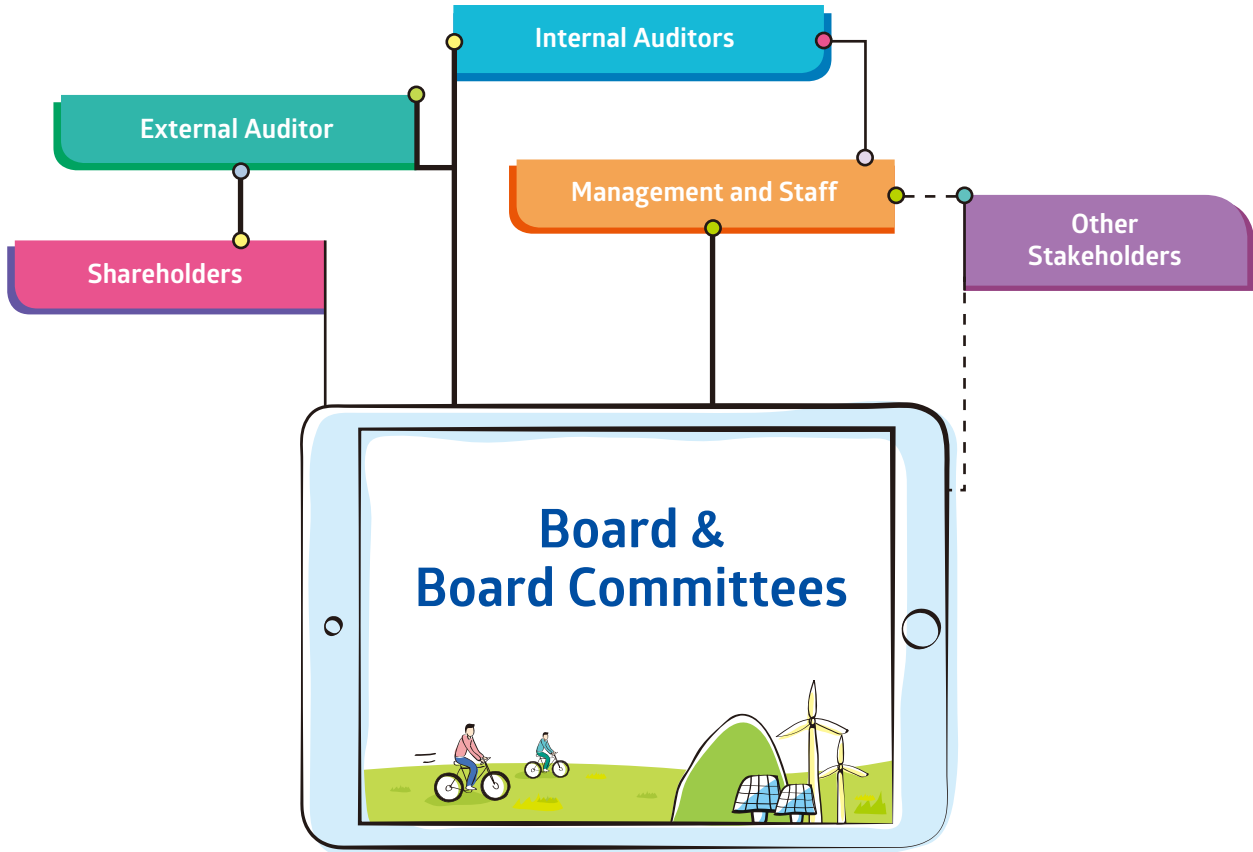


Corporate Governance Report

Well established Corporate Governance Framework

"Do The Right Thing" Culture



Highlights of CLP's Corporate Governance Framework

- The CLP Corporate Governance Framework identifies all the key participants in the responsible governance of the CLP Group, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.
- To achieve the goal of good governance, we are committed to:
 - disclosing our corporate governance principles and practices openly and fully; and
 - continuously improving our principles and practices considering our experience, regulatory requirements, international developments and investor expectations.

Introduction

This Corporate Governance Report explains the key aspects of our corporate governance policies and practices. These contribute to the high standard of corporate governance that we have achieved over the years, and include:

- the CLP Code on Corporate Governance (the CLP Code);
- our well established and documented Corporate Governance Framework; and
- a corporate culture of good governance.

Our culture


Before we highlight our key corporate governance focus areas in 2016 and how these have evolved, one fundamental area that does not change is the foundation of the CLP Code:

a culture of honesty and integrity and to “do the right thing” as a company. 


This culture of good corporate governance has been set by our Board under the leadership of our Chairman. It is reflected in our policies such as our Value Framework and Code of Conduct and recognised in the CLP Code.

In fact, one of the key strengths of the Board identified in the external board performance evaluation conducted in 2016 is a board culture of high integrity. It reflects both the Chairman’s values and the calibre of our Board members. From our Shareholders’ Visit Programme and Annual General Meetings (AGM), our shareholders have consistently demonstrated their respect for, and support of, our Chairman’s leadership.

Highlights for 2016

- The Board performance evaluation was conducted through an independent external consultant, Heidrick & Struggles. A [summary](#) of their findings is published on the CLP website and on page 103 of this Annual Report. 
- The Board held a dedicated strategy review session which considered and reviewed the Group’s Investment Strategy – see also page 99 of this Annual Report.
- The scope of delegated authority from the Board to the Finance & General Committee for approving investments and transactions was broadened with a higher transaction value threshold through the amendment of Company Management Authority Manual – see pages 101 and 108 of this Annual Report.
- Our new Senior Director – Group Internal Audit became a member of the Group Executive Committee for the first time to enhance the interaction and collaboration with management – for details, see page 112 of this Annual Report.
- The Sustainability Committee devoted considerable amount of time and efforts in assessing the implications of the developments on climate change – for details, see page 129 of this Annual Report.
- The Human Resources & Remuneration Committee considered and completed the review of Non-executive Directors’ fees and the recommendations were approved at the Company’s 2016 AGM – for details, see pages 132 and 133 of this Annual Report.

