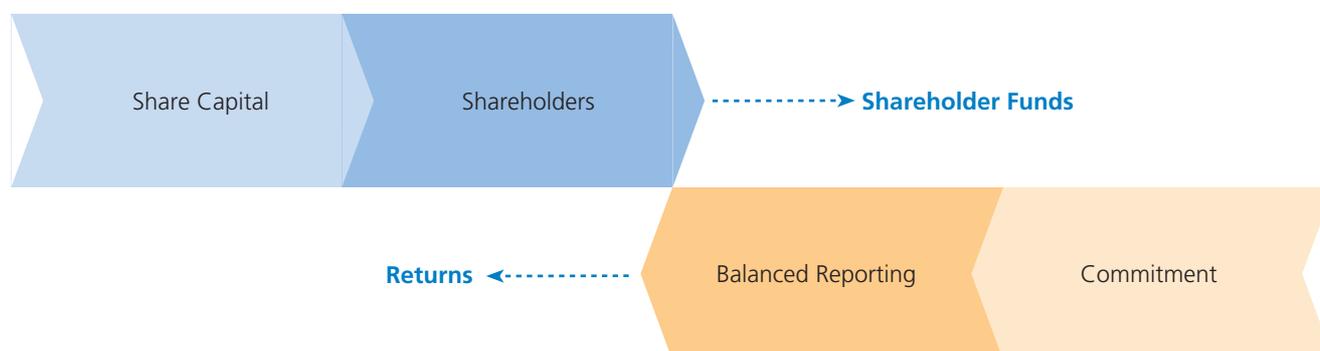


CLP and our Shareholders

Our relationship with our shareholders is characterised by two-way commitment and two-way communication.



This section explains how CLP contributed to a productive relationship with our shareholders in 2005.

Our Share Capital

As at 31 December 2005:

- CLP had 2,408,245,900 shares in issue, each with a par value of HK\$5.00;
- The Company's stock was a constituent of the Hang Seng Index (HSI) – the index for Hong Kong's leading listed companies, representing 2.3% by weighting of that Index;

- CLP was also part of the Hang Seng Utilities Index (HSUI), along with Hongkong Electric Holdings and Hong Kong and China Gas, representing 38.498% by weighting of that Index;
- The market capitalisation of CLP Holdings was HK\$108.371 billion;
- CLP ranked as the 12th largest company out of the 934 issuers listed on the Main Board of the Hong Kong Stock Exchange; and
- Shareholders' funds represented 63% of CLP's total capital – a prudent debt to total capital ratio.

Our Shareholders

As at 31 December 2005, the Company had 22,140 registered shareholders (of whom 97.64% had 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.

Shareholdings as at 31 December 2005

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital	Shareholding by Category
500 or below	1,756	7.93	454,453	0.02	
501 – 1,000	3,796	17.15	2,743,342	0.11	
1,001 – 10,000	10,837	48.95	45,757,725	1.90	
10,001 – 100,000	5,102	23.04	146,383,400	6.08	
Above 100,000	649 ⁽¹⁾	2.93	2,212,906,980 ⁽²⁾	91.89	
	22,140	100	2,408,245,900	100	

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

(2) 98.5% of all the shares held through CCASS are held on behalf of shareholders holding more than 100,000 shares.

■ Institutional Investors
■ Retail Investors
■ Interests Associated with the Kadoorie Family



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 2005 and has continued to maintain such sufficiency as at 28 February 2006 (being the latest practicable date prior to the issue of this Annual Report).

CLP – Committed to 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.

The principal measure of our success in fulfilling our commitments to our shareholders is the creation of shareholder value in the form of meaningful, stable and sustained returns.

Balanced Reporting

Part of our commitment to Shareholders is our duty to provide balanced reporting on the performance of their company.

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, 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.

On our website we provide a Global Reporting Initiative (GRI) Content Index. This indicates where our Annual Report and accompanying Social and Environmental Report address, fully or partially, elements in the GRI Guidelines.  

Through our regular interaction with shareholders and other stakeholders, we keep track of the more frequent queries raised by them, including those related to sustainable development and socially responsible investing, which are areas of growing prominence within the investment community.

The scope and content of our Annual Report and Social and Environmental Report seek to address these queries and to provide 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 to ensuring that shareholders and other stakeholders have clear and meaningful information about the main drivers of our business. 

Returns – Share Performance

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

In 2005, CLP’s share price hit a ten year high at HK\$46.90 on 3 October. The lowest trading price was HK\$42.80 on 18 April (source: Bloomberg). During the year, CLP’s share price rose by 0.67%, whereas the HSI rose by 4.54%.

In 2005, 622 million CLP shares were traded on the HKEx at a value of HK\$27.80 billion. CLP accounted for 0.6% of the total turnover value of HKEx of HK\$4,498 billion for the year. The average price/earnings (P/E) ratio was 12.53 (five-year average: 12.30).



