Frank John Sixt	Cheung Kong Infrastructure Holdings Limited	Executive Director

The Board is of the view that the Group is capable of carrying on its Overseas Business independent of, and at arms length from the businesses of the above companies. When making decisions on the Overseas Business, the above 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 combined balance sheet of the affiliated companies as at 31st December 2005 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below :

Combined Balance Sheet of the Affiliated Companies

as at 31st December 2005

	\$ million
Non-current assets	51,640
Current assets	4,027
Current liabilities	(3,227)
Non-current liabilities	(46,442)
Net assets	5,998
Share capital	3,845
Reserves	2,153
Capital and reserves	5,998

As at 31st December 2005, the consolidated attributable interest of the Group in these affiliated companies amounted to \$5,770 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

Canning Fok Kin-ning

Chairman

Hong Kong, 9th March 2006