The CLP Code: Compliance and more

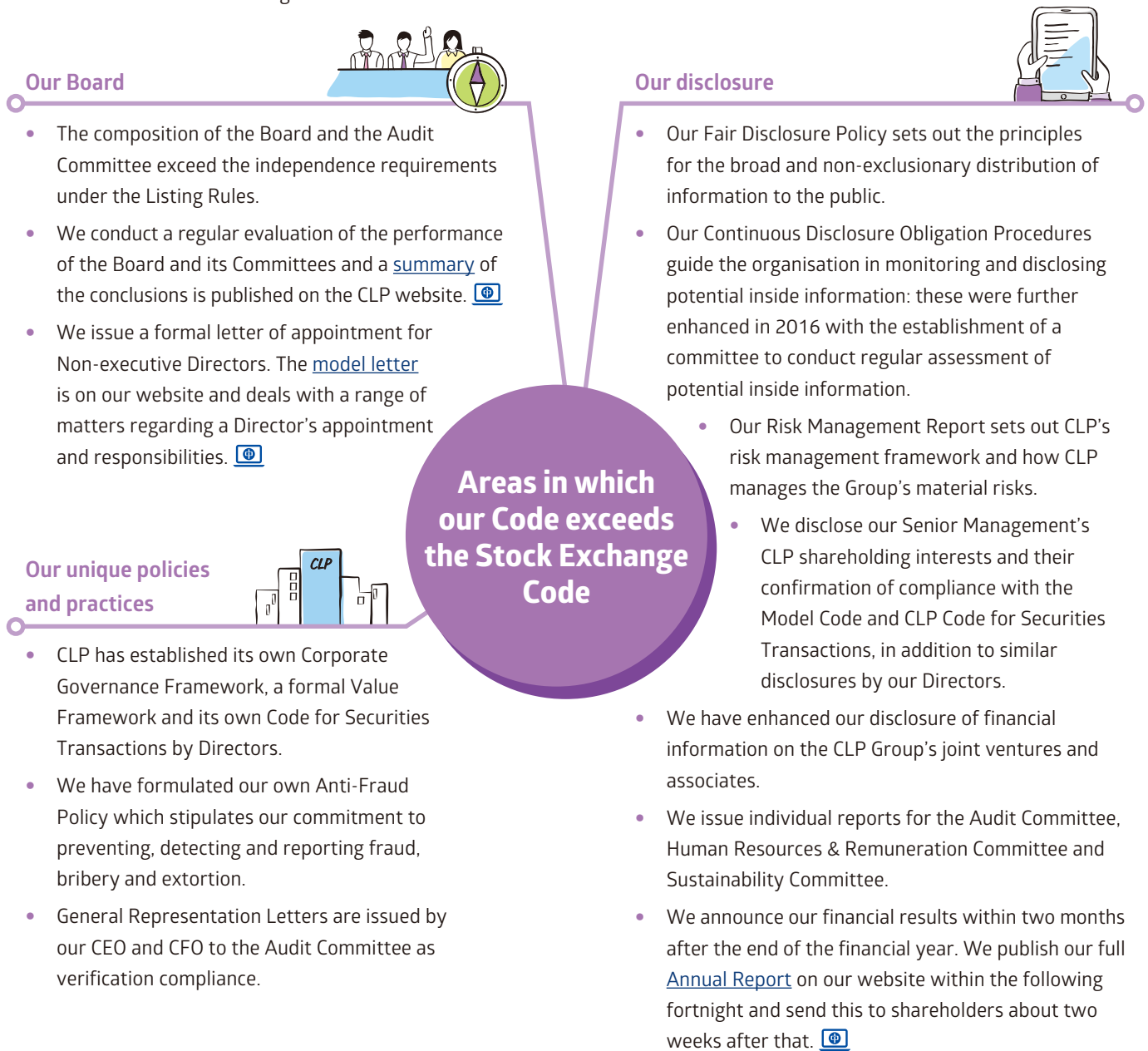
The [CLP Code](#) is our own unique code on corporate governance (available on our website or from the Company Secretary on request). Our Code incorporates and goes beyond the principles of good corporate governance, and the two levels of recommendations in The Corporate Governance Code and Corporate Governance Report of the Hong Kong Stock Exchange (the Stock Exchange Code). The only exception to this however, concerns quarterly reporting, details of which are explained on pages 96 and 97. 

What is the Stock Exchange Code?

- The Stock Exchange Code is found in Appendix 14 of the Rules Governing the Listing of Securities (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (the Stock Exchange).
- It contains the following:
 - Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
 - Recommended Best Practices (for guidance only) which encourage issuers to comply or give reasons for any deviation.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code. CLP has also applied all the principles in the Stock Exchange Code.

The diagram below illustrates how and in what ways the CLP Code exceeds the Code Provisions and Recommended Best Practices of the Stock Exchange Code.





Compliance with the Stock Exchange Code and the Environmental, Social and Governance (ESG) Reporting Guide

Our considered reasons for not issuing quarterly financial results


CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. We do not issue quarterly financial results, but we issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major activities, for the following considered reasons:

- they do not bring significant benefits to our shareholders;
- they encourage a short-term view of a company's business performance;
- CLP's activities do not run and need not be disclosed and judged on a three-month cycle; and
- preparation of quarterly reports is also costly, including the opportunity cost of board and management time spent on quarterly reporting.

CLP's focus remains on enhancing the quality of its reporting to shareholders through existing channels such as the [Annual Report](#), [Sustainability Report](#) and its website – all of which far exceed regulatory requirements in the extent of disclosure made. Shareholders are invited to let us know if their views differ and we will review our position if there is a clear and justifiable demand from shareholders for quarterly financial reporting.  

Compliance with the ESG Reporting Guide

CLP's approach to ESG Reporting

- We have been disclosing ESG information since 2002, in both our CLP Group Annual Report and [Sustainability Report](#) (originally our Social & Environmental Report). 
- We were an early adopter of the Stock Exchange's ESG Reporting Guide when it was published as a voluntary requirement back in 2012.
- In this 2016 Annual Report, we disclose the 2016 ESG information mandated under the General Disclosures for the Environmental and Social Aspects of the Reporting Guide for the year ended 31 December 2016. We also report voluntarily on the "comply or explain" provisions for the key performance indicators (KPIs) in the "Environmental" Subject Area, which will only become a mandatory disclosure in 2017, as well as the "recommended disclosures" for the KPIs in the "Social" Subject Area, again being an early mover in this area.
- Our Sustainability Committee has been delegated with the responsibilities of reviewing and advising our Board on CLP's sustainability reporting including the related ESG information. For further details, see the Sustainability Committee Report on page 128.

Our disclosures of ESG information are set out in various parts of this Annual Report:

- Our performance in the Environmental Subject Area
 - General disclosures and KPIs on emissions, use of resources, the environment and natural resources can be found in:
 - Our Business Model and Value Creation Journey – pages 7 to 10;
 - Chairman's Statement – pages 12 to 14;
 - CEO' Strategic Review – pages 15 to 19;
 - the Business Performance and Outlook section – pages 34 to 61;
 - the Natural Capital section – pages 85 to 87;
 - the Manufactured Capital section – pages 69 to 71; and
 - the Five-year Summary: CLP Group Statistics – Environmental on page 242.
- Our performance in the Social Subject Area
 - General disclosures and KPIs on Employment, Health and Safety, Development and Training and Labour Standards can be found in:
 - the Business Performance and Outlook section – pages 34 to 61;
 - the Human Capital section – pages 75 to 80; and
 - the Five-year Summary: CLP Group Statistics – Social on page 243.
 - General disclosures and KPIs on supply chain management and product responsibility can be found in:
 - the Manufactured Capital section – pages 69 to 71; and
 - the Five-year Summary: CLP Group Statistics – Environmental on page 242.
 - General disclosures and KPIs on anti-corruption can be found in:
 - the Corporate Governance Report – pages 94 to 114; and
 - the Five-year Summary: CLP Group Statistics – Social on page 243.
 - General disclosures and KPIs on community investment can be found in:
 - the Business Performance and Outlook section – pages 34 to 61; and
 - the Social and Relationship Capital section – pages 81 to 84.

