



269,971

visits to the Corporate Governance section on our website in 2003

CLP has long considered that corporate governance is, above all, a question of culture – a conscious decision to do the right thing as a company.

Our cultural imperative stems from:

- a clear and long-standing 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.

Making good this cultural commitment requires CLP to:

- conduct our businesses in an honest and responsible manner;
- establish and implement the mechanisms necessary to

measure and enforce compliance with ethical standards; and

- recognise that corporate governance is not just a question of technical and regulatory compliance, but involves management of the key relationships between the Company and stakeholders interested in the proper conduct of the Company's affairs.

CLP's overarching cultural and ethical standards are expressed in "From Vision to Reality" – a value framework which sets out our vision, mission, strategy, values and policies. The framework also includes our commitments to key stakeholders such as employees, customers, communities, shareholders and business partners. It is published on our website so that stakeholders are aware of the standards which they can expect from CLP and can let us know whether these standards, and the manner in which CLP conducts itself in practice, meet their expectations. The value framework is a major influence on CLP's internal and external communications, including this Annual Report and our Social and Environmental Report.



Vision What do we want to be?

Mission What benefits will we bring to our stakeholders?

Strategy How will we achieve this?

Values What guides the pursuit of our strategy?

Commitments What must we do to uphold our values?

Policies and Codes What must we do to meet our commitments?

CLP Ambassadors helping our shareholders at the 2003 AGM



In this section of the Annual Report, we focus on the roles of the key players within the following corporate governance framework.



## Shareholders

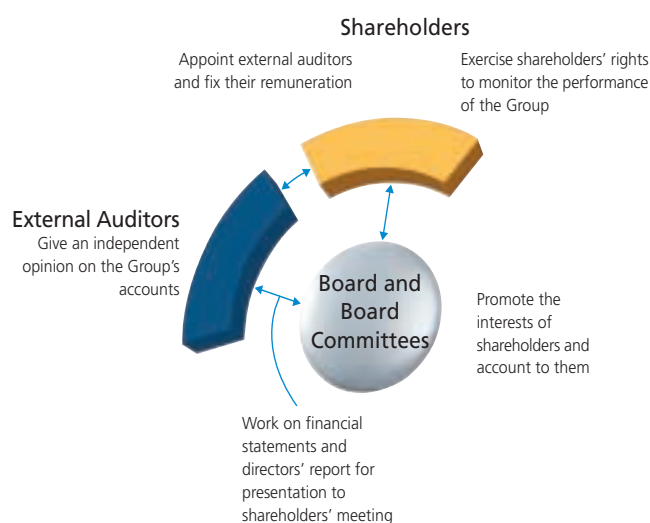
The Board and Senior Management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. The “CLP and our Shareholders” section of this Annual Report details our policies and actions in this respect.

The Company is incorporated in Hong Kong. We believe that it is appropriate to have chosen to be subject to the company law of the jurisdiction in which our business is based, where our shares are listed and where the vast majority of our shareholders are resident.

CLP uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly statements. In addition, 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 Chairmen of the Audit Committee and Human Resources & Remuneration Committee will usually attend the AGM and answer questions.

It is our policy to involve shareholders in the Company’s affairs and to communicate with them face-to-face at the AGM and during visits to CLP about our activities and prospects. Shareholders are able to vote, by way of separate resolutions, on each substantive issue at the AGM. Voting results are made available at the meeting and on the CLP website. In addition, the Corporate Secretarial Department and Investor Relations Department respond to letters and telephone enquiries from shareholders / investors throughout the year. Shareholders can also contact CLP through our shareholders’ hotline (852-2678 8228) and e-mail (cosec@clp.com.hk).

## Shareholders' Relationship with the Board and External Auditors



## The Board

The Board is accountable to the shareholders for leading the CLP Group in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company. The Board establishes the strategic direction of the CLP Group, sets objectives for 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, significant investments including large capital projects, delegation of authority, treasury and risk management policies and key human resources issues.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and withdraw from the meetings as appropriate. The Company follows [a set of guidelines \(available at the "Corporate Governance" section of our website\)](#) at each financial reporting period to seek confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates. The identified significant related party transactions are disclosed in the Notes to the Accounts of the Annual Report.

