

How do we manage our stakeholder relationships?

The long-term success of our business depends on the effective management of our relationships with key stakeholders. We worked hard on this in 2004.



CLP and our Shareholders

The [CLP Value Framework](#) explains how our mission to enhance our shareholder value translates into the following specific commitments to our shareholders, namely:

- continuous effort to maintain long-term stability and growth in shareholder value and return on investment, and to enhance the competitive position of our business;
- maintenance and modifications aimed to preserve and enhance the integrity of our physical assets and infrastructure;
- responsible planning, building, operating, maintenance and decommissioning of our facilities and equipment;
- responsible management of our investment and business risks; and
- true, fair and complete disclosure of the financial position and operating performance of the Company.

Our Annual Report explains our performance in meeting these commitments. This section focuses on our progress in creating value for our shareholders in the past decade and during 2004.

Capital Structure and Shareholder Base

As at 31 December 2004, the market capitalisation of CLP Holdings was HK\$108 billion, ranking it as the 10th largest company out of the 892 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 2.43% 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.

CLP had 2,408,245,900 shares in issue, each with a par value of HK\$5.00, as at 31 December 2004. At that date, the Company had 21,989 registered shareholders (of whom 97.54% have their registered addresses in Hong Kong). The actual number of investors in CLP shares is likely to be considerably greater, due to ownership through nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong. An analysis of the size of shareholdings and the distribution of share ownership by categories as at 31 December 2004 is provided in the following charts. Information on [the ten largest registered shareholders](#) in the Company is set out on our website.



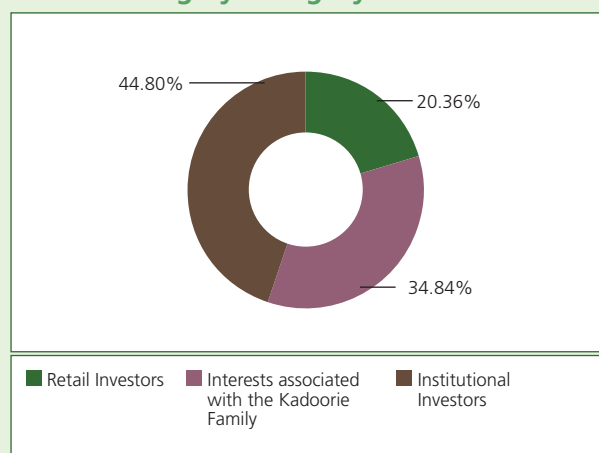
Based on the information that is publicly available and within the knowledge of our directors, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2004 and has continued to maintain such sufficiency as at 28 February 2005 (being the latest practicable date prior to the issue of this Annual Report).

Size of Registered Shareholdings as at 31 December 2004

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
500 or below	1,717	7.81	431,978	0.02
501 – 1,000	3,802	17.29	2,690,245	0.11
1,001 – 10,000	10,730	48.79	44,994,194	1.87
10,001 – 100,000	5,081	23.11	145,887,401	6.06
Above 100,000	659	3.00	2,214,242,082 *	91.94
	21,989	100	2,408,245,900	100

* 98.5% of all the shares held through CCASS are held on behalf of shareholders holding more than 100,000 shares.

Shareholding by Category



CLP and our Shareholders

During 2004 CLP has continued to maintain a prudent debt to total capital ratio. As at 31 December 2004, shareholders' funds represented 70% 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 41 of this Annual Report.

As noted in previous Annual Reports, there has been market concern that renewed refreshments of a 20% general mandate and issues of shares at a discount may lead to material and unfair dilution of minority interests. The Company has long acknowledged such concerns. For this reason we have given an express commitment to use the mandate sparingly (it was most recently exercised in 1997) and with consideration for the interests of all our shareholders. Moreover, over the past ten years, we have asked 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.