In addition to this Annual Report, our [2016 Sustainability Report](#), which is published online at the same time, captures in detail our delivery of social and environmental value in 2016 and reports, in an integrated manner, all aspects of our activities. It also includes an independent assurance report from PwC. 

Our Board

The CLP Board

Key features of our Board are:

- it is a diversified Board of 14 Directors with three female Directors and the Independent Non-executive Directors representing half of the Board;
- it includes seven influential and active Independent Non-executive Directors to whom shareholders' concerns can be conveyed;
- the non-executive members of the Board bring a wide range of business and financial experience to the Board;
- the posts of Chairman and CEO are separately held by The Hon Sir Michael Kadoorie and Mr Richard Lancaster, respectively; and
- the Board has a culture of high integrity – reflecting the Chairman's values.

The Board's Roles and Responsibilities

Our Board plays more than a key role in our Corporate Governance Framework. Under the leadership of our Chairman, the Board cultivates good governance as the cornerstone of our corporate culture. To achieve this, the Board actively promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner.

Some of the key responsibilities of the Board include:

- setting the Group's values and standards;
- establishing and maintaining the strategic direction and objectives of the Group;
- overseeing the management of CLP's relationships with stakeholders, such as Government, customers, communities and others who have a legitimate interest in the responsible conduct of the Group's business;
- monitoring the performance of management;
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- ensuring the financial statements are prepared to give a true and fair view of the state of affairs of the Group.

How the Board Spent its Time in 2016

The following table shows a breakdown of the matters considered by and briefings to the Board in 2016.

	Annual Recurring Matters	Briefings on Selected Topics
January – March	<ul style="list-style-type: none"> • Annual Report and 2015 Results • 2015 Fourth Interim Dividend • Evaluation of Audit Committee Effectiveness • 2015 Audit Fees • Continuing Connected Transactions 	<ul style="list-style-type: none"> • Cyber Security
April – June	<ul style="list-style-type: none"> • Quarterly Statement 2016 (January – March) • 2016 First Interim Dividend 	<ul style="list-style-type: none"> • Electric Vehicle and Battery Technology
July – September	<ul style="list-style-type: none"> • Interim Report and 2016 Interim Results • 2016 Second Interim Dividend 	<ul style="list-style-type: none"> • Market and Regulatory Update – Australia • Market and Regulatory Update – India
October – December	<ul style="list-style-type: none"> • Quarterly Statement 2016 (January – September) • 2016 Third Interim Dividend • CLP Group Business Plan & Budget • Directors' and Officers' Liability Insurance Policy Renewal 	<ul style="list-style-type: none"> • Smart Grid

How the Board spent its time for the 2016 Board meetings*



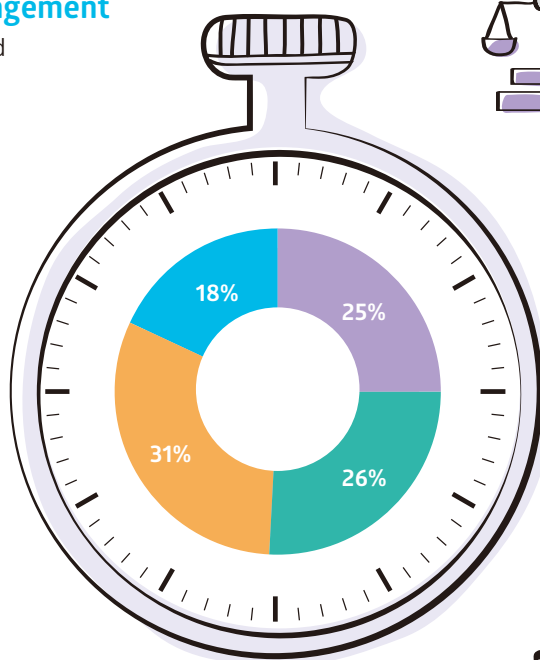
Stakeholder Engagement

(including reporting and disclosure)



Governance and Risk

(including compliance, risk management and internal controls)



Performance Monitoring

(including consideration of projects and investments)



Leadership and Strategy

(including setting the Group's values, standards, strategic direction and objectives)

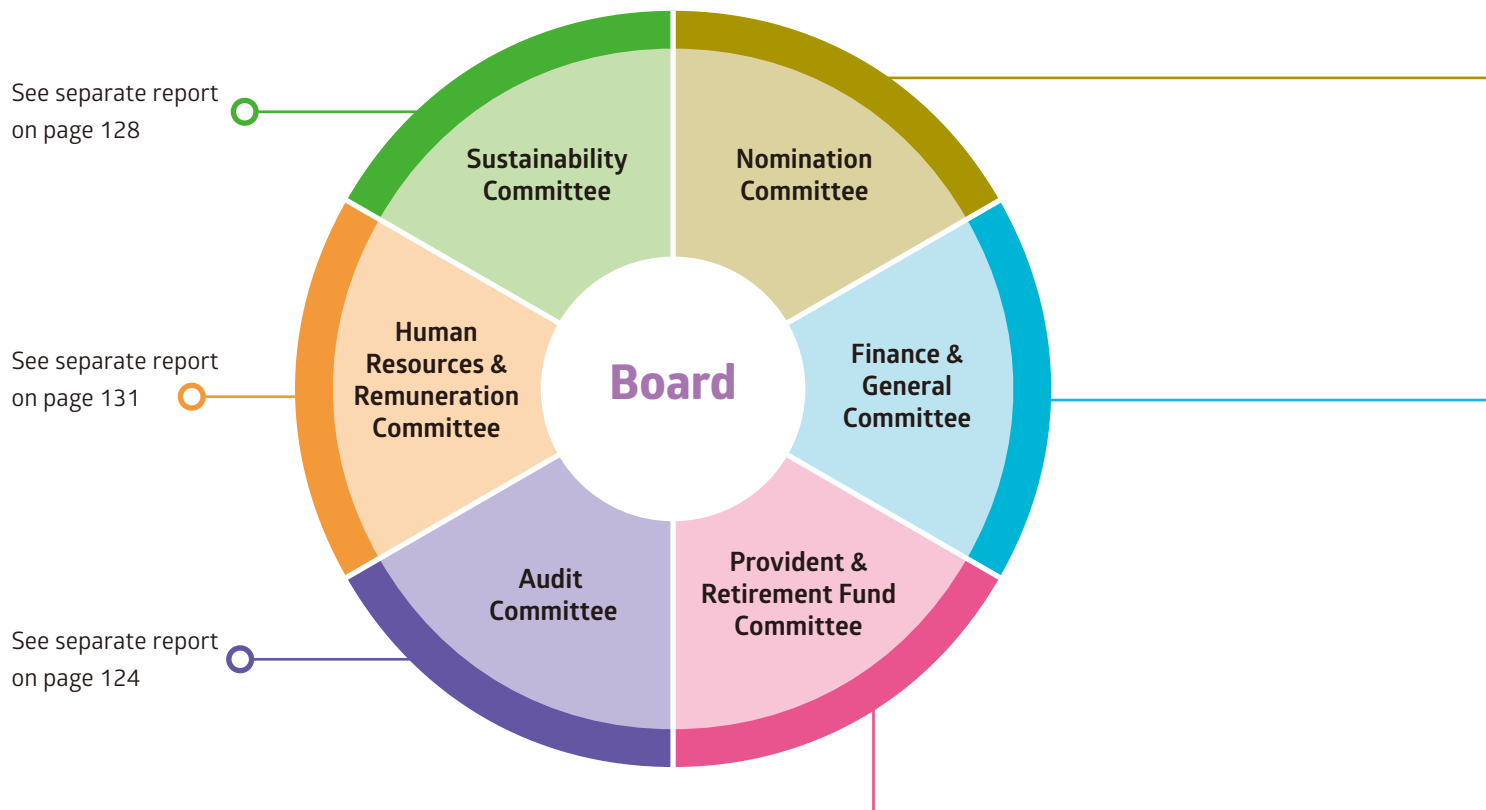
* In determining the estimated time spent, we took into account the time discussing the relevant agenda items and the volume of supporting board papers.

