

Sections 3, 6, 7 and 9 below comprise the “auditable” part of the Remuneration Report and have been audited by the Company’s auditors.

1. Introduction

CLP recognises that issues relating to the remuneration of directors (both non-executive and executive) and senior management have become of increasing importance to shareholders. Unjustified and improper payments can be a route to the inappropriate extraction of value away from a company and its shareholders. However, properly structured and fair remuneration can support the alignment of the interests of directors and senior management with those of the company and its shareholders.

This Remuneration Report has been reviewed and endorsed by the Human Resources & Remuneration Committee of the Board.

The Report sets out the policies applied to determining remuneration levels and explains the remuneration paid to:

- Non-executive Directors;
- Executive Directors; and
- Senior Management.

2. Policies

The main elements of CLP’s remuneration policies are:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

3. Non-executive Directors – Remuneration in 2003

Non-executive Directors of the Company are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. The levels of remuneration for Non-executive Directors have remained unchanged since 1995 (save that the additional fee for Directors serving on the Audit Committee was first introduced in 2000). In the year ended 31 December 2003, the fees paid to each of the Non-executive Directors were as follows:

	HK\$
Chairman	225,000
Vice Chairman	150,000
Non-executive Director	100,000
Director serving on the Audit Committee	50,000

4. Review of Non-executive Directors’ Remuneration

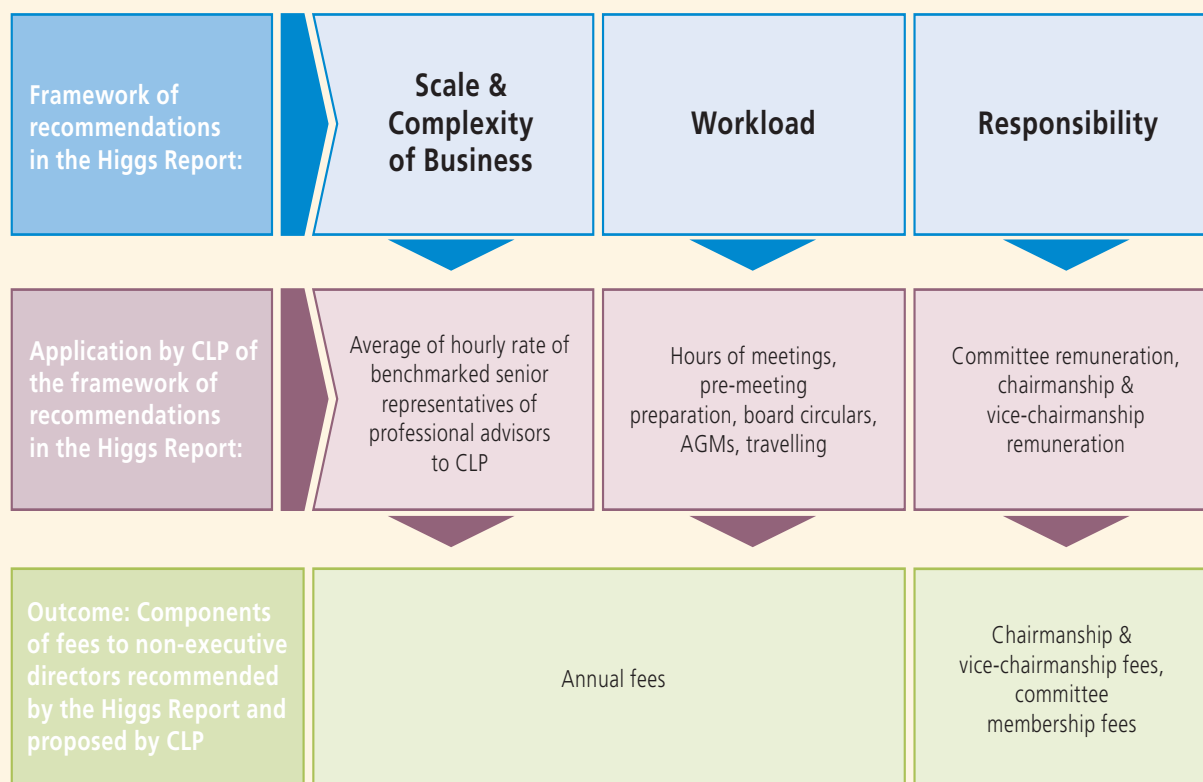
Since 1995, the role of Non-executive Directors has become more complex and demanding – as a result of both regulatory change and the increasing part such directors play in the good governance of listed companies. In the U.K., the “Review of the Role and Effectiveness of Non-executive Directors” (commonly known as “The Higgs Report”) published in January 2003 discussed these trends. It concluded that “the level of remuneration for any particular non-executive director should reflect the likely workload, the scale and complexity of the business and the responsibility

involved” and that “it may be helpful in assessing remuneration for non-executive directors to use as a benchmark the daily remuneration of a senior representative of the company’s professional advisors”. The U.K. Combined Code on Corporate Governance of July 2003 provides that levels of remuneration for non-executive directors should reflect the time commitments and responsibilities of the role, but should not include share options.

