



over  
**1,100**  
shareholders are  
visiting our electricity  
facilities in Hong Kong

Shareholders at Black Point Power Station

Our responsibility to enhance shareholder value gives rise to commitments to:

- maintain long-term stability and growth in return on investment, and improve our competitiveness;
- preserve and enhance the integrity of our physical assets and infrastructure;
- responsibly plan, build, operate, maintain and decommission our facilities and equipment;
- responsibly manage our investment and business risks; and
- disclose the financial position and operating performance of the Company in a true, fair and complete manner.

Our Annual Report describes our performance in meeting these commitments. This section explains our progress in creating value for our shareholders in the past decade and during 2003.

### Capital Structure and Shareholder Base

The market capitalisation of CLP Holdings at 31 December 2003 was HK\$89 billion. By capitalisation, CLP was in the top 20 largest companies out of the 852 issuers listed on the Main Board of the Hong Kong Stock Exchange (HKEX). The Company's stock is a constituent of the Hang Seng Index (HSI) – the index for Hong Kong's leading listed companies, representing 2.31% by weighting of that Index. CLP is also part of the Hang Seng Utilities Index (HSUI), along with Hongkong Electric Holdings and Hong Kong and China Gas.

As at 31 December 2003, CLP had 2,408,245,900 shares in issue, each with a par value of HK\$5.00. At that date, the Company had 22,107 registered shareholders. As ownership of CLP shares can be through nominees, investment funds and the Central Clearing and Settlement System of Hong Kong, the actual number of investors in CLP shares is likely to be considerably greater. The following table shows the distribution of share ownership by categories and by geographical distribution. [Information on the 10 largest registered shareholders in the Company is set out on our website.](#)

#### Shareholding

<b>By Category</b>	
Institutional Investors	42.95%
Retail Investors	22.21%
Interests Associated with the Kadoorie Family	34.84%
<b>By Geographical Distribution</b>	
Local	99.7%
Overseas	0.3%

CLP has maintained a prudent debt to total capital ratio. As at 31 December 2003, shareholders' funds represented 68% of CLP's total capital. Based on the CLP Group's strong cash flow and healthy interest coverage, the Group has earned high long-term credit ratings and can access the international capital markets as required. Details of these matters are explained on page 66 of this Annual Report.

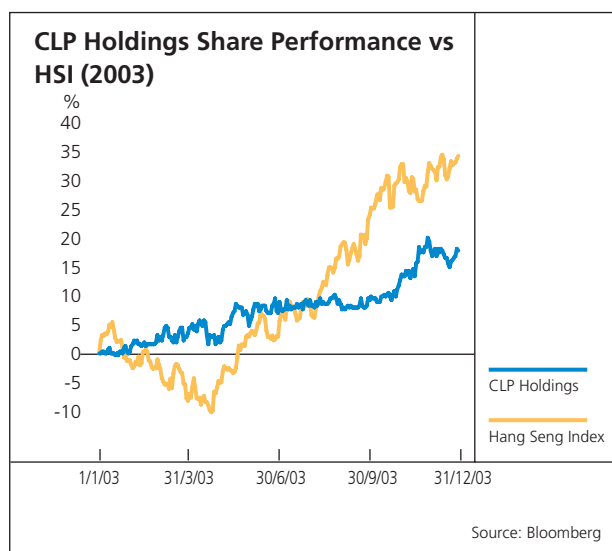
Listed companies in Hong Kong may raise capital by placing shares of up to 20% of their issued capital under a general mandate as allowed by the Listing Rules. There has been market concern that renewed refreshments of the 20% general mandate and issues of shares at a discount may lead to material and unfair dilution of minority interests. The Company acknowledges such concern. We would use the mandate sparingly and with consideration for the interests of all our shareholders. We ask shareholders to limit the aggregate nominal value of share capital allotted or to be allotted by the Directors of the Company under a general mandate to 10% (rather than 20%) of the aggregate nominal amount of the issued share capital of the Company as at the date of the resolution passed by shareholders. The mandate was most recently exercised in 1997.

## Share Performance

CLP's shares have been trading in a relatively narrow range for the past decade. In the same period, the performance of the HSI was more volatile.

In 2003, CLP's share price rose by 17.8%, whereas the HSI rose by 34.9%, following a strong rise in the market in the second half of the year.