Key Areas of Focus

- Group investment strategy review
- Regulatory developments in Hong Kong
- New gas-fired generation project in Hong Kong
- Investment in the Yangjiang nuclear project
- Project development for the Vietnam projects
- Investment in the new Smart Charge joint venture in Hong Kong
- Board performance evaluation
- Climate change developments and impact
- Cyber and physical security risks
- Revision of the CLP Holdings Company Management Authority Manual
- Enhancement of Continuous Disclosure Obligation Procedures
- Enhancement of the Whistleblowing Policy
- 2017 Tariff Review for Hong Kong

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2016 and in 2017 up to the date of this Report (the Relevant Period). The [terms of reference and membership of all Board Committees](#) are disclosed in full on the websites of CLP and the Stock Exchange. They are also available upon request from the Company Secretary. [🔗](#)



The Board discharges some of its responsibilities through delegation to the respective Board Committees and these are set out below. Full details of the Committees' work are disclosed in the relevant sections for each of the Board Committees. In short, the Board:

- (a) develops and reviews the Company's policies and practices on corporate governance (Audit Committee);
- (b) reviews the contribution required from Directors to perform his or her duties (Nomination Committee);
- (c) reviews and monitors the training and continuous professional development of Directors (Nomination Committee) and Senior Management (Human Resources & Remuneration Committee);
- (d) reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements (Audit Committee);
- (e) develops, reviews and monitors the Code of Conduct applicable to employees (Audit Committee); and
- (f) reviews the Company's compliance with the CLP Code and disclosure in the Corporate Governance Report (Audit Committee).

Membership of Nomination Committee

The majority of the members are Independent Non-executive Directors. This Committee is chaired by the Chairman of the Board, The Hon Sir Michael Kadoorie, with Mr Nicholas C. Allen and Mr Vincent Cheng as members.

Responsibilities and Work Done

This Committee is responsible for:

- reviewing the Board structure and composition and Board Diversity Policy;
- making recommendations to the Board on Directors appointment and reappointment and succession planning;
- assessing the independence of the Independent Non-executive Directors and whether Directors are spending sufficient time performing their duties; and
- reviewing and monitoring the training and development of Directors.

The work performed by the Committee during the Relevant Period included:

- examining the current Board structure and composition;
- reviewing the Board Diversity Policy;
- assessing the independence of all Independent Non-executive Directors, including Sir Rod Eddington, Mr Vernon Moore and Mr Vincent Cheng who will retire and present themselves for re-election by shareholders at the 2017 AGM;
- considering the findings of the performance evaluation of the Board and Board Committees conducted by an external consultant;
- reviewing the training and continuous professional development of Directors; and
- evaluating Directors' time commitment and the contribution required from Directors to discharge their responsibilities.

Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr Vernon Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms Irene Lee, Mr Andrew Brandler, Mr Richard Lancaster, Mr Geert Peeters and Mrs Betty Yuen.

Responsibilities and Work Done

This Committee reviews the financial operations of the Company which include Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets and business performance. The Committee also reviews major acquisitions or investments and their funding requirements.

The work performed by the Committee during the Relevant Period included considering:

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2015 and 2016;
- the 2017 tariff strategy for the Hong Kong electricity business;
- the CLP Group Business Plan and Budget 2017 – 2021;
- the Post-2018 Hong Kong Regulatory Arrangements update;
- the CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the impact of technology, disruption & innovation on our business;
- the innovation road map and investment criteria for the Group;
- investment in specific projects in China, India and Vietnam; and
- the proposed changes to the Company Management Authority Manuals of the Company and EnergyAustralia.

Membership of Provident & Retirement Fund Committee

Mr William Mocatta (Chairman), Mr Geert Peeters and a Trustee.

Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme.

During the Relevant Period, the Committee monitored the performance of the investment managers and the overall portfolio, arranged education and communication for schemes members; and organised activities relating to retirement planning for members.

Directors' Attendance and Development

In 2016, seven Board meetings were held, one of which was a dedicated strategy review session and the overall attendance rate of Directors at Board meetings was 89.11% (2015: 92.86%).

Details of Directors' attendance at the AGM, Board and Board Committee meetings and development programmes in the year 2016 are set out in the following table.

	Board ¹	Audit Committee ²	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee ³	Provident & Retirement Fund Committee	Sustainability Committee	AGM ^{2,6}	Directors Development Programme [*]
Non-executive Directors									
The Hon Sir Michael Kadoorie	6 / 7 ^(C)				1 / 1 ^(C)			1	A, B, C
Mr William Mocatta	6 / 7 ^(VC)		6 / 6 ^(C)	3 / 3		2 / 2 ^(C)		1	A, B, C
Mr Ronald J. McAulay ⁴	3 / 5							1	N / A ⁴
Mr J. A. H. Leigh	6 / 7							1	A, C
Mr Andrew Brandler	7 / 7		6 / 6				3 / 3	1	A, B, C
Dr Y. B. Lee	7 / 7							1	A, B, C
Independent Non-executive Directors									
Mr Vernon Moore	7 / 7	6 / 6 ^(C)	4 / 6	2 / 3				1	A, B, C
Sir Rod Eddington	6 / 7		6 / 6					0	A
Mr Nicholas C. Allen	6 / 7	6 / 6	6 / 6	2 / 3	1 / 1		3 / 3	1	A, B, C
Mr Vincent Cheng	5 / 7		3 / 6	3 / 3 ^(C)	1 / 1			1	A, C
Mrs Fanny Law	7 / 7	6 / 6					3 / 3	1	A, B, C
Ms Irene Lee	7 / 7	6 / 6	5 / 6				3 / 3	1	A, B, C
Mrs Zia Mody	5 / 7			3 / 3				0	A, C
Executive Directors									
Mr Richard Lancaster	6 / 6		6 / 6				3 / 3 ^(C)	1	A, B, C
Mr Geert Peeters ⁵	6 / 6		6 / 6			2 / 2		1	A, B, C