Although the mandate was largely supported at the 2004 Annual General Meeting (80.7253% of votes were in favour) the number of votes against was the highest against any of the resolutions put to shareholders (and has increased in recent years).

In light of this, market practice elsewhere (particularly in the UK) and that large-scale use of the mandate should be an exceptional occurrence, the Board has decided that, with effect from the 2005 Annual General Meeting, the resolution put to shareholders will further reduce the limit of the general mandate to not more than 5% of the aggregate nominal amount of the issued share capital of the Company as at the date of the Annual General Meeting.

Sarbanes-Oxley Act

As a result of the issue by CLP Power Hong Kong in 1996 of debt securities to the public in the US in the form of "Yankee Bonds" (which will mature in 2006) and the trading in the US of CLP shares through American Depositary Receipts (ADRs), CLP has securities registered under the US Securities Exchange Act. This in turn has made CLP subject to the US Sarbanes-Oxley Act of 2002,

a package of wide-ranging and detailed obligations on corporate practices and reporting, which was enacted in response to US corporate scandals such as Enron.

As at 31 December 2004 only 1.21% of CLP's shares were held in the form of ADRs. Because of the disproportion between the small number of our US resident security holders and the large scale of the resulting US securities law obligations – in terms of compliance workload, cost and liability – CLP has closely considered the possibility of deregistration. After consultation with our US counsel it appears that this is not a practicable option under US law as it currently stands. If at some future date the rules on deregistration were eased, it is likely that CLP would seek to pursue this.

Balanced Analysis

In recent years there has been a worldwide trend for public companies to disclose to shareholders and, for that matter, other stakeholders, a broader range of information about their businesses. For example, the U.K. regulations on operating and financial reviews (OFRs), which in turn implement a European Union directive of 2003, provide for a company's accounts to include a balanced and comprehensive analysis "using financial and other key performance indicators, including information relating to environmental matters and employee matters". In Hong Kong, the Listing Rules encourage issuers to go beyond merely financial disclosure, and to discuss their policies and performance on matters such as environmental, community, social, ethical and reputational issues.

We have also taken into consideration the Global Reporting Initiative (GRI) Guidelines, which have been developed with the participation of many stakeholder groups to promote sustainability reporting. On our website we provide a GRI Content Index. This indicates where our Annual Report and accompanying Social and Environmental Report address, fully or partially, elements in the GRI Guidelines.

The scope and content of these two Reports reflect this movement towards a more broad-based description of a company's objectives, strategies and performance of the business than was traditionally included in annual reports – all with the view of ensuring that shareholders and other stakeholders have clear and meaningful information about the main drivers of our business.

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 2004, CLP's share price hit a ten year high at HK\$45.50 on 6 September. The lowest trading price was HK\$36.30 on 9 January (Source: Bloomberg). During the year, CLP's share price rose by 20.81%, whereas the HSI rose by 13.15%.

In 2004, 831 million CLP shares were traded on the HKEx at a value of HK\$34.9 billion. CLP accounted for 0.9% of the total turnover value of HKEx of HK\$3,948 billion for the year. The average price/earnings (P/E) ratio was 13.2 (five-year average: 11.9).

CLP Holdings Share Performance vs HSI (2004)



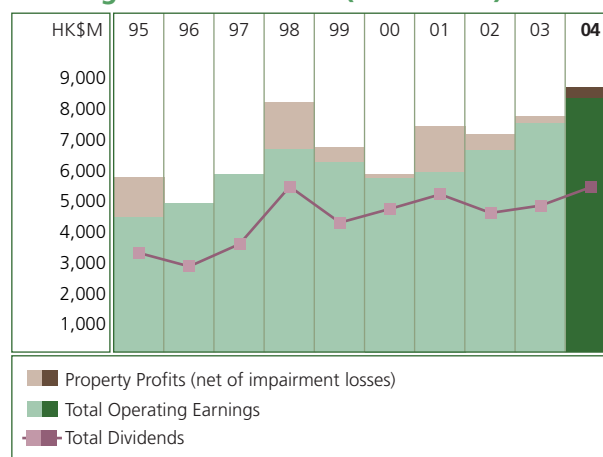
Dividends

The Company's dividend policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. Since 1995, CLP's ordinary dividend payouts have been between 58% and 63% of total operating earnings. Earnings from the property development at Hok Un and other property disposals 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, 92% of all these property-related profits have been passed on to shareholders through special dividends.

