

Remuneration Report

1. Introduction

The Board and, in particular, its Human Resources & Remuneration Committee pay close attention to the remuneration policies applied within the CLP Group, including the remuneration of Non-executive and Executive Directors and of Senior Management. We are aware that unjustified and improper remuneration policies can work against the interests of a company and its shareholders. Our objective is to ensure that CLP employs properly structured and fair remuneration policies which align the interests of Directors and Senior Management with those of the Company and its shareholders. This Report explains the policies applied to determining remuneration levels and sets out the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This Remuneration Report has been reviewed and endorsed by the Human Resources & Remuneration Committee of the Board.

Sections 5 to 8 below comprise the “auditable” part of the Remuneration Report and have been audited by the Company’s Auditors.

2. Policies

The main elements of CLP’s remuneration policy have been in place for a number of years and are incorporated in the CLP Code on Corporate Governance (CLP Code).

- 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 – Principles of Remuneration


The above policies apply to the remuneration of the Non-executive Directors, with appropriate adjustments to reflect good corporate governance practices, the particular nature of their duties and that they are not Company employees.

We have taken into account the Report of the Committee on the Financial Aspects of Corporate Governance of December 1992 (The Cadbury Report) which noted that the calibre of non-executive directors was especially important in setting and maintaining standards of corporate governance. The “Review of the Role and Effectiveness of Non-executive Directors” (The Higgs Report) of January 2003 concluded that “the level of remuneration appropriate 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”. In Hong Kong, the Code on Corporate Governance Practices (Appendix 14 to the Listing Rules) includes the principle that an issuer should disclose information relating to its directors’ remuneration policy and that there should be a formal and transparent procedure for fixing the remuneration packages of all directors. The Listing Rules note that an independent non-executive director must not be financially dependent on the issuer.

In light of these considerations, CLP’s 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. Those fees were previously reviewed at the beginning of 2004 (the 2004 Review). Accordingly, a new review was undertaken at the beginning of 2007 (the 2007 Review). The methodology adopted in the 2007 Review was the same as that used in the 2004 Review and as explained to shareholders in the CLP Code. The methodology is aligned with the recommendations of the Higgs Report and includes:

- the 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 (there was no increase in this rate between the 2004 Review and the 2007 Review);
- the calculation of the time spent by Non-executive Directors on CLP’s affairs (including attendance at Board and Board Committee meetings, reading papers, etc.). This exercise revealed a significant increase between 2004 and 2007 in the time spent by Non-executive Directors in performing their duties on the Board and on Board Committees; and
- an additional fee of about 40% and 10% per annum for the Chairmen of the Board/Board Committees and the Vice Chairman of the Board respectively (reflecting the additional workload and responsibility which these offices involve).

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The resulting fees were then benchmarked against those paid by leading listed companies in Hong Kong and major utility companies listed on the London Stock Exchange. The methodology and resulting fees were independently reviewed by Stephenson Harwood & Lo (SHL). Further to CLP's commitment to the adoption of a transparent methodology for determining Non-executive Directors' remuneration, the 2007 Review and the opinion of SHL on that Review are placed on CLP's website. 

In line with our policy that no individual should determine his or her own remuneration, the fees set out in the table below were proposed by Management, reviewed by SHL and will be put for approval by our shareholders at the Annual General Meeting on 24 April 2007. In this respect, CLP's approach goes beyond that required by law or regulation in Hong Kong or the provisions of the Hong Kong Stock Exchange's Code on Corporate Governance Practices.

	Proposed fees per annum (w.e.f. 25 April 2007) HK\$	Current Fees per annum HK\$
Board		
Chairman	430,000	280,000
Vice Chairman	340,000	220,000
Non-executive Director	310,000	200,000
Nomination Committee*		
Chairman	14,000	10,000
Member	10,000	10,000
Audit Committee		
Chairman	220,000	140,000
Member	160,000	100,000
Finance & General Committee		
Chairman	215,000	110,000
Member	155,000	80,000
Human Resources & Remuneration Committee		
Chairman	40,000	14,000
Member	30,000	10,000
Regulatory Affairs Committee**		
Chairman	20,000	30,000
Member	15,000	20,000
Provident & Retirement Fund Committee***		
Chairman	14,000	Nil
Member	10,000	Nil
Social, Environmental & Ethics Committee		
Chairman	45,000	30,000
Member	35,000	20,000
China Committee		
Chairman	60,000	56,000
Member	45,000	40,000

* A nominal fee has been maintained for the Chairman and Members of the Nomination Committee.

** In light of the importance of the post-2008 regulatory regime for our Hong Kong electricity business, matters relating to the Scheme of Control have been considered by the full Board during 2006 instead of being referred to the Regulatory Affairs Committee. It is therefore proposed to reduce the fees of the Regulatory Affairs Committee as reflected in its average workload from 2004 to 2006.