Notes:

- Included a Board meeting where the Chairman met Independent and other Non-executive Directors in the absence of the Executive Directors and management.
- Representatives of the external auditor participated in every Audit Committee meeting and the AGM.
- In addition to the annual meeting, the Nomination Committee considered and reviewed the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development in 2016.
- Mr Ronald J. McAulay resigned as a Non-executive Director with effect from 1 October 2016.
- Mr Geert Peeters was appointed as an Executive Director with effect from 1 January 2016 and he has been a member of the Finance & General Committee and the Provident & Retirement Fund Committee since 1 April 2014. An induction was conducted for Mr Peeters.
- Two of the Independent Non-executive Directors were unable to attend due to other overseas commitments; the other five Independent Non-executive Directors (along with other Directors) were available to take any shareholders' questions specifically addressed to the Independent Non-executive Directors during the AGM (of which there were none). Furthermore, a full length video of the AGM was sent to these Directors for viewing and reference; this included the Q&A session for them to understand the issues and questions raised by the shareholders.
- Chairmen of the Board and Board Committees and the Vice Chairman of the Board are indicated by (C) and (VC) respectively.

* Our Directors Development Programme includes:

- A – reading regulatory and industry related updates;
- B – meeting with local management and stakeholders, including hosting shareholders' visits (2015-2016 Shareholders' Visit Programme) and visiting CLP's facilities and special projects with CLP's involvement; and
- C – attending expert briefings/ seminars/ conferences relevant to the business or director's duties. Directors have access to Chatham House (a leading independent policy institute based in London) publications and the opportunity to attend Chatham House events on topics relevant to our business.

The Board is regularly kept up-to-date on key events, outlook, safety and environmental matters of the Group through the CLP Group Monthly Management Reports. The Management Report gives a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail and includes year-to-date financials as well.

Directors' Time and Directorship Commitments

To ensure that our Directors have spent sufficient time in the affairs of the Company, the Directors have given certain confirmations and made disclosures about their other commitments.

- Sufficient time and attention: Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year.
- Other offices and commitments: Directors disclose to the Company twice a year the number, identity and nature of offices held in Hong Kong or overseas listed public companies and organisations and other significant commitments, together with an indication of the time involved.
- Other directorships: As at 31 December 2016, none of our Directors, individually, held directorships in more than eight public companies (including the Company).

Our Executive Directors do not hold directorship in other public companies; however, they are encouraged to participate in professional, public and community organisations.

In respect of those Directors who stand for re-election at the 2017 AGM, all their directorships held in listed public companies in the past three years are set out in the Notice of AGM. [Other details of the Directors' biography](#) are set out under "Board of Directors" on pages 90 and 91 of this Annual Report and on CLP's website. [🌐](#)

Board Evaluation

In 2016, an independent evaluation of the Board and the Committees was carried out. In line with our CLP Code, we undertake a performance evaluation of our Board and Committees on an ongoing basis; the last independent evaluation was in 2012 and for the intervening years, the evaluations were conducted internally.

The 2016 evaluation was conducted by Heidrick & Struggles, an independent external consultant, that was appointed following a competitive tendering process.

The evaluation process involved a series of one-on-one structured conversations with each of the Directors and selected members of the Senior Management and focused on the Board's effectiveness and future readiness. The evaluation confirmed the effectiveness of the Board and its Committees.

The consultants also identified a number of signature strengths of the Board and its Committees which include:

- the Board plays an important corporate governance role and effectively oversees and contributes to CLP's core businesses;
- the Board and management have a highly transparent and collaborative partnership;
- the Board and its Committees are run efficiently; and
- the Board has a culture of high integrity reflecting the Chairman's values.

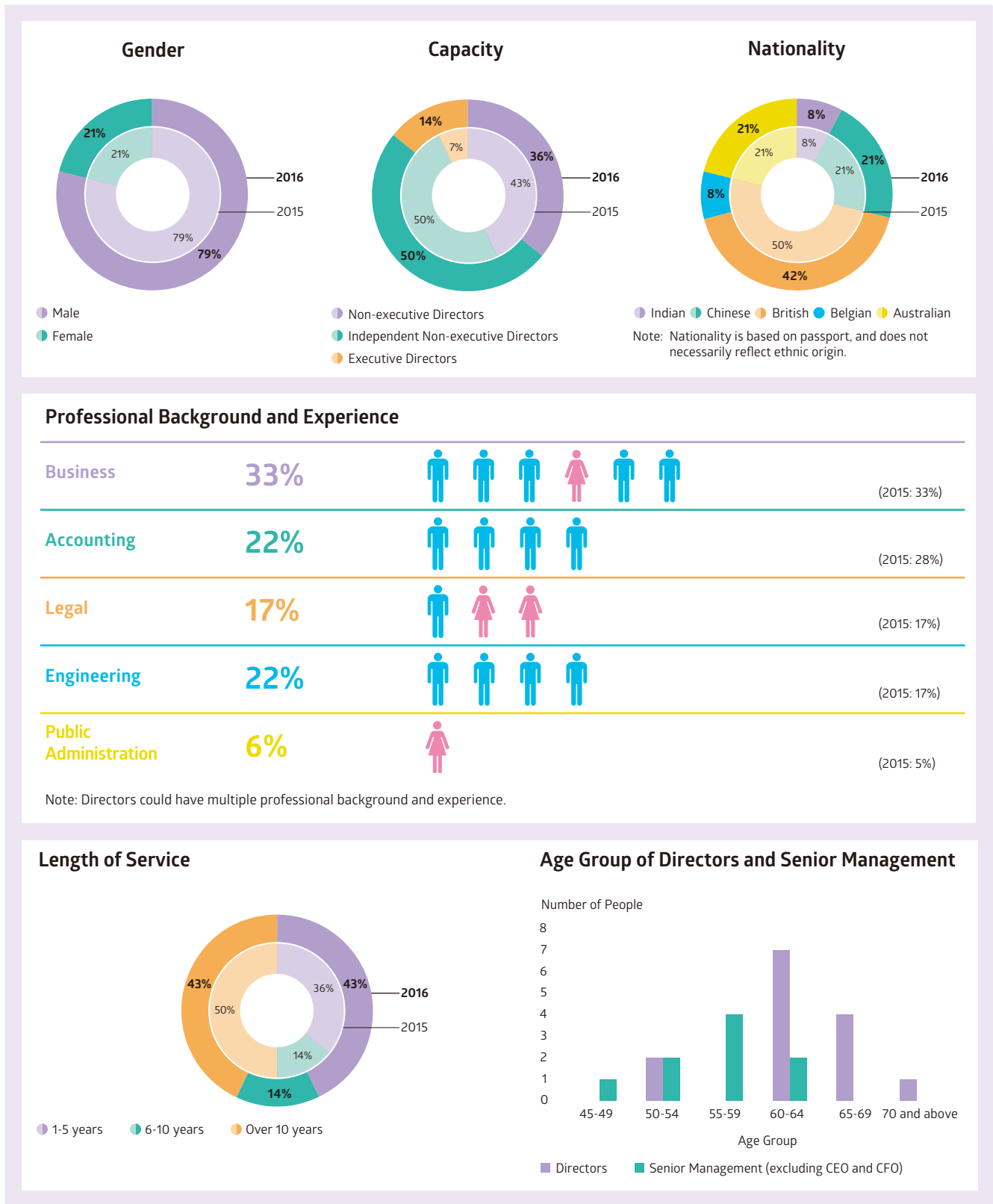
Looking ahead, recommendations were made by Heidrick & Struggles with a view to enhancing the effectiveness of the Board to ensure that it would be able to focus more on issues that could have an impact on CLP's future success. Over the course of this coming year, management will put forward these issues to the Board for review and implementation as appropriate.