The Board has 17 directors, whose details are given on pages 12 and 13 of this Annual Report. All Directors (with the exception of the Group Managing Director and three 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 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 on other occasions when a board decision is required on major issues. To illustrate the attention given by our Board to the oversight of CLP's affairs, we set out in this section the details of Directors' attendance at Board and Board Committee meetings, duration of those meetings and volume of papers reviewed by Directors during 2003.

CLP 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). In addition, CLP has its own Code for Securities Transactions by Directors pursuant to the Securities and Futures Ordinance and the Stock Exchange's Model Code for Securities Transactions in Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals", such as members of the Group's senior management.

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. On appointment, the Directors are briefed on the role of the Board and Board Committees, their legal and other duties and obligations as a director of a listed company, as well as CLP's corporate governance principles and practices. Throughout their period in office, the Directors are continually updated on CLP's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting CLP's activities. All Directors have unrestricted access to the advice and services of the Corporate Secretarial Department regarding any matter, including the application and implementation of the principles on corporate governance.

One-third of the Non-executive Directors retire by rotation and submit themselves for re-election by shareholders at each AGM. A proposal to modify the Company's Articles of Association so that Executive Directors will be treated similarly to Non-executive Directors with respect to their periodic retirement and re-election will be put to shareholders for approval at the AGM in 2004.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and 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.

## 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 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. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Society of Accountants. 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.

Directors	Meetings Attended/Held						
	Board	Audit Committee	Nomination Committee	Finance & General Committee	Human Resources & Remuneration Committee	Regulatory Affairs Committee	Provident & Retirement Fund Committee
<b>Non-executive Directors</b>							
The Hon. Michael D. Kadoorie	3/5		1/1				
Mr. W. E. Mocatta	5/5			5/5	1/1	2/2	3/3
Mr. J. S. Dickson Leach	5/5			4/5	1/1	1/2	
Mr. R. J. McAulay	2/5						
Mr. J. A. H. Leigh	4/5						
Mr. R. Bischof	5/5						3/3
Mr. I. D. Boyce	5/5						
Mr. P. C. Tan	4/5				1/1	1/2	
<b>Independent Non-executive Directors</b>							
The Hon. Sir S. Y. Chung	4/5	3/3	1/1		1/1	2/2	
Dr. William K. Fung	2/5		1/1				
Mr. V. F. Moore	5/5	3/3		4/5	1/1	2/2	
Mr. Hansen C. H. Loh	5/5	3/3				2/2	
Mr. Paul M. L. Kan	5/5	3/3					
<b>Executive Directors</b>							
Mr. Andrew Brandler	5/5			5/5		2/2	
Mr. Peter P. W. Tse	5/5			5/5		1/2	3/3
Mr. Peter W. Greenwood	5/5						
Dr. Y. B. Lee (appointed on 4 August 2003)	3/3					2/2	

The Audit Committee meets three times each year. Special meetings may be called at the discretion of the Chairman or the request of the Group Managing Director or Group Internal Auditor 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.

### 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.

### 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 and management development and succession plans. In line with good practice in such matters, there are no Executive Directors on this Committee.

### Nomination Committee

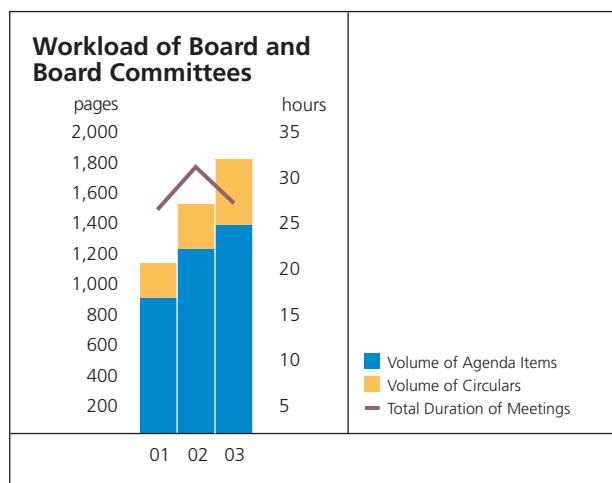
The Nomination Committee was established in 2003 to enhance transparency in the nomination of new directors by taking on the responsibility of recommending nominees for appointment to the Board. The Nomination Committee comprises the Chairman of the Board and two Independent Non-executive Directors. 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 are 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 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.