*** It is proposed to pay nominal fees to the Chairman and Members of the Provident & Retirement Fund Committee, on which no Independent Non-executive Directors serve and which oversees the status and performance of the Group's retirement funds for its employees.

Note: Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

The proposed fees represent a significant percentage increase on those paid between 2004 and 2007. This is in line with a genuine and substantial increase in the workload shouldered by our Non-executive Directors (reflecting the growth in CLP's business and increased regulatory requirements). The methodology applied in determining those fees is unchanged from that used in 2004 and publicly disclosed. We have also applied the methodology in a conservative manner. For example, we have not assumed any increase in Directors' workload over the years to 2010 (despite the trend of past years) nor, in benchmarking those fees against other companies, have we assumed any ongoing increases in directors' fees paid by those companies.

4. Senior Management – Principles of Remuneration

For the purposes of this Section, Senior Management means the Executive Directors together with the Group Director – Managing Director Hong Kong, the Group Director – Managing Director Australia, the Group Director – Operations, Chief Executive Officer – OneEnergy Limited, the Group Director – Corporate Finance and Development, Managing Director – India and Managing Director – China. In determining the remuneration of members of Senior Management, 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. The four components of remuneration of members of Senior Management are explained below, including the proportion of total remuneration which each component represented in 2005 and 2006:

Components	Explanation	2006	2005
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 the individual performance of members of Senior Management.	56%	56%
Performance Bonus	The levels of the performance bonus are set by the Human Resources & Remuneration Committee. No members of Senior Management serve on the Committee.		
Annual Incentive	<p>The annual incentive payout depends upon the performance of the CLP Group and the individuals concerned. Key measures include achievement of financial goals and operational performance targets, and individual objectives such as the demonstration of key leadership competencies.</p> <p>Each of the Senior Management members is assigned a “target” annual incentive, which accounts for 28% of his/her total remuneration. Only individuals who attain at least a satisfactory performance rating are awarded any annual incentive. The amount of annual incentive is capped at twice the “target” annual incentive, with the actual amount being determined by organisational and individual performance.</p> <p>An award was made in 2006, based on an assessment of the 2005 performance of the Group and the individuals concerned. The average payout to this group in 2006 was 85% above the target level based on the above target achievement of financial goals, operational performance targets and individual objectives for 2005.</p>	28%	28%
Long-term Incentive	<p>The Long-term Incentive Plan (LTIP) is designed to align the interests of members of the Senior Management 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. The LTIP was introduced in 2001 with the first award being paid to the eligible individuals in 2004.</p> <p>In order to strengthen the linkage to organisational and individual performance and enhance its effectiveness as a retention plan, the LTIP was modified in 2006. The key modifications are that the performance multiplier (which is derived from a weighted combination of individual and organisational performance for the year preceding that in which the award is made) is applied to the target LTIP award at the beginning of the three-year cycle rather than the end, the maximum award is increased to two times the “target award” and 50% of the award is allocated to a notional cash deposit. The first payments under the revised LTIP will be made in 2009.</p>	9%	9%
Pension Arrangements	The members of the Senior Management 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.	7%	7%

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 6 months or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

The remuneration policies applied to Senior Management are subject to the approval of the Human Resources & Remuneration Committee.

5. Non-executive Directors – Remuneration in 2006

The fees paid to each of our Non-executive Directors in 2006 for their service on the CLP Holdings Board and, where applicable, on its Board Committees are set out below. There was no increase in the levels of Non-executive Directors' fees in either 2005 or 2006. The increase in total Directors' fees, compared to 2005, is due to the appointment of an additional Independent Non-executive Director and a Non-executive Director in 2006 and the establishment of two additional Board Committees, the fees of which were paid with effect from 2006.