A key recommendation was the greater use of external consultants who can contribute to some of the critical issues facing CLP and provide expert assistance to the Board and its Committees.

The summary of [the findings of the Board and Board Committees performance evaluation](#) is available on the CLP website. [🌐](#)

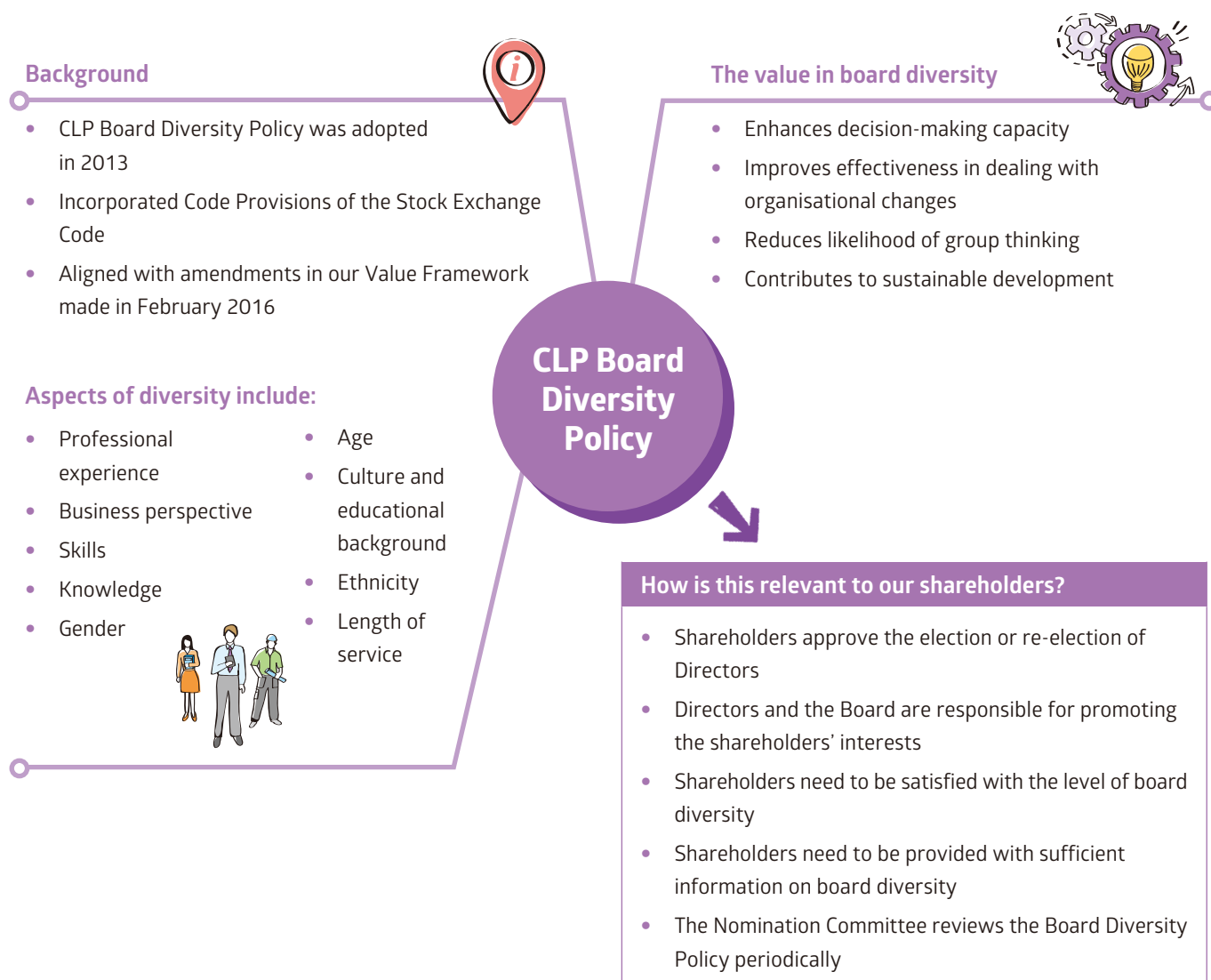
Board Composition and Diversity

The following illustrates the degree of expertise, diversity and experience of the Board members (information as at the end of the financial year).



Details of all Directors and their biographies including, if any, relationship between the members are disclosed on pages 90 and 91 of this Annual Report.

The diagram below illustrates the key features of CLP Board Diversity Policy.



In 2016, we assessed the diversity of the Board based on aspects of independence, gender, nationality and ethnicity, skills and experience (the measurable objectives set out in the Board Diversity Policy) as well as the age and length of service on the Board. Please refer to page 104 for details.

The results of the Board diversity assessment revealed that:

- the percentage of the Independent Non-executive Directors was maintained at the same high level of 50%;
- gender diversity (female representation) remained at a relatively high level of 21.43% compared with other Hong Kong listed companies;
- there was an increase in the representation of Executive Directors;
- we experienced an increase in diversity in terms of nationality and length of service (following the Director changes in 2016); and
- the overall diversity of the Board was enhanced during the review period.