In respect of 2004, in line with our dividend policy, the Board has recommended a final dividend payable on 29 April 2005 of HK\$0.73 per share together with a

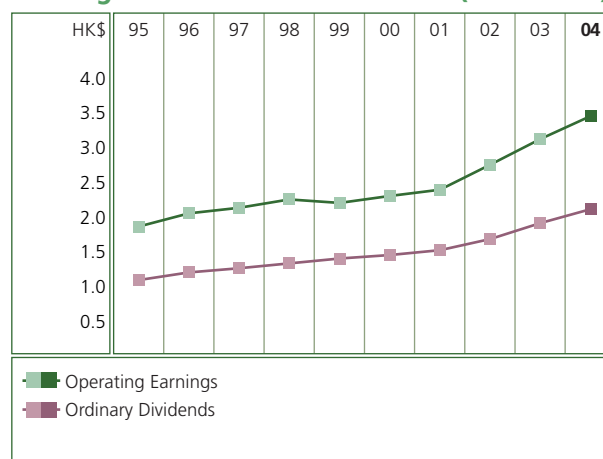
special dividend of HK\$0.15 in respect of profits from Hok Un and the sale of a site for redevelopment at 305 Castle Peak Road in Hong Kong. Together with the three interim dividends of HK\$0.45 each paid during the year, the total dividend amounts to HK\$2.23 per share. The Board expects that three interim dividends will be payable in 2005.

Earnings and Dividends (1995-2004)



It may be helpful to our shareholders to see CLP's earnings and dividends expressed on a per share basis.

Earnings and Dividends Per Share (1995-2004)



In response to shareholders' enquiries, the Board of the Company has reviewed the possibility of providing a scrip dividend option to our shareholders, particularly with regard to market practice in Hong Kong. The result of the review showed that a scrip dividend option is uncommon in Hong Kong and the take-up rate by shareholders of the scrip option, as opposed to receiving dividends in cash, is extremely low. Accordingly, it is not presently envisaged to move to providing CLP shareholders with a scrip dividend option.

CLP and our Shareholders

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.

Between 1998 and January 2002, CLP 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 general offer for the remaining shares of the Company.

In last year's Annual Report and on our website, we reported to shareholders on our unsuccessful application to the Securities and Futures Commission (SFC) and to the Takeovers and Mergers Panel 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 made that application 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. We also noted that a whitewash waiver in such circumstances was in line with accepted practice in countries against which Hong Kong might benchmark itself, such as Australia, the UK and Singapore.

In November 2004 the SFC issued a Consultation Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases. This, amongst many other issues, invited views on whether the Codes should be amended to provide for whitewash waivers of general offer obligations triggered as a result of on-market share repurchases, accompanied by safeguards for shareholders. With the support of our Independent Non-executive Directors, CLP has made a strong [submission](#) to the SFC (available on our website) arguing in favour of the possibility of such waivers.

Pending amendment to the Codes (which remains quite uncertain) we will bear in mind other means which will enable share repurchases to be effected. However, we recognise that share repurchases are but one route by which shareholders' value can be enhanced. For the time being, we have no specific plans with respect to share repurchases.

