



Shareholders' visit to Castle Peak Power Station

**CLP, as a publicly listed company, has a duty to create value for its shareholders.**

This duty is translated into commitments as to:-

- Continuous efforts to maintain long-term stability and growth in shareholder value and return on investment, and to enhance the competitive position of our business;
- Preservation and enhancement of 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.

In making these commitments, the Company, under the direction of its Board, recognises that our shareholders will

be looking to us, as an electric utility, for long-term capital stability and for consistent and steady growth in dividend income. This is particularly so during periods of wider economic uncertainty and adverse stock market sentiment.

Our Annual Report explains the Company's performance in meeting these commitments to shareholders. This section focuses on our progress in enhancing shareholder value in the past decade and over the last 12 months.

**Capitalisation and Shareholder Base**

CLP Holdings is among the top 10 largest companies by capitalisation listed on the Main Board of the Hong Kong Stock Exchange. The Company's stock is a constituent of the Hang Seng Index (HSI – the index for Hong Kong's leading listed companies), representing 2.8% 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.

The Company has 21,829 registered shareholders as at 31 December 2002. The actual number of investors with an interest in CLP shares will be considerably greater, due to ownership through nominees, investment funds

and the Central Clearing and Settlement System of Hong Kong. Details of the 10 largest shareholders in the Company are set out on our website.

## Share Price

Except for a short period in late 1993 to mid-1994, CLP's share price has historically traded in a relatively narrow range in the past 10 years. Since July 1994, the range (adjusted to reflect the bonus share issue in 2001) has been approximately HK\$37.83 (July 1997) to HK\$24.00 (February 2000) with an average price of HK\$31.09 (representing a trading range of +22% to -23%). By contrast, the HSI traded in the significantly wider range of +57% to -44% to the average over the same period. The following chart demonstrates the lower volatility of CLP's share price compared to the HSI.

### CLP Holdings Share Performance vs HSI (1993-2002)



## Dividends

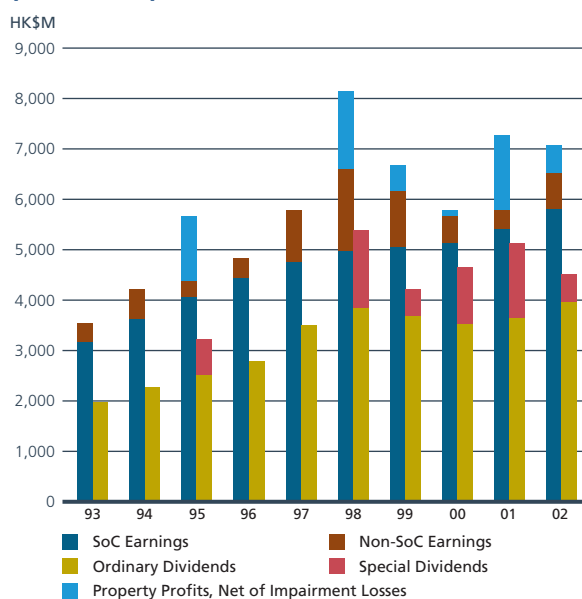
The Company's dividend policy is to provide relatively consistent increases in ordinary dividends, linked to the underlying earnings performance of the business.

Since 1993, CLP's ordinary dividend payouts have been between 54% and 63% of Group earnings (excluding exceptional profit). 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 2002 and in line with our dividend policy, the Board has recommended a final dividend of HK\$0.51 per share, and a special final dividend of HK\$0.23 per share. Together with the three interim dividends paid during the year, the total dividend amounts to HK\$1.88 per share. The Board anticipates that three interim dividends will be payable in 2003.

### Group Earnings and Dividend Payout (1993-2002)



## Capital Structure

By optimising its capital structure, CLP can increase returns on equity. A prudent debt to total capital ratio is maintained. 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. Further information on these matters is set out on pages 71 to 74 of this Annual Report.

In order to provide greater flexibility for the Company in terms of its future dividend or share repurchase policies, CLP Holdings has undertaken a restructuring of its balance sheet by transferring approximately HK\$10 billion from the share premium account to the distributable reserve of the Company. Use of the share premium account is, in summary, limited to financing the issue of bonus shares, whereas the distributable reserve may be used for wider purposes such as share repurchases and payment of dividends. Following approval by shareholders at our Extraordinary General Meeting in April 2002 and confirmation from the High Court, the reduction of share premium account became effective on 7 June 2002. As a result, HK\$10,116,789,910 was transferred from the share premium account to the distributable reserve of the Company on the same day.

It is common for listed companies in Hong Kong to raise capital by placing shares under a general mandate as allowed by the Listing Rules. A listed company can increase its issued share capital by up to 20% through the issue of shares under a general mandate. There are currently no restrictions on the number of times a general mandate may be renewed or on the price at which shares may be issued under the general mandate.

Market concern has been expressed 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 and, therefore, 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 Repurchases

The Company has undertaken share repurchases to optimise our capital structure and enhance earnings per share. Since 1998, CLP has effected on-market share repurchases of 129,044,000 shares (for reference, as at 31 December 2002, the Company had 2,408,245,900 shares in issue). A total of HK\$3,952 million has been applied to share repurchases. Details of the share buybacks made by the Company, including date, price and total consideration are set out on our website.