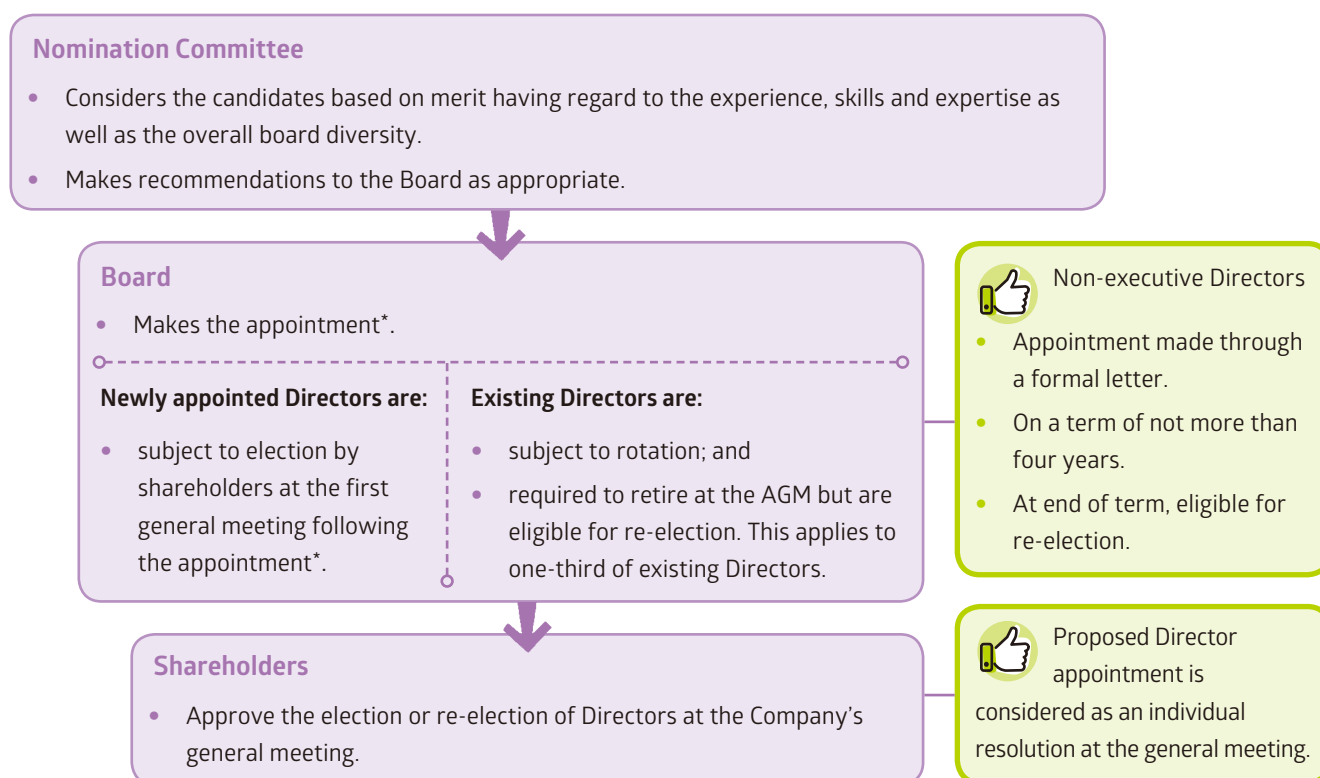
We also sought shareholders' views on the diversity of the Board during the Shareholders' Visit Programme 2015-2016. The overall results showed that the shareholders' satisfaction levels with aspects of Board diversity increased to 97.4%-98.0% in 2015-2016. The 2016 review of the Board Diversity Policy was endorsed by the Nomination Committee.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new Directors.

CLP's process for appointing a Director

The diagram below presents the system used by CLP to appoint our Directors.



* In 2016, Mr Geert Peeters was appointed as an Executive Director in January and was subsequently elected by the shareholders in the 2016 AGM.

Disclosure of Conflict of Interest and Independence of Directors

Directors are requested to declare their and their connected entities' 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. In 2016, none of the Directors were required to withdraw from meeting in these circumstances.

The Company follows guidelines at each financial reporting period to obtain confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their connected entities.

In addition, identified significant related party transactions are disclosed in Note 29 to the Financial Statements of the Annual Report.

As required under the Listing Rules, the Company received written confirmations from all of the Independent Non-executive Directors regarding their independence. The Company considers all of the Independent Non-executive Directors to be independent.

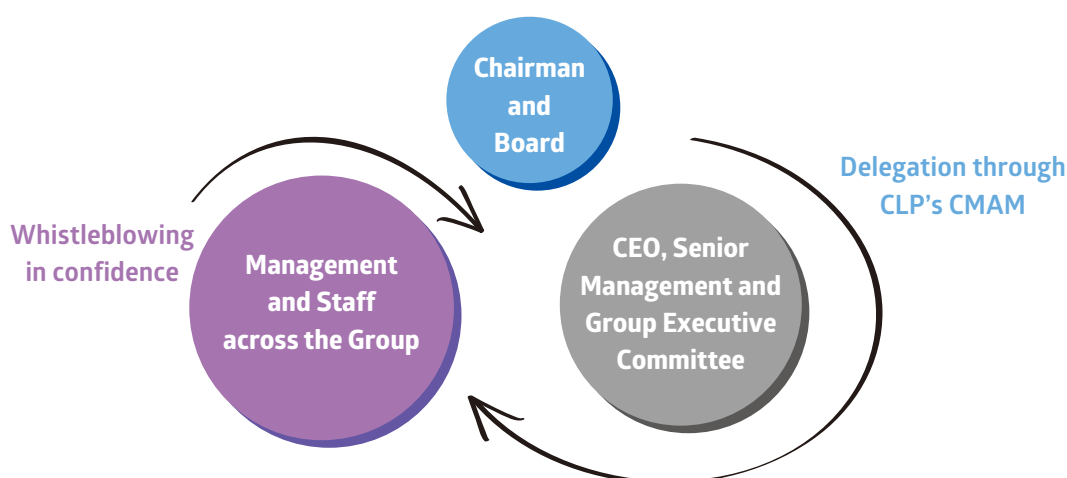
Directors' Shareholding Interests

Directors' interests in CLP's securities as at 31 December 2016 are disclosed in the Directors' Report of this Annual Report on page 145. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2016 they have complied with the required standard set out in the Model Code and our own Code for Securities Transactions. CLP's own Code for Securities Transactions is largely based on the Model Code set out in Appendix 10 of the Listing Rules and is on terms no less exacting than those in the Model Code.

Management and Staff

One of the key tasks of CLP's management and staff is the successful implementation of strategy and direction as determined by the Board under the leadership of our Chairman. This includes promoting and implementing the good corporate culture developed by our Board over the years. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's shareholders and other stakeholders. The positions of Chairman and CEO are separate, our CEO has the overall responsibility for carrying out the strategy and direction set by the Board and for managing the Group's business. The delegation of authority by the Board to the Committees, Senior Management and management are prescribed in the form of a "Company Management Authority Manual" (CMAM).

Role of Management and Staff in promoting good corporate governance practices



Management and Staff adhere to various Group policies that reflect the values and corporate culture of CLP

Value Framework

- Sets out the business principles and ethics that underpin CLP's activities.
- Articulates our vision, mission, values, commitments, policies and codes.
- Covers all aspects of our operations.