Returns – Dividends

Policy

Provide consistent increases in ordinary dividends and linked to the underlying earnings performance of the business.

Implementation 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.

Implementation in 2005

The Board has recommended a final dividend payable on 26 April 2006 of HK\$0.83 per share together with a special final dividend of HK\$0.11 in respect of profits from Hok Un redevelopment. Together with the three interim dividends of HK\$0.48 each paid during the year, the total dividend amounts to HK\$2.38 per share.

Outlook for 2006

The Board expects that three interim dividends will be payable in 2006.

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.

The implementation of CLP's policy of aiming for consistent dividend increases linked with underlying earnings is illustrated by the following two charts.



Q: **Mr. Stephen Oldfield** *Executive Director, Asia-Pacific Investment Research, Goldman Sachs (Asia) L.L.C.* (left)

Many shareholders invest in CLP because it pays reliable dividends each year. Will CLP be able to maintain dividends if returns after 2008 are lower?

A: **Peter P. W. Tse** *Group Executive Director & Chief Financial Officer* (right)

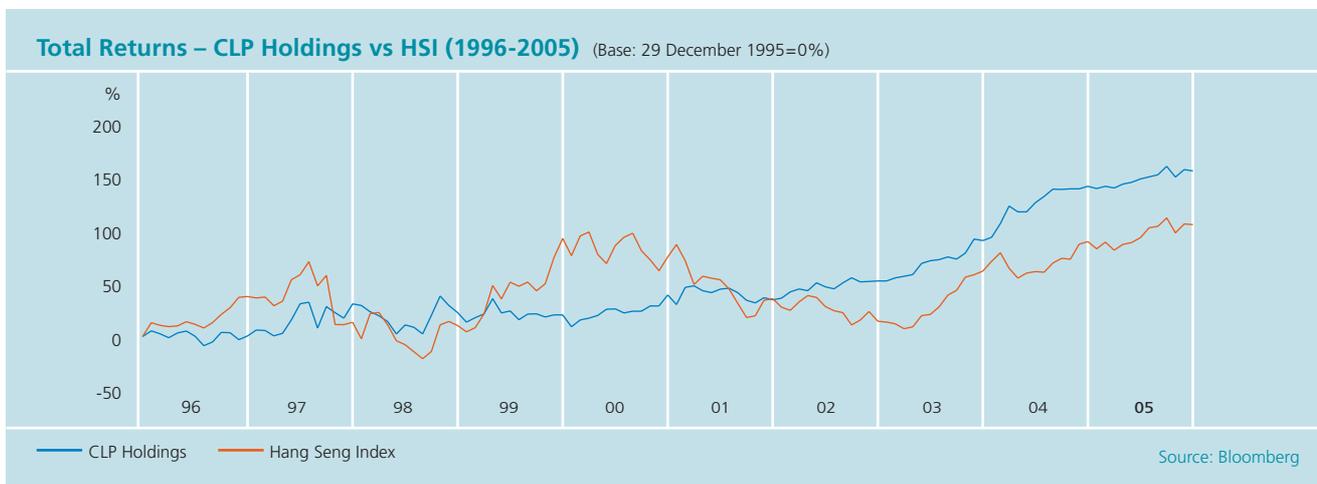
For more than a decade we have maintained dividends representing around 60% of recurrent earnings. We believe that our shareholders appreciate this longstanding and consistent dividend policy and that this is positively regarded by our shareholders when considering whether to buy and retain shares in the Company. Like any responsible public company, the level of dividends may have to be reviewed from time to time in order to strike a sensible and sustainable balance between attractive dividend payments and maintaining sufficient funds to help finance future growth for the long-term benefit of our shareholders.

Clearly, the level of earnings from our Hong Kong electricity business is one factor we will have to bear in mind. That said, we are fully aware that our shareholders look to us for continuity in our dividend policy as well as dividend level. Their interests and expectations in this regard will be uppermost in our mind when reviewing the implications of any change in the earnings from that business after 2008 – and, of course, in our dealings with the Hong Kong Government we will be resolute in insisting that fair and reasonable returns for CLP's investors remain an integral component of any post-2008 electricity regulatory regime.