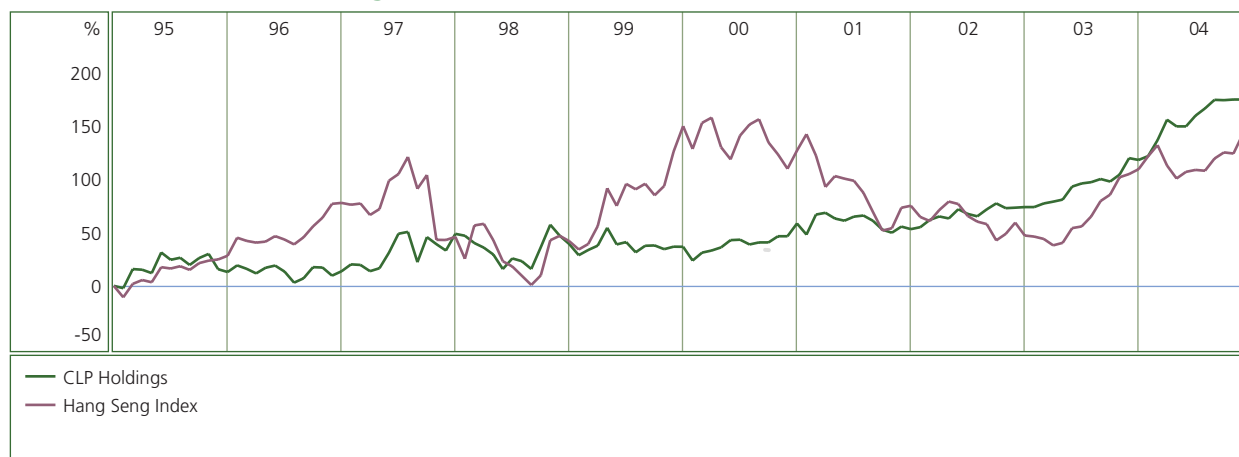


Keeping in touch with our shareholders

Total Returns

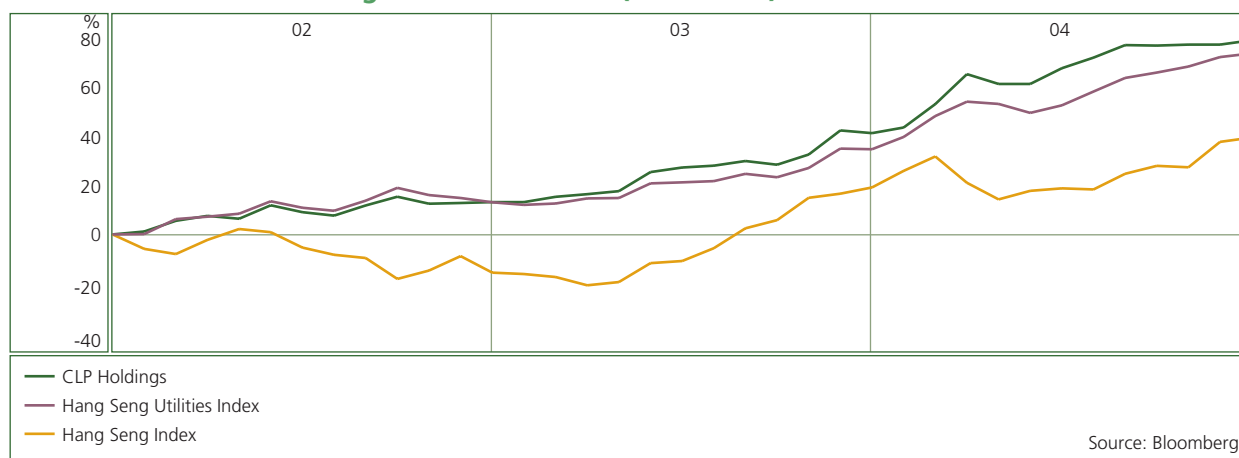
Total returns for shareholders are measured by the combination of capital appreciation and dividend income over time. The following chart sets out CLP's performance in this respect in the past 10 years.