In HK\$	Board	Audit Committee	Nomination Committee	Finance & General Committee	Regulatory Affairs Committee	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Social, Environmental & Ethics Committee	China Committee ⁽¹⁾	Total 2006	Total 2005
Non-executive Directors											
The Hon. Sir Michael Kadoorie	280,000	–	10,000	–	–	–	–	–	54,608	344,608	290,000
Mr. W. E. Mocatta	220,000	–	–	110,000	20,000	14,000	Nil	–	39,006	403,006	321,602
Mr. J. S. Dickson Leach	200,000	–	–	19,669	–	–	–	–	–	219,669	364,000
Mr. R. J. McAulay	200,000	–	–	–	–	–	–	–	–	200,000	200,000
Mr. J. A. H. Leigh	200,000	–	–	–	–	–	–	–	–	200,000	200,000
Mr. R. Bischof	200,000	–	–	–	–	–	Nil	–	–	200,000	200,000
Mr. I. D. Boyce	200,000	–	–	–	–	–	–	–	–	200,000	200,000
Mr. P. C. Tan	200,000	–	–	–	20,000	–	–	–	39,006	259,006	221,602
Mr. Jason Whittle ⁽²⁾	129,282	–	–	51,713	12,928	–	–	12,928	–	206,851	–
Independent Non-executive Directors											
The Hon. Sir S. Y. Chung ⁽³⁾	200,000	75,000	10,000	–	20,000	10,000	–	–	–	315,000	340,000
Dr. William K. Fung	200,000	–	10,000	–	–	–	–	20,000	–	230,000	211,699 ⁽⁴⁾
Mr. V. F. Moore	200,000	140,000	–	80,000	20,000	10,000	–	–	–	450,000	450,000
Mr. Hansen Loh	200,000	100,000	–	–	20,000	–	–	–	–	320,000	320,000
Mr. Paul M. L. Kan	200,000	–	–	–	–	–	–	–	–	200,000	241,713
Professor Judy Tsui	200,000	100,000	–	–	–	–	–	20,000	39,006	359,006	188,716 ⁽⁴⁾
Sir Rod Eddington ⁽⁵⁾	200,000	–	–	13,261	–	–	–	20,000	–	233,261	–
									Total	4,340,407	3,749,332

Notes:

- (1) The payment of fees to Non-executive Directors serving on the China Committee took effect from the date of its first meeting, i.e., 10 January 2006.
- (2) Mr. Jason Whittle was appointed a Non-executive Director on 9 May 2006.
- (3) The Hon. Sir S. Y. Chung resigned as a Member of the Audit Committee on 1 October 2006.
- (4) This included HK\$1,699 being the fees paid for serving on the Social, Environmental & Ethics Committee. Such fees were paid in 2006 after Shareholders approved the level of fees for Non-executive Directors serving on the Social, Environmental & Ethics Committee at the 2006 Annual General Meeting.
- (5) Sir Rod Eddington was appointed an Independent Non-executive Director and a Member of the Social, Environmental & Ethics Committee on 1 January 2006 and a Member of the Finance & General Committee on 1 November 2006.

The following Directors also received fees for their directorships in subsidiary companies and affiliated companies:

	2006 HK\$	2005 HK\$
Mr. W. E. Mocatta	237,000 ⁽¹⁾	227,000
Mr. J. A. H. Leigh	–	55,435 ⁽²⁾
	237,000	282,435

Notes:

(1) Fees from CLP Power Hong Kong Limited, Hong Kong Nuclear Investment Company Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited.

(2) Mr. J. A. H. Leigh resigned from the Board of CLP Power Hong Kong Limited on 27 September 2005.

6. Executive Directors – Remuneration in 2006

The remuneration paid to the Executive Directors of the Company in 2006 was as follows:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus (Note A)		Ex-gratia Payment HK\$M	Provident Fund Contribution HK\$M	Total HK\$M
		Annual Incentive HK\$M	Long-term Incentive HK\$M			
2006						
CEO						
(Mr. Andrew Brandler)	5.9	5.5	1.8	–	0.7	13.9
Group Executive Director & CFO						
(Mr. Peter P. W. Tse)	4.2	3.6	1.5	–	0.5	9.8
Group Executive Director						
(Dr. Y. B. Lee)	3.6	2.7	1.3	–	0.4	8.0
	13.7	11.8	4.6	–	1.6	31.7
2005						
CEO	5.3	4.9	1.9	–	0.7	12.8
Group Executive Director & CFO	4.1	3.0	1.6	–	0.5	9.2
Group Executive Director	3.5	2.3	1.4	–	0.4	7.6
Director & Company Secretary						
(Mr. Peter W. Greenwood) (Note B) / (Note C)	2.9	4.1	4.2	2.2	0.3	13.7
	15.8	14.3	9.1	2.2	1.9	43.3

Note A:

Performance bonus consists of (a): annual incentive and (b): long-term incentive.

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2006 is yet to be reviewed and approved by the Human Resources & Remuneration Committee. Accordingly, the total amount of annual incentive 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 in 2006 for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2003, paid in 2006 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2002 paid in 2005). About 41% of the amount of 2003 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2003 and 2005, with dividends reinvested.

Note B:

Mr. Peter W. Greenwood resigned as the Director & Company Secretary with effect from 27 August 2005. The annual incentive amount of HK\$4.1 million included the amount of incentive payment for 2005 for the period he served as director. The long-term incentive amount of HK\$4.2 million was for the years 2002, 2003, 2004 and 2005 paid to Mr. Greenwood upon leaving the Company. The Ex-gratia payment was made in recognition of his contribution to the Group.

