

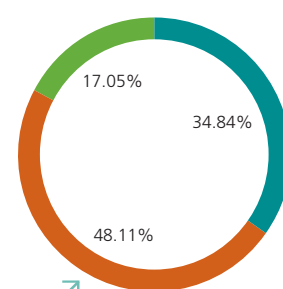
# CLP and our Shareholders

## Our Shareholders

As at 31 December 2006, the Company had 20,351 registered shareholders, of whom 97.58% had their registered addresses in Hong Kong. The actual number of investors in CLP shares is likely to be considerably greater, due to ownership of shares being held through nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

### Shareholdings as at 31 December 2006

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital	Shareholding by Category
500 or below	1,787	8.78	462,381	0.02	
501 – 1,000	3,505	17.22	2,549,531	0.11	
1,001 – 10,000	9,732	47.82	41,065,775	1.71	
10,001 – 100,000	4,723	23.21	135,684,611	5.63	
100,001 – 500,000	490	2.41	94,901,781	3.94	
Above 500,000	114 <sup>(1)</sup>	0.56	2,133,581,821	88.59	
<b>Total</b>	<b>20,351</b>	<b>100.00</b>	<b>2,408,245,900<sup>(2)</sup></b>	<b>100.00</b>	



Notes:

(1) Information on the ten largest registered shareholders in the Company is set out on our website. 

(2) 34.36% of all our issued shares were held through CCASS.

■ Interests associated with the Kadoorie Family  
 ■ Institutional investors  
 ■ Retail investors

As at 31 December 2006, the market capitalisation of CLP Holdings was HK\$138.474 billion, ranking us as the 19<sup>th</sup> largest company out of the 975 issuers listed on the Main Board of the Hong Kong Stock Exchange. The Company's shares are a constituent of the Hang Seng Index (HSI) – the index of Hong Kong's leading listed companies, representing 1.05% 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, representing 43.794% by weighting of that Index.

From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of the share capital in Hong Kong stock market throughout the financial year ended 31 December 2006 and has continued to maintain such a float as at 28 February 2007 (the latest practical date prior to the issue of this Annual Report).

## Commitments to Shareholders

The CLP value framework explains how CLP's mission to enhance shareholder value rests on specific commitments we have made to our shareholders, namely:

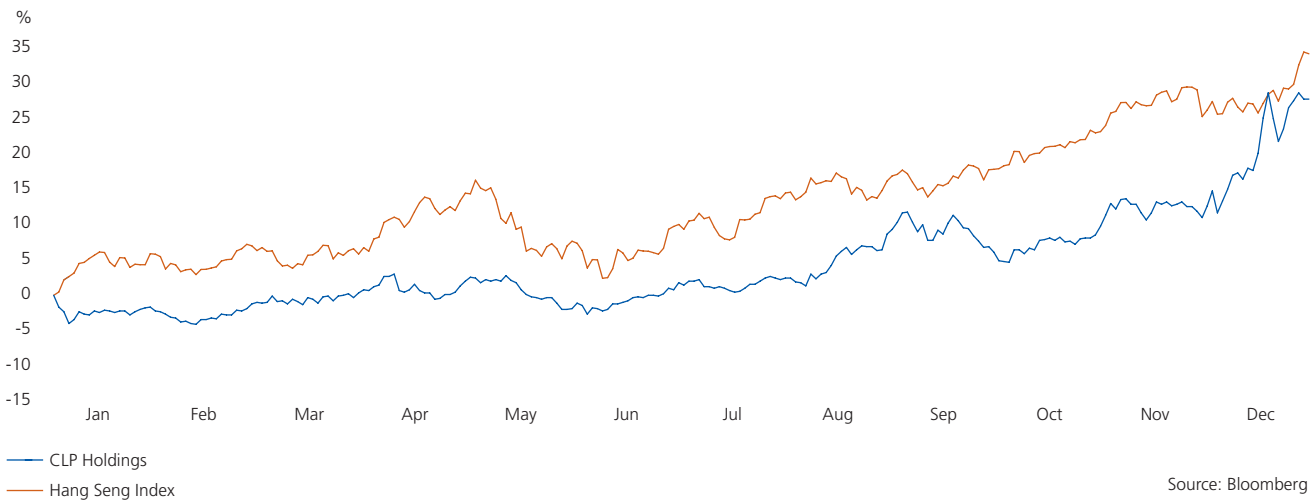
- continuous effort to maintain long-term stability and growth in shareholder value and return on investment, and to enhance the competitive position of our business;
- maintenance and modifications aimed to preserve and enhance the integrity of our physical assets and infrastructure;
- responsible planning, 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.