In view of the growing responsibilities of non-executive directors and market trends as illustrated by the Higgs Report and the U.K. Combined Code (which we expect to be reflected in the Hong Kong regulatory framework in due course), CLP has undertaken a review of the fees paid to its Non-executive Directors. The methodology adopted in this review was aligned with the recommendations of the Higgs Report and included:

- application of an hourly rate of HK\$4,000 as an average of the partner rates charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP;
- calculation of the time spent by Non-executive Directors on CLP’s affairs (including attendance at Board and Board Committee meetings, reading of papers, site visits etc.). This indicated that a Non-executive Director can be expected to spend approximately 50 hours per annum on Board matters (excluding additional time spent in serving on Board Committees); and
- an additional fee of about 40% and 10% for chairmanship of the Board/Board Committees and vice-chairmanship of the Board respectively.

The following chart illustrates how CLP’s methodology compares with the recommendations of the Higgs Report.



The resulting fees were then benchmarked against comparable companies in Hong Kong (as far as possible, given the limitations of the information publicly available). The methodology and proposed fees have been independently reviewed by Deloitte & Touche Enterprise Risk Services Limited (DTERS).

On this basis, it is envisaged that the fees paid to Non-executive Directors of the Company for 2004 will be amended as follows, with effect from 1 July 2004:

	Proposed fees per annum (HK\$)
Board	
Chairman	280,000
Vice Chairman	220,000
Non-Executive Director	200,000
Nomination Committee	
Chairman	10,000
Member	10,000
Audit Committee	
Chairman	140,000
Member	100,000
Finance & General Committee	
Chairman	110,000
Member	80,000
Human Resources & Remuneration Committee	
Chairman	14,000
Member	10,000
Regulatory Affairs Committee	
Chairman	30,000
Member	20,000
Note: Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees	

In line with our policy that no individual should determine his or her own remuneration, the proposed fees for Non-executive Directors were recommended by the Management, reviewed by DTERS and are subject to the approval of our shareholders at the Annual General Meeting on 22 April 2004.

5. Executive Directors – Components of Remuneration

In determining the remuneration of Executive Directors, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. There are three key components of Executive Directors' remuneration:

(a) Base Compensation

Base compensation accounts for approximately 56% of total remuneration. It is reviewed annually taking into consideration the competitive market position, market practice and individual performance for the Executive Directors.

(b) Incentive Bonus

The levels of the incentive bonus are set by the Human Resources & Remuneration Committee. No Executive Directors serve on the Committee.

Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group, the functions and the individuals concerned. Key measures include achievement of financial goals and operational performance targets and demonstration of key leadership competencies, such as creating shared vision and developing talents.

Each of the Executive Directors is assigned a “target” annual incentive, which accounts for 28% of his/her total remuneration. Only individuals who attain a satisfactory performance are awarded any annual incentive. The amount of the annual incentive is capped at twice the “target” annual incentive, with the actual amount being subject to performance.

Long-term Incentive

The Executive Directors are also eligible to take part in the Long-term Incentive Plan (LTIP). The “target” long-term incentive accounts for 9% of his/her total remuneration. The LTIP is designed to align the interests of the Executive Directors with those of the Shareholders by an award that is pegged to the creation of shareholder value. A three-year financial target is set every year to drive towards higher performance and to ensure that such performance is sustained over the long term. At the end of the three-year period, an award is made which is based on performance against the financial target. The award ranges from zero to one and a half times the “target” long-term incentive. The actual payout is further adjusted to reflect the share price performance of CLP Holdings, with dividends reinvested, over the same three-year period. Subject to certain vesting conditions, the award is payable in the fourth year.

(c) Pension Arrangements

The Executive Directors are eligible to join the defined contribution section of the Group’s retirement fund. The Group’s contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 7% of his/her target total remuneration.

The Group does not have, and has never had, a share option scheme.

No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year’s salary and benefits in kind.

6. Executive Directors – Remuneration in 2003

The remuneration paid to the Executive Directors of the Company in 2003 was as shown below:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus* HK\$M	Provident Fund Contribution HK\$M	Total HK\$M
2003				
Group Managing Director & CEO (Mr. Andrew Brandler)	4.9	3.3	0.6	8.8
Group Executive Director & CFO (Mr. Peter P. W. Tse)	4.2	2.8	0.5	7.5
Executive Director & Group Director for Planning & Development (Dr. Y. B. Lee) (note)	1.4	0.7	0.2	2.3
Director & Company Secretary (Mr. Peter W. Greenwood)	3.4	2.6	0.4	6.4
	13.9	9.4	1.7	25.0
2002				
Group Managing Director & CEO	4.7	3.7	0.6	9.0
Executive Director & CFO	4.3	3.5	0.5	8.3
Director & Company Secretary	3.2	1.7	0.4	5.3
	12.2	8.9	1.5	22.6

* Performance bonus for 2003 and 2002 consists of annual incentives only. The total amount includes: i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and ii) the actual bonus paid for the last year in excess of the previous accruals made. Long-term incentive only vests and becomes payable once the vesting conditions have been satisfied.