Total Returns – CLP Holdings vs HSI (1995-2004) (Base: 30 December 1994 = 0%)



Looking at the past three years, CLP slightly out-performed the HSUI, although 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 2004, CLP significantly out-performed the HSI.

Total Returns – CLP Holdings vs HSI and HSUI (2002-2004) (Base: 31 December 2001 = 0%)



Source: Bloomberg

The following table gives shareholders a practical explanation of the performance of a regular investment in CLP shares as compared with other investments. We have assumed that, in every year during periods of one, three and 10 years prior to 31 December 2004, 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 2004		
	1-Year Period HK\$	3-Year Period HK\$	10-Year Period HK\$
CLP Shares	1,268	4,643	19,703
Hongkong Electric Shares	1,216	3,987	18,513
Hong Kong & China Gas Shares	1,389	5,108	25,859
HSI-Based Fund	1,155	4,164	–
HK\$ 1-Year Fixed Deposits	1,006	3,077	12,830

Adapted from Bloomberg/Reuters

CLP and our Shareholders

Shareholder Relations

We have a duty to communicate truthfully with our shareholders on CLP's performance, so that they may make an informed decision regarding their investments and the exercise of their rights as shareholders, including voting their shares. It is important that this communication is a two-way process, with our investors having an opportunity to let us know their views on their Company. During 2004, this dialogue involved:

Providing information to our shareholders through means such as

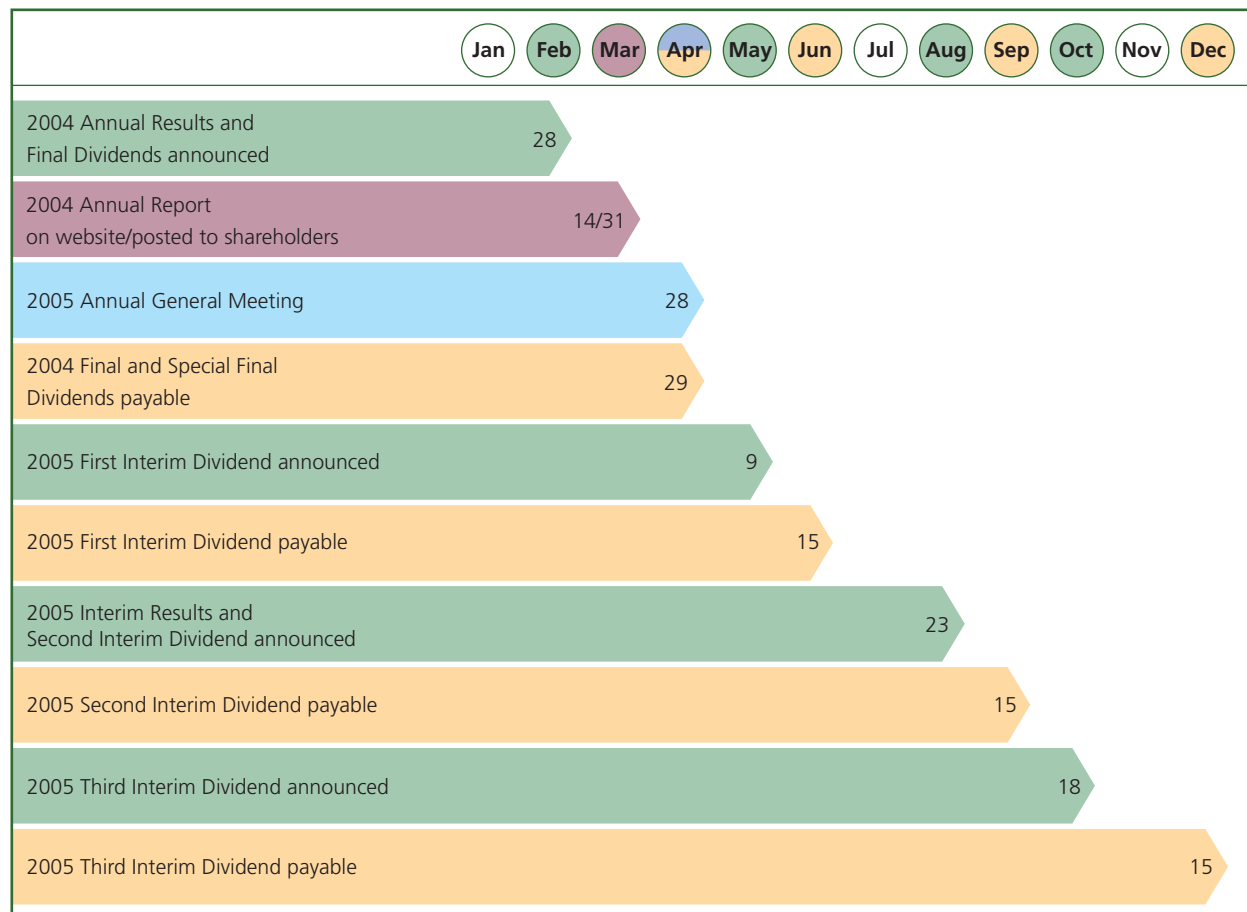
- | | |
|--|--|
| <ul style="list-style-type: none"> • Our Annual Report, Social and Environmental Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements. | <ul style="list-style-type: none"> • Our AGM, attended by Directors and Senior Managers. In recent years, the attendance of shareholders at our AGMs has averaged more than 250 (358 in 2004). This is an unusually high number for Hong Kong company, including by comparison with other companies which have a significantly greater number of registered shareholders. |
| <ul style="list-style-type: none"> • Participation by Management in 3 investor conferences, 3 Hong Kong and International road shows and 132 interviews with institutional investors. | <ul style="list-style-type: none"> • The CLP website, which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders. |