This Annual Report, in particular the Business Performance and Outlook (pages 32 to 62), explains our progress in meeting our commitments to shareholders regarding the stewardship of their assets and the management of their Company. In this Section we review our success in creating shareholder value and explain our approach to disclosure to shareholders of the performance and ongoing value of their Company.

**Creation of Shareholder Value – Share Price Appreciation**

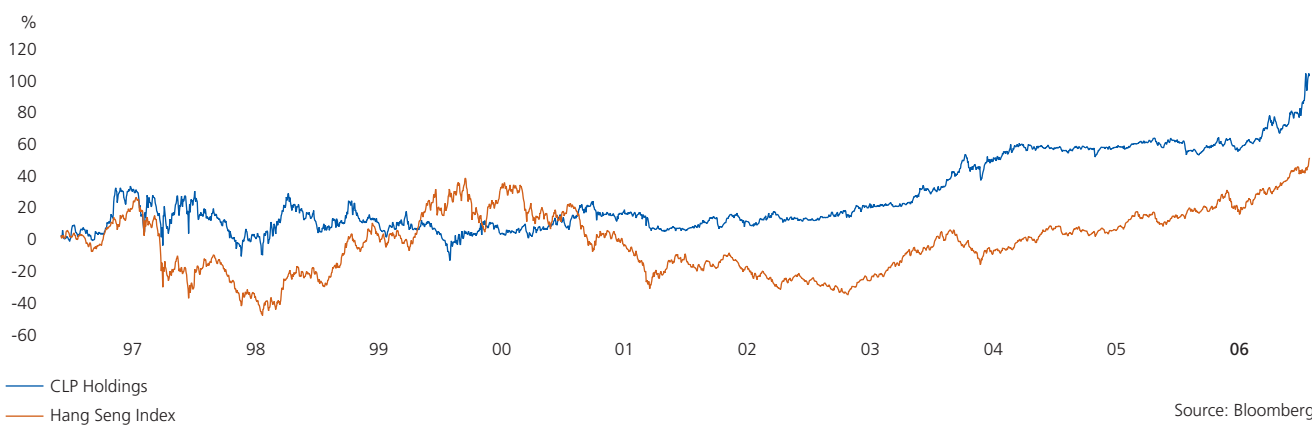
During 2006, CLP’s share price gained 27.78%, and closed at a historical high of HK\$57.90 on 15 December 2006. On 22 December 2006, CLP’s intra-day share price reached a new record high of HK\$58.50. The average intra-day share price was HK\$46.94, and the lowest intra-day trading price of HK\$42.90 was recorded on 13 February 2006. As demonstrated by the relative performance of CLP’s shares and the Hang Seng Index, CLP’s strong share price performance was largely in line with the overall market, and reflected the strong economic situation in Hong Kong. Towards the latter part of 2006, CLP’s share price gained momentum as investors viewed favourably the overseas expansion opportunities available to the Group, and as concerns over the negotiation of the post-2008 SoC regulation in Hong Kong became largely factored into the share price.

