

# Corporate Governance



## Corporate governance is above all a matter of culture – a shared commitment to do the right thing.

We recognise that it is possible to maintain a full framework of policies, procedures and rules and still have poor corporate governance. What we try to do is to create a corporate governance regime which combines a cultural emphasis on honesty and integrity with a formal structure of policies and systems, which includes checks and balances to monitor compliance with ethical standards.

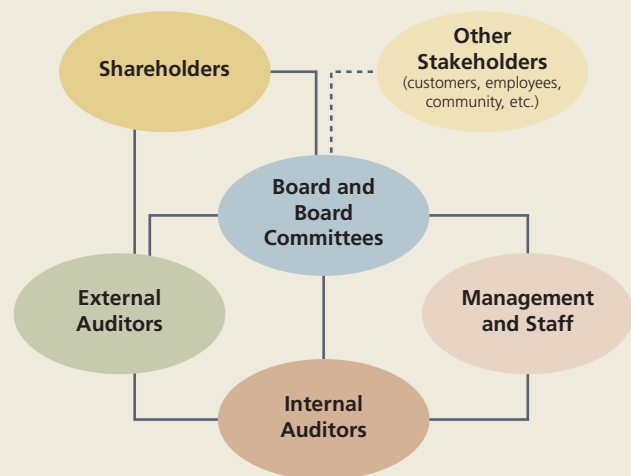
CLP's cultural imperative stems from:–

- A clear and longstanding decision by the Board and Management to adopt and promote good ethical behaviour;
- The obligations that come from being a public utility with responsibilities to the communities we serve and the public scrutiny that this involves; and
- An awareness that the long-term interests of the Company are best served by maintaining a strong commitment to honest and open business practices.

In this section, we set out the measures we have put in place to support our cultural commitment to good governance. Our aim is to enable our stakeholders to

form their own view on CLP's governance and decide whether this properly reflects the standards they require of us.

### CLP's Corporate Governance Framework



### Shareholders

The Board and Senior Management recognise their responsibility to represent the interests of the shareholders and to maximise shareholder value. The "CLP and our Shareholders" section of this Annual Report details our policies and actions in this respect.

CLP uses a number of formal channels to account to shareholders for the performance and operations of the Company. CLP reports to shareholders on a quarterly basis. The Annual General Meeting (AGM) provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in the corporate year and all Directors and Senior Management make a special effort to attend. The Chairman of the Audit Committee will usually attend the AGM and answer questions. Active participation by shareholders at the AGM is welcome. In addition, the Corporate Secretarial Department and Investor Relations Department respond to letters and telephone enquiries from shareholders/investors on various issues throughout the year. A shareholders' hotline (852-2678 8228) has been set up.

## The Board

The Board is accountable to the shareholders for leading the CLP Group in a responsible and effective manner. The Directors, collectively and individually, are aware of their responsibilities to the shareholders for the manner in which the affairs of the Company are managed and operated. Each Director has to act in good faith in the best interests of the Company. The Board establishes the strategic direction of the CLP Group, sets the objectives of Management and monitors its performance. The Board also oversees the management of CLP's relationships with representatives of governments, customers, the community, interest groups and others who have a significant interest in the responsible conduct of the Group's business.

The Board has established written procedures to determine which issues require a decision of the full Board and which can be delegated to Board Committees or Management. Matters reserved to the full Board for decision include any matters involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposals of assets, investments, capital projects, authority levels, treasury

policies, risk management policies and key human resources issues.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. These include obligations on Directors relating to disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the CLP Group, prohibitions on dealing in securities and restrictions on disclosure of price-sensitive information.

The Board has 16 directors, whose details are given on pages 16 and 17 of this Annual Report. All Directors (with the exception of the Group Managing Director and two Executive Directors) are non-executive and independent of Management, thereby promoting critical review and control of the management process. The Board includes five influential and active independent Non-executive Directors to whom any shareholder concerns can be conveyed. This helps ensure that the Board takes into account the interests of all shareholders. The non-executive members of the Board bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

The posts of Chairman and the Group Managing Director are separate. There is a clear distinction between the Chairman's responsibility for managing the operations of the Board and the Group Managing Director's responsibility for running the Company's business.