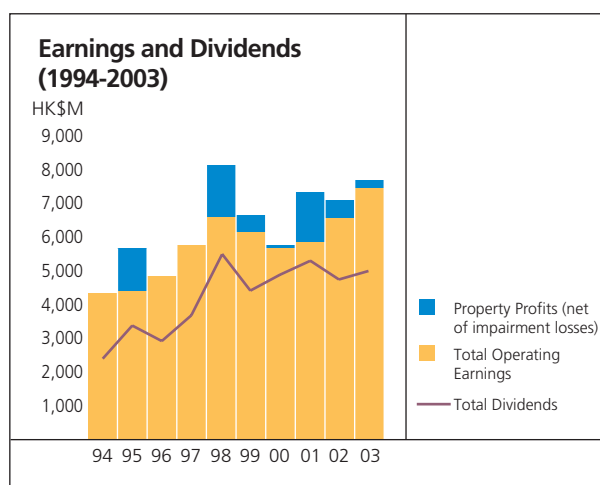
In 2003, 790 million CLP shares were traded on the HKEX at a value of HK\$26.5 billion. CLP shares accounted for 1.04% of the total trading volume of HKEX of HK\$2,546 billion for the year. The average price/earnings (P/E) ratio was 11.5 (five-year average: 11.5). The highest trading price for CLP shares was HK\$37.80 on 28 November and the lowest was HK\$31.20 on 9 January. (Source: Bloomberg)



## Dividends

The Company's dividend policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Since 1994, CLP's ordinary dividend payouts have been between 54% and 63% of total operating earnings. Earnings from the property development at Hok Un have been the subject of special dividends, ranging from 54% to 100% of such earnings in each financial year in which they have arisen. To date, 91% of all Hok Un profits have been passed on to shareholders through special dividends.

In respect of 2003, in line with our dividend policy, the Board has recommended a final dividend of HK\$0.65 per share and a special final dividend of HK\$0.10 per share. Together with the three interim dividends paid during the year, the total dividend amounts to HK\$1.98 per share. The Board expects that three interim dividends will be payable in 2004.



## Share Repurchases

The Company has undertaken share repurchases to optimise our capital structure and enhance earnings per share, as and when appropriate, having regard to:

- the Company's cash position and distributable reserves;
- alternative uses of funds including, for example, dividends or allocation to new investments; and
- the Company's share price.

Since 1998, CLP has effected on-market share repurchases of 129,044,000 shares. A total of HK\$3,952 million has been applied to share repurchases. All the repurchased shares were delisted and cancelled pursuant to the Companies Ordinance and the Listing Rules. [Details of the share repurchases made by the Company, including date, price and total consideration are set out on our website.](#)

In our notice for the 2003 AGM, we drew shareholders' attention to the fact that, should the Company repurchase about a further 11 million shares (representing 0.46% of our issued share capital), the shareholdings in CLP of the parties associated with the Kadoorie Family would thereby exceed 35%, the threshold at which they would be obliged to make a mandatory general offer for the remaining shares of the Company.

In October 2003, CLP formally applied to the Securities and Futures Commission (SFC) for a ruling that the Takeovers and Mergers Code does not preclude a whitewash waiver application in respect of a mandatory general offer obligation triggered by on-market share repurchases. We did so on the basis that, having consulted the Independent Non-executive Directors, it was in the interests of the Company and all its shareholders that the Company be able to continue its on-market share repurchases without creating a mandatory general offer obligation, or compelling the parties associated with the Kadoorie Family to sell down in anticipation of future share repurchases.

In our submission to the SFC, CLP expressed its concern that the repurchase of shares during or shortly after the disposal by the Kadoorie Family would be confusing to the market and may create an impression of lack of confidence by a major shareholder. It may also create a possible perception of market manipulation and give rise to risks of connected transactions, in the form of inadvertent repurchases of shares from parties associated with the Kadoorie Family.

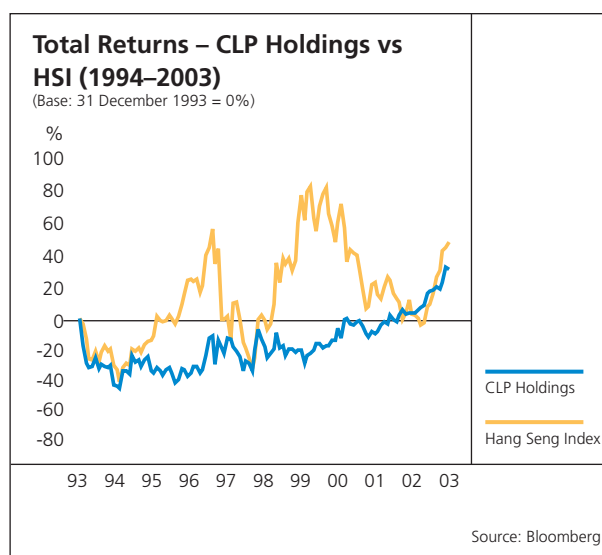
Following an unfavourable ruling from the SFC, we appealed to the Takeovers and Mergers Panel. We submitted to the Panel that a whitewash waiver was permissible under the Takeovers and Mergers Code, was in the interests of the Company and its shareholders, and was in line with accepted practice in countries against which Hong Kong might benchmark itself such as Australia, the U.K. and Singapore.