**CLP Holdings Share Performance vs Hang Seng Index (2006)**



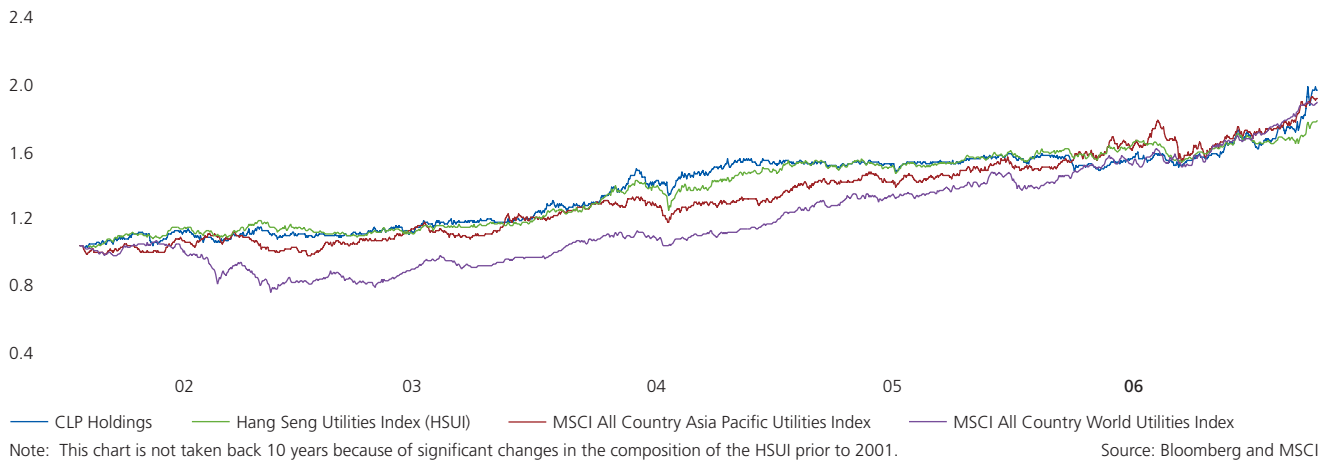
Over the past 10 years CLP shares have enjoyed a relatively stable price appreciation, reflecting CLP’s characteristic as a defensive stock, often held on a long-term basis by shareholders seeking reliable and stable returns of the nature traditionally associated with utilities.

**CLP Holdings Share Performance vs Hang Seng Index (1997-2006)**

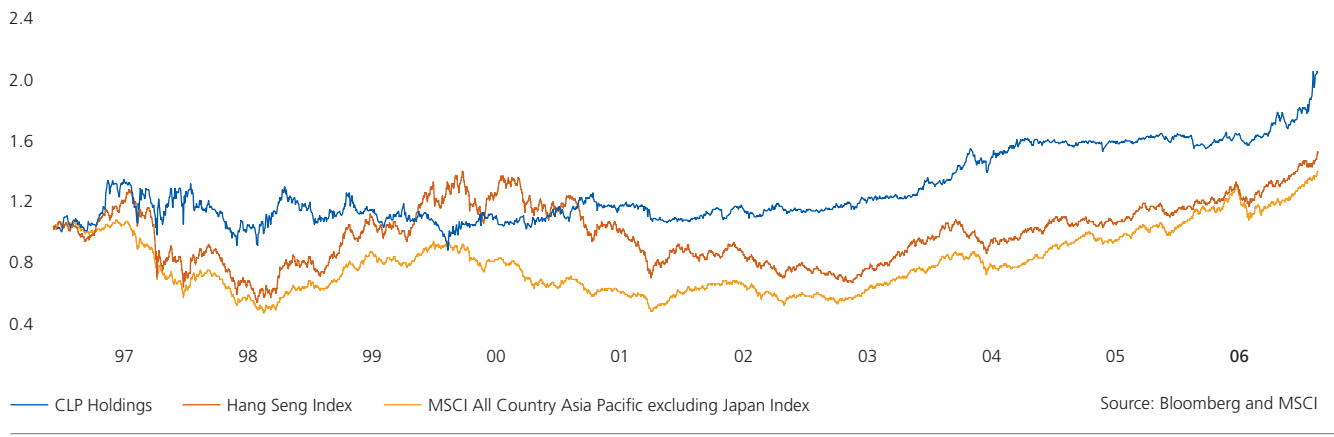


Our share price performance has been satisfactory when measured against both our peers within the utilities sector and, more broadly, other companies around the region. Compared to other utility companies, whose aggregated performance is expressed in various commonly used benchmark indices for the utilities sector, CLP has offered investors stable returns and price appreciation over the past five years. The same could be said for CLP's performance against other large-cap companies in Hong Kong. Compared with companies in the Asia-Pacific region, CLP has also provided steady returns, although the total price appreciation over the past two years has been relatively lower due to the strong economic growth enjoyed by many developing countries in the Asia-Pacific region.