Encouraging feedback from our shareholders through means such as

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> • Face to face dialogue, including the "Shareholders' Corner" at our AGM. | <ul style="list-style-type: none"> • The comments, queries and reports from market analysts. | <ul style="list-style-type: none"> • Shareholders' hotline and e-mail contacts. |
| <ul style="list-style-type: none"> • Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's annual report, together with questions that they would like to be answered on the "Frequently Asked Questions" section of our website. We considered the feedback received and posted the answers on the website. We also sent direct replies to shareholders in response to the specific questions that they have raised. | <ul style="list-style-type: none"> • Shareholder correspondence – our aim is to provide a substantive reply within seven days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we take this into account and seek to address this in subsequent corporate communications to all our shareholders. • Shareholders' visits to our facilities. Our shareholder visit programme initiated in 2003 was a notable success, with participation from 1,100 shareholders in over 32 tours. We repeated the programme by an invitation included with our Interim Report 2004. Between October 2004 and April 2005 we expect to welcome 3,000 shareholders, during 60 tours to our facilities at Castle Peak and Black Point Power Stations and our Tsim Sha Tsui Customer Centre. On these occasions, we seek their views on the performance of CLP. More than 140 CLP colleagues have volunteered to participate as hosts, ambassadors and helpers of the programme. | |

The important dates for shareholders in 2005 are set out in the table below. Any subsequent changes to these dates will be published on our website.

2005 Financial Calendar



We thank all those shareholders who provided feedback, both through the Feedback Form and during the Shareholders' Visit Programme. Shareholders' concerns and questions are collated so that they can be specifically addressed in this Annual Report. For example, key areas of shareholders' interest during 2004 have been the future of the SoC, property development opportunities in Hong Kong and environmental issues, all of which are covered in this Annual Report or the [Social and Environmental Report](#). Shareholders' comments, both favourable and critical, can be addressed to our Company Secretary. We appreciate suggestions for improving our corporate performance, disclosure of information and the quality of our relationships with our investors.

Thank You

Peter P. W. Tse
Chief Financial Officer