Share repurchases can complement the Company's dividend policy, in terms of enhancing shareholder returns. The Company will consider the use of share repurchases, 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.

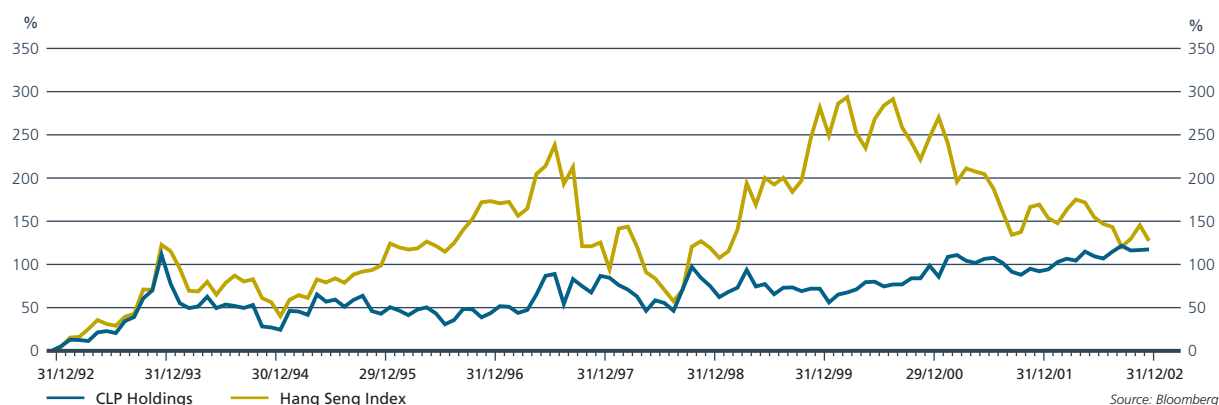
## Total Returns

Total returns for shareholders are measured by the combination of capital appreciation and dividend income over time.

The following charts set out CLP's performance in this respect over the past 10 years and a three-year comparison with the HSI and the HSUI. The three-year chart has been chosen to give shareholders a better view of CLP's recent performance and because of changes in the HSUI prior to 1999 (since when the composition of the HSUI has remained unchanged). The charts show the steady enhancement of CLP's shareholder returns over a period of varying stock market trends and how, judged over the long term, shareholder returns are close to those of the HSI.

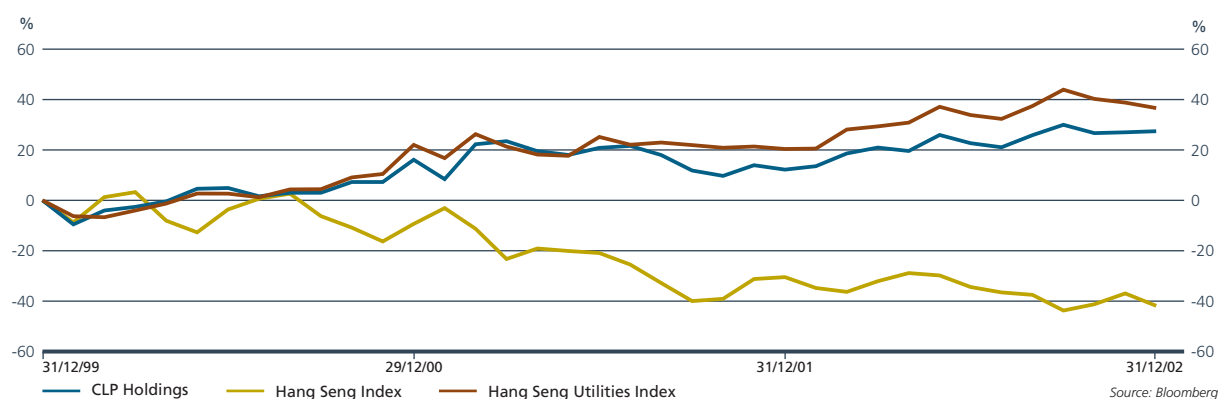
### Total Returns – CLP Holdings vs HSI (1993-2002)

(Base 31 December 1992=0%)



### Total Returns – CLP Holdings vs HSI and HSUI (2000-2002)

(Base 31 December 1999=0%)



To give these statistics more practical meaning, a shareholder's investment of HK\$1,000 in CLP shares on 31 December 1992, 1999 and 2001 would be worth HK\$2,174, HK\$1,265 and HK\$1,132 respectively as at 31 December 2002. If he or she had invested HK\$1,000 in a typical HK dollars savings account over the same 10, three and one-year periods, those accounts would now stand at HK\$1,369, HK\$1,068 and HK\$1,001 respectively. Finally, an investment of HK\$1,000 in an HSI-based fund over the three and one-year periods, would be worth about HK\$610 and HK\$850 respectively.

## Shareholder Relations

CLP strives to communicate openly, honestly and promptly with our shareholders. In addition to formal

shareholder documents, such as our annual, interim and quarterly reports, up-to-date information on the Group's affairs is available through our website. During 2002, Management participated in four investor conferences, six Hong Kong and international road-shows, and 51 investor company interviews.

Analysts' briefings are arranged through the Investor Relations Department. Answers to analysts' most frequently asked questions are also put on our website so that they are widely available. We have a policy of fair disclosure of information to all our investors. Our shareholders own the Company and all of them are entitled to proper and timely information as to its affairs and performance.