**Relative Performance –  
CLP vs Benchmark Utilities Indices (2002-2006)**



**Relative Performance –  
CLP vs Regional Benchmark Indices (1997-2006)**

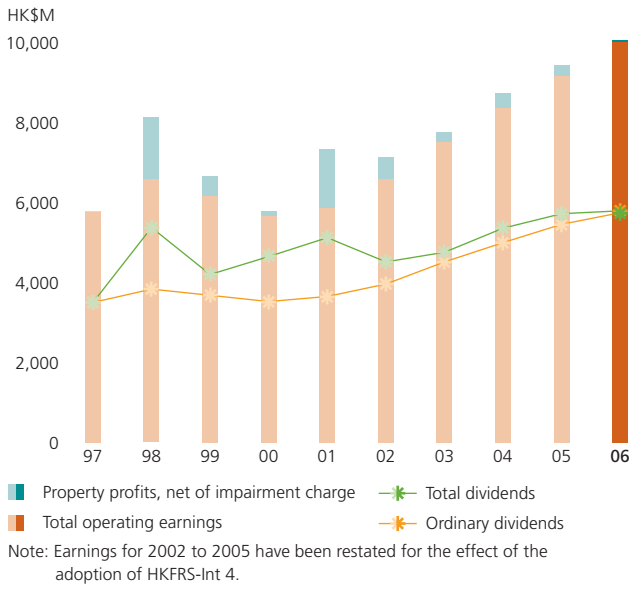


→ (Left) Vernon Moore, Chairman of the Audit Committee, meeting shareholders during a Shareholders' Visit to Black Point Power Station  
 → (Right) 2006 Annual General Meeting – the largest attendance of CLP's shareholders to date

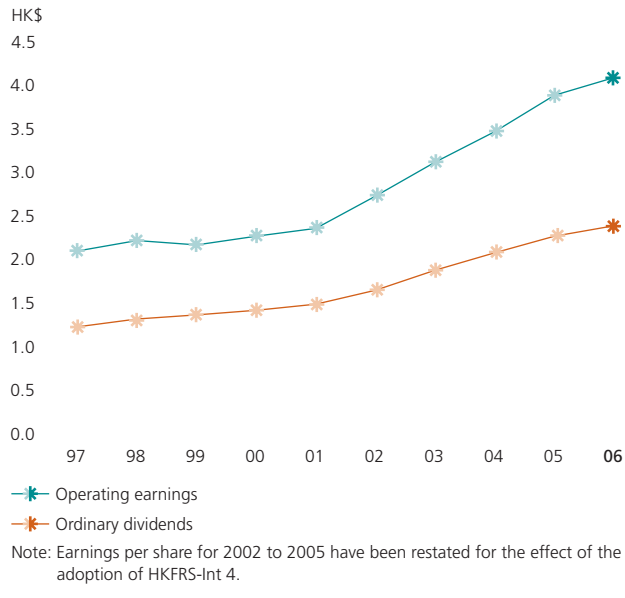
### Creation of Shareholder Value – Dividends

CLP’s longstanding policy is to provide consistent increases in ordinary dividends, linked to the underlying earnings performance of the business. The following two charts explain how steady increases in operating earnings have been translated into corresponding growth in the ordinary dividends paid to our shareholders.

**Earnings and Dividends (1997-2006)**



**Earnings and Dividends per Share (1997-2006)**



Since 1996, CLP’s ordinary dividend payouts have been between 58.3% and 62.5% of total operating earnings. Earnings from the property development at Hok Un and other property disposals have generally been paid out as special dividends.

In line with our ongoing dividend policy, the Board has recommended a final ordinary dividend payable on 25 April 2007 of HK\$0.89 per share. Together with three interim dividends per share of HK\$0.50 each paid during 2006, the total ordinary dividend amounts to HK\$2.39 per share. A special final dividend of HK\$0.02 per share has also been recommended. The Board expects that three interim dividends will be payable during 2007.

**As a listed company, CLP is accountable to its shareholders.**

**How do you determine a reasonable level of returns for maintaining distribution of fair dividends to shareholders?**

**Mr. Ng Chau Shung**  
Shareholder

We are conscious of our accountability to all our shareholders, who range from large institutions to individuals who have invested their personal savings in CLP shares. We have a duty to deliver total returns to those shareholders which reward them for the confidence they have placed in CLP and which properly reflect the level of risk which they have accepted in buying and holding our shares.

I know that many CLP shareholders are long-term investors. Whilst returns may vary from year to year, our aim is to deliver total returns to shareholders (that is to say share price appreciation and dividend payments) which, over time, measure favourably against those which may have been earned from other comparable investments.