## Regulatory Affairs Committee

The Regulatory Affairs Committee meets as and when required to review and advise upon matters in respect of the present or future regulation of CLP's Hong Kong electricity business.



## Management and Staff

The task of CLP's management and staff is the successful implementation of the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's stakeholders.

### CLP Value Framework

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. During 2003, there were nine breaches of the Code. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprising the Chief Financial Officer, Company Secretary and Group Human Resources Director in order to ensure consistency and fairness. Sanctions applied in 2003 ranged from reprimands to dismissal. None of the breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations. No

waivers of any of the requirements of the Code of Conduct were granted to any senior manager or, for that matter, any other employee.

To help ensure employees' awareness of CLP's value framework and to promote its application throughout the CLP Group, over 60 face-to-face briefing sessions were conducted and booklets were distributed to all staff. The framework is available on the Company's Intranet "My Workplace" for easy reference. Employees who have any suggestions or questions relating to the implementation of the value framework, are welcome to discuss these with their manager or Human Resources colleagues.

### Internal Control

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.

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.

Control awareness workshops were also held as a refresher for CLP employees on the importance and rationale of the Company's control systems.

## Internal Audit

The 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;
- liaison with External Auditors on the quality and effectiveness of internal controls, systems and procedures;
- 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.

### Internal Auditors' Relationships with External Auditors, the Board and Management and Staff



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, the external auditors will not be employed for non-audit work unless this constitutes permissible non-audit work as defined in the Sarbanes-Oxley Act and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP 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, PricewaterhouseCoopers, our external auditors, provided the following non-audit services to the Group:

	2003 HK\$M	2002 HK\$M
Due diligence and accounting advisory services relating to business developments	2	2
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.

## Open Communication

CLP has a policy of open communication and fair disclosure. 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 judgment and to provide feedback to us. However, we understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.

## Financial Reporting

CLP aims to present a clear and balanced assessment of its financial position and prospects. The Directors ensure that accounts are prepared so as to give a true and fair view of the financial status of the Group. Financial results are announced as early as possible, and audited accounts are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

## Social and Environmental Reporting

In February 2003, we published the CLP Group's Social and Environmental Report 2002. This gave a detailed description of our social and environmental performance on a group-wide basis for the years 2000 and 2001. Our [Social and Environmental Report 2003](#), published at the same time as this Annual Report, will report on our activities in these areas during 2002 and 2003. As from next year, our social and environmental disclosure will be on an annual basis for each preceding year. We are determined that these reports should disclose our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. We shall continue to engage our stakeholders openly and report honestly on our progress in those areas. We welcome feedback from our stakeholders, constructive or critical.

## Reporting via Internet

The CLP website provides our shareholders and other stakeholders with information on the Company's corporate

governance structure, policies and systems. The "Corporate Governance" section of our website includes:

- ["Corporate Governance – CLP Principles & Practices" \(regularly updated\)](#);
- [CLP Value Framework](#) including [Code of Conduct](#);
- [CLP Fair Disclosure Policy](#);
- [Policy and Guidelines on the Provision of Gifts and Entertainment](#);
- [General Representation Letter](#);
- [Guidelines on Disclosure of Related Party Transaction of the CLP Group](#);
- [Memorandum and Articles of Association of CLP Holdings](#);
- [Biographical data on Directors](#) and [Senior Management](#);
- [Directors' interests in CLP securities](#);
- [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
- [Frequently asked questions \(regularly updated\)](#).

## Corporate Governance – an Evolving Process

We monitor how corporate governance evolves and review our principles and practices in light of experience, regulatory requirements and international developments. 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. The updated version of "Corporate Governance – CLP Principles & Practices" was published and issued to all Directors and shareholders in August 2003.

We are not able to measure the extent to which corporate governance directly creates shareholder value. However, we have no doubt that a commitment to good corporate governance helps sustain the support of the stakeholders on whose goodwill we rely for our long-term survival and prosperity.