Note: Dr. Y.B. Lee was appointed as Executive Director from 4 August 2003, the amount of Director's remuneration only included remuneration for the period he served as Director.

Early retirement/termination compensation is not part of the remuneration arrangements for the Executive Directors, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee.

7. Total Directors' Remuneration in 2003

The total remuneration of Directors (Non-executive and Executive) is shown below:

	2003 HK\$M	2002 HK\$M
Fees	2	2
Base compensation, allowances and benefits in kind	14	13
Performance bonus *	9	10
Provident fund contributions	2	2
Early retirement compensation (<i>note</i>)	–	10
	27	37

Note: Early retirement compensation was paid to a former Executive Director in 2002.

* Refer to the note on performance bonus on page 94.

The total amount of fees paid to all the Non-executive Directors of the Company during the year was HK\$1,725,000 (2002: HK\$1,725,000), out of which HK\$700,000 (2002: HK\$589,167) were paid to all the five (2002: five) Independent Non-executive Directors. None of this remuneration is charged to the SoC operation. Of the total remuneration paid to Executive Directors, HK\$2 million (2002: HK\$16 million) has been charged to the SoC operation.

The Directors' remuneration is within the following bands:

	Number of Individuals	
	2003	2002
HK\$ nil – HK\$ 1,000,000	13	13
HK\$ 2,000,001 – HK\$ 2,500,000	1	–
HK\$ 5,000,001 – HK\$ 5,500,000	–	1
HK\$ 6,000,001 – HK\$ 6,500,000	1	–
HK\$ 7,000,001 – HK\$ 7,500,000	1	–
HK\$ 8,000,001 – HK\$ 8,500,000	–	1
HK\$ 8,500,001 – HK\$ 9,000,000	1	–
HK\$ 9,000,001 – HK\$ 9,500,000	–	1
HK\$ 13,000,001 – HK\$ 13,500,000	–	1

8. Senior Management – Components of Remuneration

The Group's Senior Management refers to heads of business, functions and major operations. The pay policies of the Group, i.e. market alignment and reward for performance, consistently apply to this senior management group. They are eligible for the three components of total remuneration, as payable to the Executive Directors, namely, base compensation, incentive bonus and pension arrangements. The principles in applying these three components are the same, with the exception of the proportion of these components in relation to total remuneration.

For Senior Management, base compensation accounts for approximately 56% to 73% of total remuneration. In 2003, base compensation remained generally at the same level, in light of market position and practice.

The "target" annual incentive accounts for 13% to 28% of total remuneration for Senior Management. An award was made in 2003, based on an assessment of the performance of the Group, the business units, the functions and the individuals concerned. The average payout to this group in 2003 was 27% above the target level as supported by the achievement of financial goals, operational performance targets and individual objectives for 2002.

Senior Management are also eligible to take part in the LTIP, which accounts for 5% to 9% of their remuneration at target performance.

The retirement benefits for Senior Management represent 7% to 9% of their target total remuneration.

9. Senior Management – Remuneration in 2003

The nine highest paid individuals in the Group during the year included three (2002: three) who served as Directors for the full year and one (2002: one) who served as a Director for part of the year. The details of the remuneration of these nine individuals were:

	2003 HK\$M	2002 HK\$M
Base compensation, allowances and benefits in kind	31	28
Performance bonus *	19	19
Provident fund contributions	4	4
Early retirement/termination compensation (note)	–	21
	54	72

Note: Early retirement/termination compensation was paid to three individuals, including one former Executive Director in 2002.

* Refer to the note on performance bonus on page 94.

Of the remuneration paid to Senior Management, HK\$17 million (2002: HK\$26 million) has been charged to the SoC operation.

The remuneration paid to these nine individuals is within the following bands:

	Number of Individuals	
	2003	2002
HK\$ 4,000,001 – HK\$ 4,500,000	3	1
HK\$ 5,000,001 – HK\$ 5,500,000	1	1
HK\$ 6,000,001 – HK\$ 6,500,000	2	2
HK\$ 7,000,001 – HK\$ 7,500,000	2	–
HK\$ 7,500,001 – HK\$ 8,000,000	–	1
HK\$ 8,000,001 – HK\$ 8,500,000	–	1
HK\$ 8,500,001 – HK\$ 9,000,000	1	–
HK\$ 9,000,001 – HK\$ 9,500,000	–	1
HK\$ 11,500,001 – HK\$ 12,000,000	–	1
HK\$ 13,000,001 – HK\$ 13,500,000	–	1

10. Continued Scrutiny and Disclosure

The Human Resources & Remuneration Committee remains committed to continued scrutiny of remuneration levels, and to high standards of disclosure to shareholders on such matters.



J. S. Dickson Leach

Chairman

Human Resources & Remuneration Committee

Hong Kong, 25 February 2004