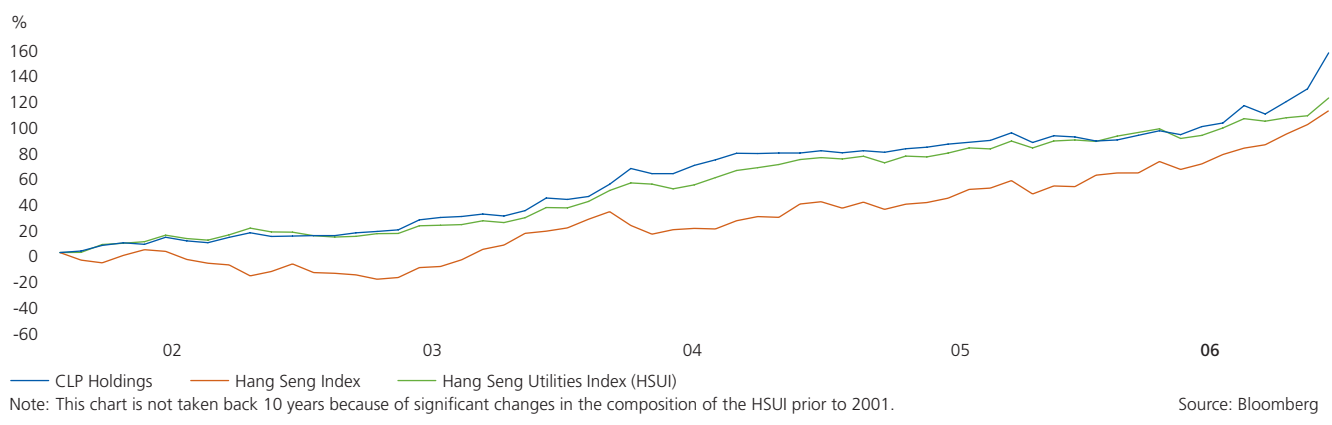
Ultimately, it is the shareholders, not the Company itself, who determine the price of our shares and decide whether the total shareholder returns we deliver are meeting their expectations. Although I cannot make any promises about the level of returns in the future, our performance in recent years in delivering value to our shareholders is a clear signal of our commitment to repay shareholders for their trust in us.

**Peter P. W. Tse**  
Group Executive Director &  
Chief Financial Officer

## Creation of Shareholder Value – Total Returns

The total returns that we generate for our shareholders come from a combination of capital appreciation, as measured by the increase in the price of CLP shares, and dividend income over time.

### Total Returns – CLP Holdings vs Hang Seng Index and Hang Seng Utilities Index (2002-2006) (Base: 31 December 2001=0%)



Over the past five years, CLP's total return has compared favourably with both the Hang Seng Index and the Hang Seng Utilities Index, providing investors with more stable growth in returns at an annualised rate of 20.63%, versus 16.04% and 17.11% for the Hang Seng Index and the Hang Seng Utilities Index respectively.

Our shareholders have a wide choice as to the manner in which they invest their funds. The following table gives shareholders a practical explanation of the returns from a regular investment in CLP shares as compared to some of the other investments they might have made. We have assumed that, in every year during period of 1, 5 and 10 years prior to 31 December 2006, an investor puts HK\$1,000 into each of the investments. We have then compared the total worth of these 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 2006		
	1-Year Period	5-Year Period	10-Year Period
	HK\$	HK\$	HK\$
CLP Shares	1,344	9,384	23,546
Hongkong Electric Shares	1,059	7,062	18,430
Hong Kong and China Gas Shares	1,079	7,919	21,571
HSI-Based Fund	1,383	9,167	*
HK\$ 1-Year Fixed Deposits	1,044	5,333	12,143

\* Inception date of the HSI-Based Fund: 12 November 1999

Adapted from Bloomberg/Reuters

## Shareholder Value – Other Issues

From our interaction with shareholders, we are aware of three further issues which can bear upon the creation of shareholder value. These are scrip dividends, the issue of new shares and the repurchase of existing shares.

The Board has reviewed the possibility of providing a scrip dividend option to our shareholders, particularly with regard to market practice in Hong Kong. Our review confirmed that a scrip dividend option is uncommon in Hong Kong and that the take-up rate by shareholders of the scrip option, as opposed to

receiving dividends in cash, is extremely low. It is not presently envisaged to offer a scrip dividend option to CLP's shareholders.