Note C:

Ex-gratia payments may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee and are not part of the remuneration arrangements for Executive Directors or Senior Management.

7. Total Directors' Remuneration in 2006

The total remuneration of Non-executive and Executive Directors in 2006 was:

	2006 HK\$M	2005 HK\$M
Fees	5	4
Base compensation, allowances and benefits in kind	14	16
Performance bonus*		
– Annual incentive	12	14
– Long-term incentive	4	9
Provident fund contributions	2	2
Ex-gratia payment#	–	2
	37	47

* Refer to Note A on performance bonus on page 123.
Refer to Notes B and C on Ex-gratia payment on page 123.

Of the total remuneration paid to Directors, HK\$3 million (2005: HK\$2 million) has been charged to the SoC operation.

8. Senior Management – Remuneration in 2006

The five highest paid individuals in the Group included two Directors (2005: three Directors, of whom one served as a Director for part of the year), two members of Senior Management (2005: two members) and a former Senior Manager of the CLP Group. The total remuneration of the five highest paid individuals in the Group is shown below:

	2006 HK\$M	2005 HK\$M
Base compensation, allowances and benefits in kind	24	20
Performance bonus*		
– Annual incentive	20	20
– Long-term incentive	8	9
Provident fund contributions	3	2
Ex-gratia payment#	1	2
	56	53

* Refer to Note A on performance bonus on page 123.
Refer to Note C on Ex-gratia payment on page 123.

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

	Number of Individuals	
	2006	2005
HK\$ 8,000,001 – HK\$ 8,500,000	–	1
HK\$ 9,000,001 – HK\$ 9,500,000	–	2
HK\$ 9,500,001 – HK\$10,000,000	1	–
HK\$10,000,001 – HK\$10,500,000	2	–
HK\$11,500,001 – HK\$12,000,000	1	–
HK\$12,500,001 – HK\$13,000,000	–	1
HK\$13,500,001 – HK\$14,000,000	1	1

The Senior Management Group, comprising the Group Director – Managing Director Hong Kong, the Group Director – Managing Director Australia and the Group Director – Operations as well as the Executive Directors, was extended in 2006 to include Managing Director – China, Managing Director – India, Chief Executive Officer – OneEnergy Limited and the Group Director – Corporate Finance and Development.

Details of remuneration of the Senior Management of the Group (excluding Executive Directors) are set out in the table below.

	Performance Bonus*					Total HK\$M
	Base Compensation, Allowances & Benefits HK\$M	Annual Incentive HK\$M	Long-term Incentive HK\$M	Provident Fund Contribution HK\$M	Other Payments HK\$M	
2006						
Group Director – Managing Director Hong Kong (Mrs. Betty Yuen)	4.2	4.1	1.5	0.5	–	10.3 [#]
Group Director – Managing Director Australia (Mr. Richard McIndoe)	4.2	4.1	1.4	0.5	1.5 ^(a)	11.7
Managing Director – China (Mr. Shen Zhongmin)	0.9	0.5	–	0.1	1.0 ^(b)	2.5
Managing Director – India (Mr. Rajiv Mishra)	1.5	1.1	0.1	0.2	–	2.9
Chief Executive Officer – OneEnergy Limited (Mr. Mark Takahashi)	2.6	1.9	0.1	0.3	–	4.9
Group Director – Operations (Mr. Peter Littlewood)	2.9	2.6	0.8	0.4	–	6.7
Group Director – Corporate Finance and Development (Mr. Stefan Robertsson)	2.0	1.6	0.2	0.3	–	4.1
	18.3	15.9	4.1	2.3	2.5	43.1

Notes:

(a) Payment for tax equalisation, housing allowance and children's education allowances for secondment to Australia.

(b) Lump sum payment upon joining the Group as Managing Director – China effective from 21 August 2006.

2005

Group Director – Managing Director Hong Kong (Mrs. Betty Yuen)	4.0	3.5	1.2	0.5	–	9.2 [#]
Group Director – Managing Director Asia Pacific (Mr. Richard McIndoe)	4.0	3.6	–	0.5	–	8.1
Group Director – Operations (Mr. Peter Littlewood)	2.4	2.0	0.9	0.3	–	5.6
	10.4	9.1	2.1	1.3	–	22.9

* Refer to Note A on performance bonus on page 123.

[#] The total of this remuneration has been charged to the SoC operation.

9. Continued Scrutiny and Disclosure

On behalf of the Board, the Human Resources & Remuneration Committee remains committed to the establishment and application of remuneration principles, policies and practices which further the interests of the Company and its shareholders, to the careful oversight of remuneration levels, and to honest and open disclosure to shareholders on these matters.



W. E. Mocatta

Chairman

Human Resources & Remuneration Committee

Hong Kong, 28 February 2007