The full Board meets in person at least once every three months and specially when a board decision is required on major issues. To illustrate the attention given by our Board to the oversight of CLP's affairs, five Board meetings were held in 2002 with two meetings between 1 and 1.5 hours and three meetings over 1.5 hours. 46 agenda items (486 pages) and 60 items (210 pages) were submitted at the meetings and by circulation respectively.

Attendance at Board Meetings	No. of Meetings Attended	
	2002 (5 Meetings in Total)	2001 (6 Meetings in Total)
<b>Non-executive Directors</b>		
The Hon. Michael D. Kadoorie (Chairman)	3	5
Mr. W. E. Mocatta (Vice Chairman)	5	6
Mr. J. S. Dickson Leach (Vice Chairman)	4	4
Mr. R. J. McAulay	3	3
Mr. J. A. H. Leigh	4	4
Mr. R. Bischof	5	6
Mr. S. F. Goldmann (retired on 31 December 2002)	4	4
Mr. I. D. Boyce	4	6
<b>Independent Non-executive Directors</b>		
The Hon. Sir S. Y. Chung	5	4
Dr. William K. Fung	4	3
Mr. V. F. Moore	5	5
Mr. Hansen C. H. Loh	5	6
Mr. Paul M. L. Kan (appointed on 7 September 2001)	5	2 (out of 2 meetings)
<b>Executive Directors</b>		
Mr. Andrew Brandler	5	6
Mr. Peter P. W. Tse	5	4
Mr. Peter W. Greenwood (appointed on 7 September 2001)	5	2 (out of 2 meetings)

The Company has adopted practices which meet and, in many instances, exceed the provisions of the Code of Best Practice contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (Listing Rules).

The appointment of new Directors is a matter for consideration by the Nomination Committee and decision by the full Board. All Directors are subject to election by shareholders at the AGM in their first year of appointment. New Directors are expected to have such expertise to qualify them to make a positive contribution to the performance by the Board of its duties and to give sufficient time and attention to the affairs of CLP Holdings.

One-third of the Non-executive Directors retire by rotation and submit themselves for re-election by shareholders at each AGM. The Group Managing Director and the Executive Directors are not subject to retirement by rotation whilst holding office.

Non-executive Directors are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. The latest review was undertaken in January 2003 by Deloitte & Touche Management Solutions Limited. The levels of remuneration for Non-executive Directors have remained unchanged since 1995.

Shareholders in listed companies are increasingly concerned to ensure that directors' remuneration is fair and reasonable. We have expanded the information set out in our Accounts (Notes 6 and 7), so that our shareholders have a fuller picture of the remuneration of Non-executive Directors, Executive Directors and Senior Management.

### Board Committees

The Board has appointed a number of Board Committees to oversee particular aspects of the Company's affairs. Management and third parties are co-opted to the Committees as required. Full terms of reference of these Committees and Members' attendance are set out on our website.

## Audit Committee

The Audit Committee was established in 1981. All of its members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters. During the year, the terms of reference of the Committee were amended to align with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Society of Accountants. Those terms of reference were further revised to comply with the requirements of the U.S. Sarbanes-Oxley Act, which applies to CLP Holdings through the American Depositary Receipts Programme and to its wholly-owned subsidiary, CLP Power, because of a US\$ Bond issued in 1996. The Audit Committee's main duties include those to:-

- Review the completeness, accuracy and fairness of half-yearly and annual financial statements;
- Retain, dismiss and replace the Group's external auditors, subject to endorsement by the Board and final approval and authorisation by the shareholders of the Company in General Meeting;
- Pre-approve all audit and permissible non-audit services to be performed by the Group's external auditors and the associated fees;
- Review the work of the Group's external auditors and the relevant fees and terms;
- Review results of audits performed by the Group's external auditors and appropriate action required on significant control weaknesses;
- Meet with the Group's external auditors, whenever they consider it necessary;
- Conduct annual audit planning reviews with the Group Internal Auditor;
- Ensure co-ordination between the Group's external auditors and Group Internal Auditor is adequate; and
- Review the system of internal controls in use by the Company.

The Audit Committee meets every six months. Special meetings may be called at the discretion of the Chairman or the request of Senior Management to review significant control or financial issues. The Audit Committee Chairman gives an annual report to the Board covering the Committee's activities for the year and highlighting any significant issues. The Audit Committee met twice in 2002 with each meeting over 1.5 hours. 18 agenda items (262 pages) and one item (9 pages) were submitted at the meetings and by circulation respectively.