The Board has been conscious of market concern that the issue of substantial volumes of new shares, including at a discount, may lead to material and unfair dilution of minority interests. In response,

- the Company has given an express commitment to use the mandate sparingly (it was most recently exercised in 1997) and with consideration for the interest of all our shareholders; and

- with effect from the 2005 AGM, the resolution put to shareholders limits the general mandate to not more than 5% of the aggregate nominal value of the issued share capital of the Company as at the date of each AGM.

In the past, 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.

All repurchased shares are delisted and cancelled pursuant to the Companies Ordinance and the Listing Rules. We have previously drawn 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. Having consulted the Independent Non-executive Directors, we considered that it was in the interest of the Company and all its shareholders that the Company be able to continue 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 were unsuccessful in an application in 2003 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 the mandatory general offer obligation triggered by on-market share repurchases. We were also unsuccessful in a submission made to the SFC in November 2004 arguing in favour of the possibility of such waivers (which are established practice in countries against which Hong Kong might benchmark itself, such as Australia, the U.K. and Singapore).

Share repurchases are but one route by which shareholders' value can be enhanced. We will bear in mind other means which would enable share repurchases to be effected. For the time being, we have no specific plans with respect to share repurchases (none of which has been made since January 2002).

## Sarbanes-Oxley Act

As a result of the issue by CLP Power Hong Kong in 1996 of debt securities to the public in the U.S. in the form of "Yankee Bonds" (which matured in 2006) and the trading in the U.S. of CLP shares through American Depositary Receipts (ADRs), CLP has securities registered under the U.S. Securities Exchange Act.


Even though the "Yankee Bonds" were redeemed in 2006, CLP remains subject to the U.S. Sarbanes-Oxley Act of 2002, a package of wide-ranging and detailed obligations on corporate practices and reporting, enacted in response to U.S. corporate scandals such as Enron.

As at 31 December 2006 only 3.42% of CLP shares were held in the form of ADRs. The small number of our U.S. resident security holders gives rise to disproportionate U.S. securities law obligations – in terms of cost, liability and the workload of compliance. We have carefully considered the possibility of deregistration. As the U.S. regulations presently stand, CLP would not be able to deregister. The U.S. Securities and Exchange Commission (SEC) has issued a proposal for consultation, which would make it easier for foreign issuers to deregister and terminate their SEC reporting obligation. However, the relevant elements of the current proposal, would only provide such relief to foreign issuers where the average daily trading volume of their stock in the U.S. was less than 5% of the world-wide trading volume (as at 31 December 2006, the corresponding figure for CLP was 6%). This proposal is still subject to consultation and review. CLP has made a further submission to the SEC suggesting an increase in this threshold to 10%. If the rule changes ultimately provide an opportunity for CLP to deregister, we envisage that we would take that opportunity as quickly as practicable.


## Reporting to Shareholders

Our shareholders own the Company. They are entitled to proper disclosure of its financial position, operating performance and future outlook, so that they can better assess the current value and future prospects of their investment and exercise their rights as shareholders, including the appointment of the Board, on an informed basis.

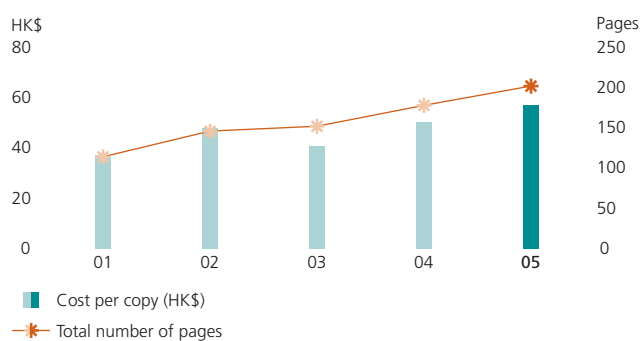
Feedback from our shareholders and other stakeholders reveals an expectation that the Company should provide a wide range of information about its business – going beyond financial and operating performance and providing a discussion of our policies and performance on matters such as environmental, community, social, ethical and reputational issues.

In recent years, we have extended the scope and content of our Annual Report. Since 2003, this has been complemented by an annual Social and Environmental Report. These Reports together offer a broad-based description of our objectives, strategies and performance. Our website includes a Global Reporting Initiative (GRI) content index, indicating where our Annual Report and Social and Environmental Report address, fully or partly, elements in the GRI guidelines. We are introducing a new online Sustainability Report on our website in March 2007. 