In December 2003, the Panel applied the Code so as to turn down CLP's appeal, without commenting on the particular merits of the application. [Extracts from our submissions to the SFC and the Panel's decision are available on our website.](#)

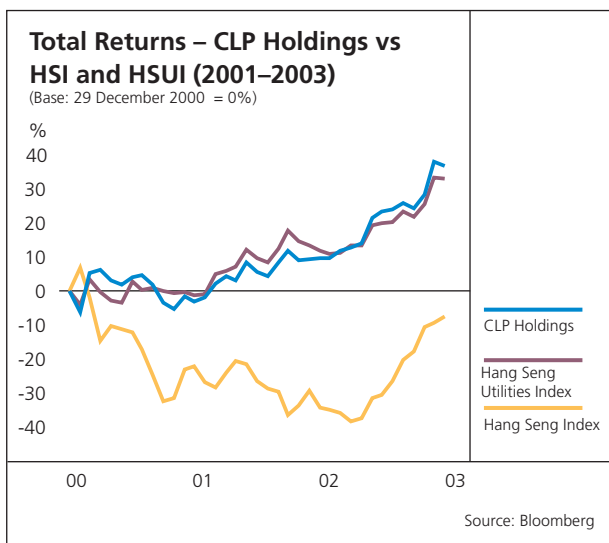
Although we were disappointed by the Panel's decision, we accept the outcome and will manage the consequences as best as we can. We will consider other means which will enable share repurchases to be effected, whilst recognising that share repurchases are but one means by which shareholders' value can be enhanced.

### Total Returns

Total returns for shareholders are measured by the combination of capital appreciation and dividend income over time. The following chart sets out CLP's performance in this respect in the past 10 years.



Looking at the past three years, CLP slightly out-performed the HSUI, although for the most part, the respective performances were largely aligned (which might be expected given that CLP is the largest of the three stocks on the HSUI). During the three years to 31 December 2003, CLP significantly out-performed the HSI.



The following table gives shareholders a practical explanation of the performance of a regular investment in CLP shares as compared with other investments. To do so, we have assumed that, in every year during periods of one, three and 10 years prior to 31 December 2003, an investor puts HK\$1,000 into each of the investments. We then compare the total worth of the investments (including bonus shares and with dividends or interest reinvested) at the end of the respective periods.

Type of Investment	Total Investment Worth at 31 December 2003		
	1-Year Period HK\$	3-Year Period HK\$	10-Year Period HK\$
CLP Shares	1,249	4,028	15,823
Hongkong Electric Shares	1,099	3,533	15,805
Hong Kong & China Gas Shares	1,216	4,066	20,002
HSI-Based Fund	1,411	3,531	–
HK\$ 1-year Fixed Deposits	1,017	3,164	13,514

Adapted from Bloomberg/Reuters



Our Chief Financial Officer explaining CLP's corporate governance booklet to shareholders

## Investor Relations

We communicate with our shareholders in an open, honest and prompt manner. Apart from formal corporate communications to shareholders, other information on the Company's corporate governance principles and practices as well as updates on the Group's affairs are available through our website.

To enable shareholders to have a better understanding of CLP's electricity business in Hong Kong, an invitation to visit Black Point and Castle Peak Power Stations and Taipo System Control Centre was sent to shareholders.

Some 1,100 shareholders responded to our invitation. Over 30 tours have been organised between October 2003 and April 2004. These give Management an opportunity to meet shareholders and answer their questions on the Company's activities. Shareholder comments and queries, as well as the responses to the "Feedback Form" which accompanied last year's Annual Report, have been taken into account and addressed in this Annual Report.

In addition to participation in the shareholders' tours, Management took part in three investor conferences, three Hong Kong and international road-shows, and 126 investor company interviews. Analysts' briefings are arranged through the Investor Relations Department. [The briefings on the Company's results announcement are live web-cast. Materials presented in other briefings are also put on our website so that they are widely available.](#)

Other initiatives to promote investor relations include the shareholders' corner at annual general meetings and establishment of a shareholders' hotline and e-mail contact.

Valuable feedback regarding our efforts to promote transparency and foster investor relationships has been received from investors. We recognise the importance of continuous improvement in these areas. Comments and suggestions are welcome and can be addressed to the Company Secretary.