Attendance at Audit Committee Meetings	No. of Meetings Attended	
	2002	2001
Mr. V. F. Moore (Chairman)	2	2
The Hon. Sir S. Y. Chung	2	2
Mr. Hansen C. H. Loh	2	2
Mr. Paul M. L. Kan*	2	—
*appointed on 1 January 2002		

## Finance and General Committee

The Finance and General Committee meets as and when required to review the financial operations of the Company. Such reviews include group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets. The Committee also reviews major acquisitions of, or investments in, companies, businesses or projects, and their funding requirements. The Finance and General Committee met seven times in 2002.

## Human Resources & Remuneration Committee

The Human Resources & Remuneration Committee meets as and when required to consider and review human resources policies, particularly those governing the terms and conditions of service of Group employees, remuneration (including that of Executive Directors and Senior Management), retirement benefits, management development and succession plans. In line with good practice in such matters, there are no Executive Directors on this Committee. Three meetings of the Human Resources & Remuneration Committee were held in 2002.

### Nomination Committee

The Nomination Committee was established in 2003 to enhance transparency in the nomination of new directors by taking on the responsibility of recommending nominees for appointment to the Board. The Nomination Committee comprises the Chairman of the Board and two Independent Non-executive Directors. The Nomination Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with particular regard to ensuring a substantial majority of the directors on the Board being independent of management. It also identifies and nominates qualified individuals, subject to the approval of the Board, to be additional Directors or fill Board vacancies as and when they arise.

### Provident & Retirement Fund Committee

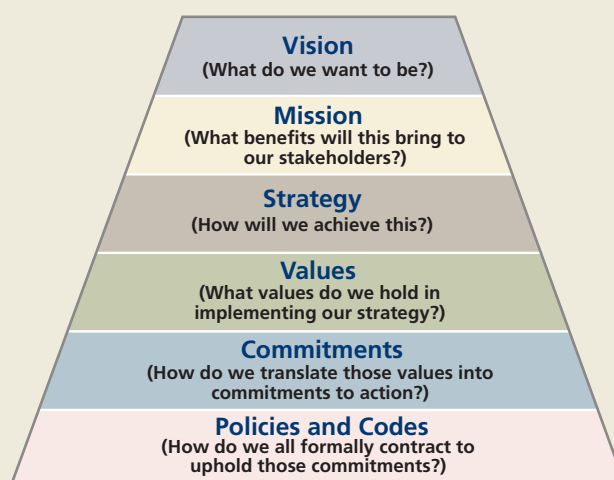
The Provident & Retirement Fund Committee advises the Trustees on investment policy and objectives for the Group's retirement funds. The Committee meets regularly to review the position of the funds, to monitor the performance of the investment managers, and to consider and make recommendations to the Trustees on the appointment and removal of investment managers and on the investment of available funds outside the portfolios of the investment managers. The Provident & Retirement Fund Committee met four times in 2002.

### Public Affairs Committee

The Public Affairs Committee oversees the development and implementation of public relations programmes with a view to improving the public image and the general understanding by the public of the CLP Group. Three meetings of the Committee took place during 2002.

### Management and Staff

In 2002, CLP issued "From Vision to Reality" – a value framework encompassing CLP's vision, mission, strategy, values, commitments and codes applicable to all of CLP's employees. The purpose of this is to reinforce our cultural and ethical standards. A series of staff briefings have been carried out to ensure awareness of this framework (which is on our website) and to promote its application throughout the CLP Group.



The value framework includes a formal Code of Conduct which places all employees and directors under specific obligations as to the ethics and principles by which our business is conducted. All staff receive training on the Code and its implications. Employees above a designated level are required to sign annual statements confirming compliance with the Code.

### Internal Audit

The CLP Group Internal Audit Department plays a major role in monitoring the internal governance of the Group. Key tasks of the Department include:–

- Unrestricted access to and review of all aspects of the CLP Group's activities and internal controls;

- Comprehensive audits of the practices, procedures and internal controls of all business and support units and subsidiaries on a regular basis;
- Investigation of business ethics, conflicts of interest and other Company policy violations;
- Special reviews of areas of concern identified by Management;
- Liaison with the Independent Commission Against Corruption in Hong Kong, particularly with a view to incorporating preventive measures and reducing potential malpractice; and
- Maintenance of the Code of Conduct on an evergreen basis and assuring that effective training is periodically conducted.