This Annual Report and our Social and Environmental Report draw heavily upon the CEO's Quarterly Reports to the Board and the CLP Group Business Plan and Budget for 2007-2011, approved by the Board towards the end of 2006. Our objective is that as far as is reasonable, particularly having regard to regulatory requirements, considerations of commercial confidentiality and limitations of space, the information provided to shareholders through these Reports should reflect the range and quality of information provided to our Non-executive Directors. 

Because of our commitment to enhancing disclosure to shareholders and in response to increasing regulatory requirements, the Annual Report has grown significantly in recent years. To control the length and cost of the Annual Report, coverage of social and environmental issues is now centred in the Social and Environmental Report. Above all, we regularly review the scope and content of our website, so that shareholders and all stakeholders can draw on this as a primary and up-to-date source of information about CLP. 

### Annual Report



**CLP has chosen not to increase tariffs again this year – making that nine years without an increase. This is clearly good for customers, but does it benefit shareholders?**



**Mr. Simon Powell**  
Head of Power  
Research, CLSA  
Research Limited

Yes. In at least three ways – each of which stems from our status as the sole supplier of an essential public service to 80% of Hong Kong's population and the understandable political and public scrutiny that comes with it.

First, alongside the SoC, the contract between CLP and the Hong Kong Government which regulates our electricity business, CLP depends on continuing goodwill and support from the community to preserve our "franchise" – the right and the opportunity to serve the community and, in doing so, earn reasonable returns for our shareholders. Good tariff management helps preserve that "franchise from society".

Secondly, CLP has no monopoly rights to supply electricity in Kowloon and the New Territories. We already face competition from other energy suppliers, such as Towngas, and potential competition from future entrants to the electricity sector. Controlling tariffs helps secure our customer base, so that customers would continue to choose CLP rather than any competing energy providers. This protects our business and, in doing so, the interests of our shareholders.

Thirdly, you will be aware of the political and public sensitivity of tariff increases, and the pressure to cut shareholder returns rather than increase tariffs (even when the SoC would allow us to do so). Tariff management alleviates this pressure. Over the past decade when tariffs have been frozen, CLP has never asked its shareholders to forego any part of the return permitted under the SoC – our shareholders have continued to benefit from the full returns which the SoC allows them to receive.

In short, holding down tariffs has benefited our customers, our Hong Kong electricity business and our shareholders.



**Betty Yuen**  
Group Director –  
Managing Director Hong Kong

We regard communication as a two-way process in which our investors should have their opportunity to let us know their views on the performance of their Company. During 2006, our dialogue with investors involved:

### Providing information

to our shareholders through means such as

- Our Annual Report, Social and Environmental Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements. <SER
- Our AGM, attended by Directors and Senior Managers. In the past 5 years, the attendance of shareholders at our AGMs has averaged about 360 (523 in 2006). This is an unusually high number for a Hong Kong company, including by comparison with other companies with a much higher number of registered shareholders.
- During the year, Management attended over 140 investor meetings, including participation in 4 investor conferences, and 7 non-deal road shows to the UK, Singapore, US and Japan.
- Briefings to analysts on the Company's interim and annual results. These are broadcast on our website. <E
- 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. <E