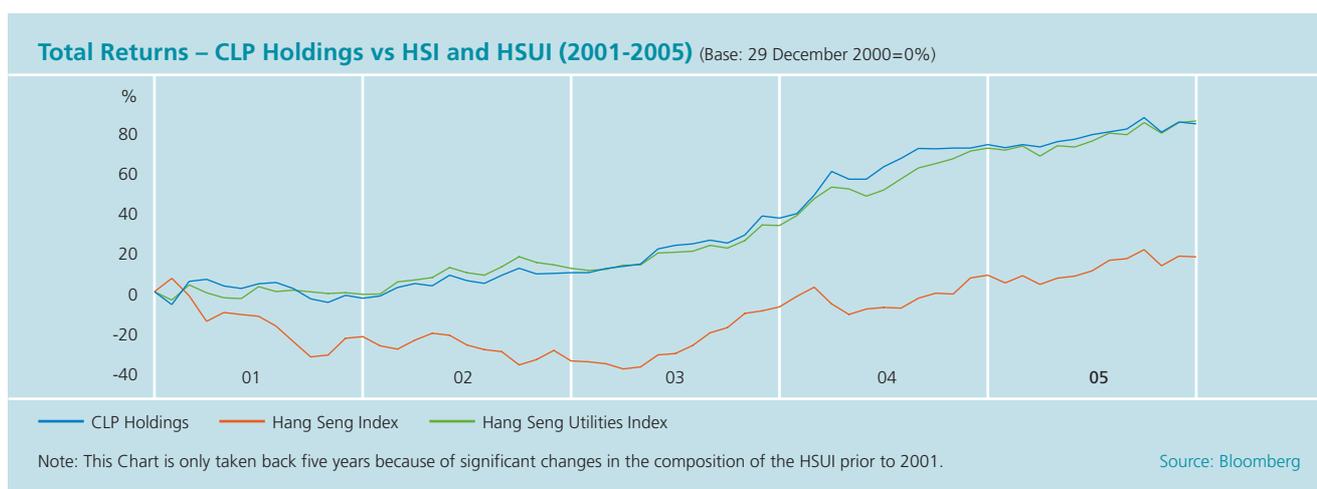


Total Returns

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 five years, CLP significantly out-performed the HSI and slightly under-performed the HSUI. During the period, the performances of CLP and HSUI were largely aligned (which might be expected given that CLP is the largest of the three stocks on the HSUI).



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, five and 10 years prior to 31 December 2005, 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 2005		
	1-Year Period HK\$	5-Year Period HK\$	10-Year Period HK\$
CLP Shares	1,060	7,818	19,069
Hongkong Electric Shares	1,136	7,397	18,960
Hong Kong and China Gas Shares	1,054	8,468	23,230
HSI-Based Fund	1,090	6,793	*
HK\$ 1-Year Fixed Deposits	1,008	5,228	12,227

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

Adapted from Bloomberg/Reuters

Cautious Exercise of the General Mandate

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 U.K.) 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 (AGM), the resolution put to shareholders should 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 each AGM.

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. 

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.

In 2003 we made an 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 U.K. and Singapore.

In November 2004 the SFC issued a Consultation Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases. 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. Unfortunately, and notwithstanding established practice elsewhere, the SFC concluded in August 2005 that the existing rules would in substance be retained. 

In these circumstances 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.

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 will mature 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. This in turn has made CLP subject to the U.S. Sarbanes-Oxley Act of 2002, a package of wide-ranging and detailed obligations on corporate practices and reporting, which was enacted in response to U.S. corporate scandals such as Enron.

As at 31 December 2005 only 2.44% of CLP's shares were held in the form of ADRs. Because of the disproportion between the small number of our U.S. resident security holders and the large scale of the resulting U.S. securities law obligations – in terms of compliance workload, cost and liability – CLP has carefully considered the possibility of deregistration. In December 2005, the U.S. Securities and Exchange Commission (SEC) proposed new rules to make it easier for foreign private issuers to deregister and to

terminate their SEC reporting obligations. CLP has written to the SEC expressing its support for the proposals and suggesting some further refinements to them. A copy of CLP's letter is on our website. The final adoption of the proposal is subject to a second vote of the SEC. If the rule changes as finally implemented provide an opportunity for CLP to deregister, we envisage that we would make use of that opportunity as soon as practicable. 

Shareholder Relations

Our Reports are only one way in which we fulfill our duty to communicate truthfully with our shareholders, 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 the performance of their Company. During 2005, this dialogue involved:

Providing information to our shareholders through means such as

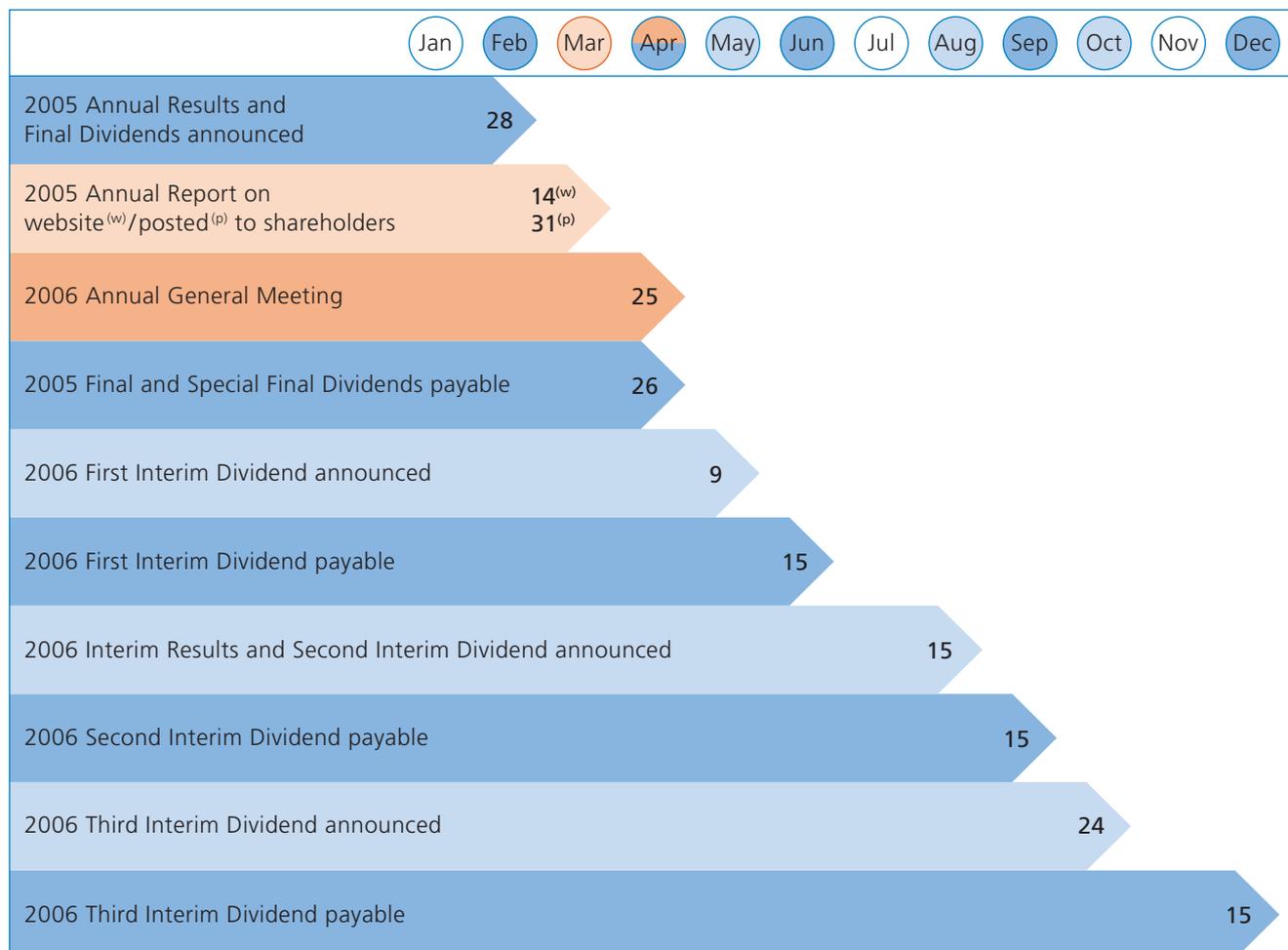
- Our Annual Report, Social and Environmental Report and Quarterly Statements – all of which provide information far in excess of legal and regulatory requirements. 
- Our AGM, attended by Directors and Senior Managers. In the past five years, the attendance of shareholders at our AGMs had averaged about 300 (421 in 2005). This is an unusually high number for a Hong Kong company, including by comparison with other companies which have a significantly greater number of registered shareholders.
- Participation by Management in three investor conferences, four Hong Kong and International road shows and 146 interviews with institutional investors.
- Briefings to analysts on the Company's interim and annual results. These are broadcast on our website. 
- 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

- 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 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 had raised. 
- 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 2005 and April 2006 we expect to welcome 2,900 shareholders and their guests, during 52 tours to our facilities at Castle Peak and Black Point Power Stations and our Power Quality Exhibition Centre. On these occasions, we seek 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 2006 financial year are set out in the table below. Any subsequent changes to these dates will be published on our website. 

2006 Financial Calendar



In establishing this calendar, we have taken into account the importance to our shareholders of a prompt announcement of our Annual and Interim Results and the timely payment of dividends.

During 2005 we received a great deal of feedback from shareholders, including through the Feedback Form and during the Shareholders Visit Programme. In preparing this Annual Report and the Social and Environmental Report we

have paid close attention to addressing those issues on which our shareholders had expressed particular interest or concern – such as the post-2008 regulatory regime for the Hong Kong electricity business, the plans for our investments in Australia and our environmental performance. The selection of the “Questions and Answers” in the Reports was also influenced by our awareness of those questions which had been raised most frequently with us over the past year. 