The Group Internal Auditor reports directly to the Group Managing Director and has direct access to the Board through the Chairman of the Audit Committee. The Group Internal Auditor has the right to consult the Committee without reference to Management.

During the past financial year, the Group Internal Audit Department issued reports to Senior Management covering various operational and financial units of the Group, including several joint venture activities outside Hong Kong. Group Internal Audit also conducted reviews of computer operations, as well as areas of concern identified by Management.

The annual audit plan, which is reviewed by the Audit Committee, is based on a risk assessment methodology, which assists in determining business risks and establishing audit frequencies. Concerns which have been reported by Group Internal Audit are monitored quarterly by Management until appropriate corrective measures have been implemented.

## External Auditors

In order to maintain the independence of the Group's external auditors and in line with the Sarbanes-Oxley Act, the external auditors will not be employed for non-audit

work unless this constitutes permissible non-audit work as defined in the Act and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to the Company from that work being undertaken by the external auditors, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, our external auditors, PricewaterhouseCoopers Hong Kong, provided the following non-audit services to the Group:–

	2002 HK\$M	2001 HK\$M
Due diligence and accounting advisory services relating to business developments	2	3
Taxation services	1	1
Other advisory services	—	1

## Other Stakeholders

Good governance requires due regard to the impact of business decisions (including their environmental impact) not only on shareholders, but also on other key stakeholders. Details of our underlying practices and principles are explained in the "Responsibilities to Stakeholders" section of this Annual Report.

## Internal Control and Risk Management

The Board determines policies for risk management and control. The Board reviews regularly the Company's strategies and the risks and controls associated with these strategies. Management designs, operates and monitors risk management and control processes to implement the Company's strategies effectively. Internal control systems have been designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Directors are responsible for these systems, and authorisations and guidelines are in place. Specific categories of risk are also reviewed by appropriate Committees and subsidiary Boards.



The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are obliged to maintain the effectiveness of the disclosure controls and due diligence procedures, and to report any significant changes, deficiencies and material weaknesses in, and fraud related to, internal controls to the Audit Committee and the Group's external auditors.

The CEO and CFO submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures. These letters rest on similar letters of representation issued by individual managers across the CLP Group, which certify compliance with the internal controls as to their particular businesses, departments and activities. These General Representation Letters reinforce personal responsibility for good governance and controls at all levels within the Group.

### Code for Securities Transactions by Directors and Specified Individuals

CLP Holdings has its own Code for Securities Transactions by Directors and Specified Individuals pursuant to the Stock Exchange's Model Code for Securities Transactions in Appendix 10 of the Listing Rules.

### Open Communication

CLP has a policy of open communication and fair disclosure. Financial results are announced as early as possible, and audited accounts are published within three months after the end of the financial year. Quarterly reports are issued to keep shareholders informed of the performance and operations of the Group.

The CLP website enables our shareholders and other stakeholders to obtain information on the Company's corporate governance structure, policies

and systems. The "Corporate Governance" section of our website includes:–

- "Corporate Governance – CLP Principles & Practices";
- Value Framework including Code of Conduct;
- CLP Fair Disclosure Policy;
- Policy and Guidelines on the Provision of Gifts and Entertainment;
- General Representation Letter;
- Memorandum and Articles of Association of CLP Holdings;
- Biographical data on Directors and Senior Management;
- Terms of reference of Board Committees;
- Frequency and length of Board and Board Committee meetings, volume of briefing papers considered and Members' attendance;
- Annual General Meeting proceedings;
- Top 10 shareholders of CLP Holdings;
- Analysts' briefings; and
- Most frequently asked questions from analysts (regularly updated).

### Enhancement of Corporate Governance Standards

Corporate governance is an evolving process. We regularly check and amend our corporate governance principles and practices in light of experience, regulatory requirements and international developments. For example, in recent years, we have increased our disclosure in areas of growing shareholder interest, such as auditors' independence, directors' remuneration and off-balance sheet liabilities.

Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders with the information necessary for them to form their own judgement and to provide feedback to us. Shareholders or other stakeholders, who have any comments or suggestions on our corporate governance standards, are welcome to write to the Company Secretary.