### Encouraging feedback


from our shareholders through means such as

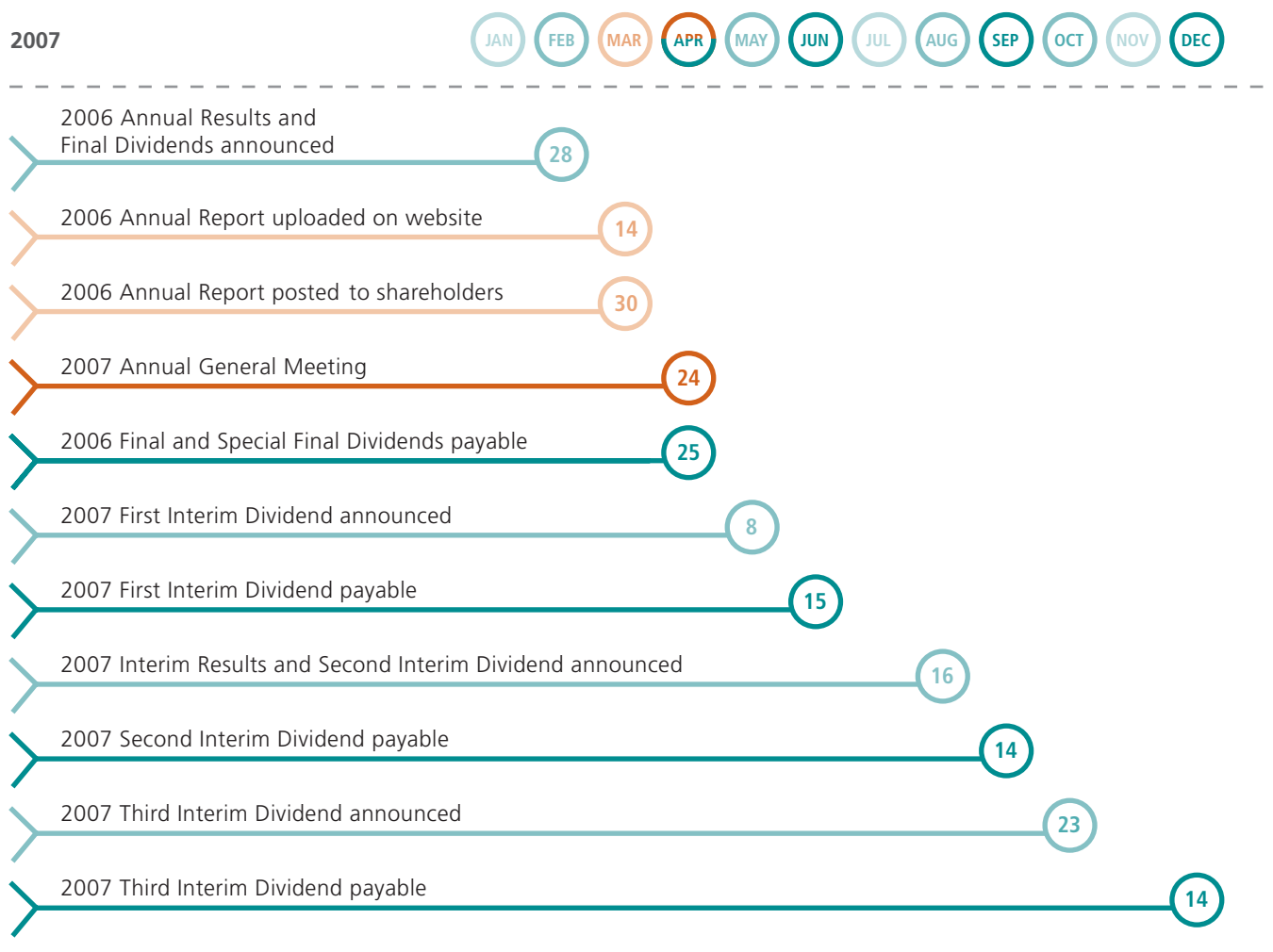
- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the "Frequently Asked Questions" section of our website. We consider the feedback received and post answers on the website. We also send direct replies to shareholders in response to the specific questions that they raise. <E
- The comments, queries and reports from market analysts.
- Shareholders' hotline and e-mail contacts.
- 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 Shareholders' Visit Programme initiated in 2003 has been a notable success. Between October 2006 and April 2007 we expect to welcome 3,200 shareholders and their guests, during 55 tours to our facilities at Castle Peak and Black Point Power Stations and our Energy Efficiency Exhibition Centre. On these occasions, we seek views on the performance of CLP. More than 190 CLP colleagues have volunteered to participate as hosts, ambassadors and helpers of the programme.




→ We ask our Shareholders to donate HK\$100 for each guest they bring along on our Shareholders' Visit Programme. In 2006, we applied the donations to the sponsorship of an exhibition by the Association of Mouth & Foot Painting Artists



The important dates for shareholders in the 2007 financial year are set out below. Any subsequent changes to these dates will be published on our website. 



We are grateful to all those shareholders who during 2006 provided us with feedback, including through the feedback form sent out with our last Annual Report and through the views we receive during the course of our extensive Shareholders' Visit Programme. In the preparation of this Annual Report and the Social and Environmental Report, we have aimed to address those issues on which shareholders have expressed particular interest or concern. The choice of the "Questions and Answers" in this Report also takes into account the issues which have been raised most frequently with us in the past year. 



→ One of the 55 Shareholders' visits to our facilities