Code of Conduct

- Provides unique guiding principles for our employees to do what is right, behave with integrity and honesty, obey all laws and communicate openly. These principles cover all aspects of our operations including Anti-Corruption.
- Non-compliance results in disciplinary action.
- Disciplinary measures are subject to review and endorsement by a Group Code of Conduct Committee, which comprises the CFO, Group General Counsel & Chief Administrative Officer and Chief Human Resources Officer.
- In 2016, there was one suspected Code of Conduct violation in respect of bribery (2015: nil case). Two of our employees were alleged to be indirectly involved in a bribery case relating to one of our third party contractors. While this did not concern any of the business units of CLP, the alleged indirect involvement on the part of the two employees was considered as a violation against our strict principle of "No Bribery" as stipulated in our Code of Conduct.
- 2016 – there were 21 breaches (2015: 6) of the Code – see also Audit Committee Report.

Whistleblowing Policy

- Applies to CLP Group with specific policy for CLP India and EnergyAustralia.
- Allows employees and third parties to report suspected misconduct, malpractice or irregularity.
- 2016 – there were 23 reported cases (2015: 15).

Corporate Governance Report

In 2016, we reviewed and updated CLP Holdings' CMAM, which is the Group's holding company manual for delegation of authority. This refined the alignment of the governance process for the operational and strategic aspects of the business with the focus and strategy of the Group.

The Group Executive Committee has now been expanded to include our Senior Director – Group Internal Audit and Senior Director – Innovation. The addition recognises the significance of these functions and, in particular, the role that internal audit and innovation play across our organisation.

Our Management and Staff are subject to CLP Securities Dealing Restrictions.

- We appreciate that some of our staff may in their day to day work have access to potentially inside information.
- Our Senior Management and selected members of staff, "Specified Individuals", are subject to securities dealing restrictions in our CLP Code for Securities Transaction.
- Securities Transactions: All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2016 they have complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.
- Shareholding in CLP shares: Except for the interest disclosed by Mr Richard Lancaster in the Directors' Report on page 156 of this Annual Report and the interest in 600 shares each disclosed by the Managing Director, CLP Power Hong Kong and the Managing Director, China, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2016.

Senior Management Training and Development

We have a formal procedure in place for reporting the training and continuous professional development of Senior Management. Members of Senior Management have access to a variety of training activities. These include formal executive development programmes at leading business schools, attendance at executive briefings on matters of topical interest, and access to on-line learning and information sources. We also make selective use of systematic and independent executive assessment processes to assist with identifying individual development needs and provide input to our succession planning decisions.

Participation in Training and Continuous Professional Development of Senior Management in 2016				
	Attending formal executive development / training programme	Attending expert briefings / seminars / workshops / conferences relevant to the business or their duties	Participating as speakers at events	Access to web based learning resources
Senior Management				
Mr Richard Lancaster		✓	✓	✓
Mr Geert Peeters	✓	✓	✓	✓
Mr Derek Parkin		✓	✓	✓
Mrs Betty Yuen		✓	✓	✓
Mr Paul Poon		✓	✓	✓
Mr S. H. Chan		✓	✓	✓
Mr Rajiv Mishra		✓	✓	✓
Ms Catherine Tanna	✓	✓	✓	✓
Mr David Simmonds ¹	✓	✓	✓	✓
Ms Quince Chong	✓	✓	✓	✓
Mr Roy Massey	✓	✓	✓	✓

Note:

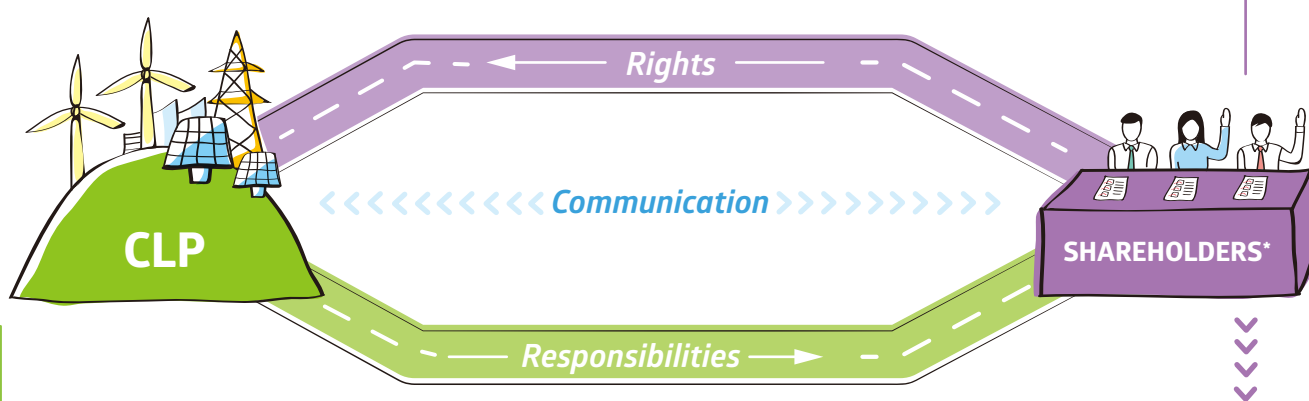
- 1 During 2016, Mr David Simmonds, the Company Secretary, served as a member of the Company Secretaries Panel, the Technical Consultation Panel and leads the Competition Law Interest Group of the Hong Kong Institute of Chartered Secretaries. He was also a frequent speaker at seminars and has fulfilled the relevant professional training requirements under the Listing Rules.

Shareholders

Shareholders are one of our key stakeholders and from a corporate governance perspective, the importance of the key elements of the relationship can be illustrated as follows:

Shareholders' Rights

- Shareholders have a set of rights including the right to dividends and to vote and attend general meetings.
- Shareholders also have [the right to convene general meetings and to put forward proposals](#) – details of which can be found in our explanatory notes to the 2017 Notice of AGM and on our website or on request. [📄](#)
- Shareholders can make enquiries with the Board through the Company Secretary via our shareholders' hotline (852) 2678 8228, email at cosec@clp.com.hk or by posing questions at our general meeting.



- The Board and Senior Management recognise their responsibilities to represent the interests of our shareholders as a whole.
- Our goal is to create long-term sustainable value for shareholders; for further details, please refer to the "Shareholder Value" section of this Annual Report.

Responsibilities to our Shareholders

*Other shareholder-related information:

- by type and aggregate shareholding – see page 20
- coming important dates – see page 23
- year-end CLP shares public float – see page 20

Our AGM – an important shareholder event

- is attended by our Directors, Senior Management and our external auditor;
- includes a keynote address by our Chairman;
- since 2004, allows resolutions to be voted on by poll (instead of show of hands), the results of which are announced on the same day;
- provides an opportunity for our shareholders to raise questions in a dedicated interactive Q&A session; and
- published minutes including the Q&A session is provided after the meeting.

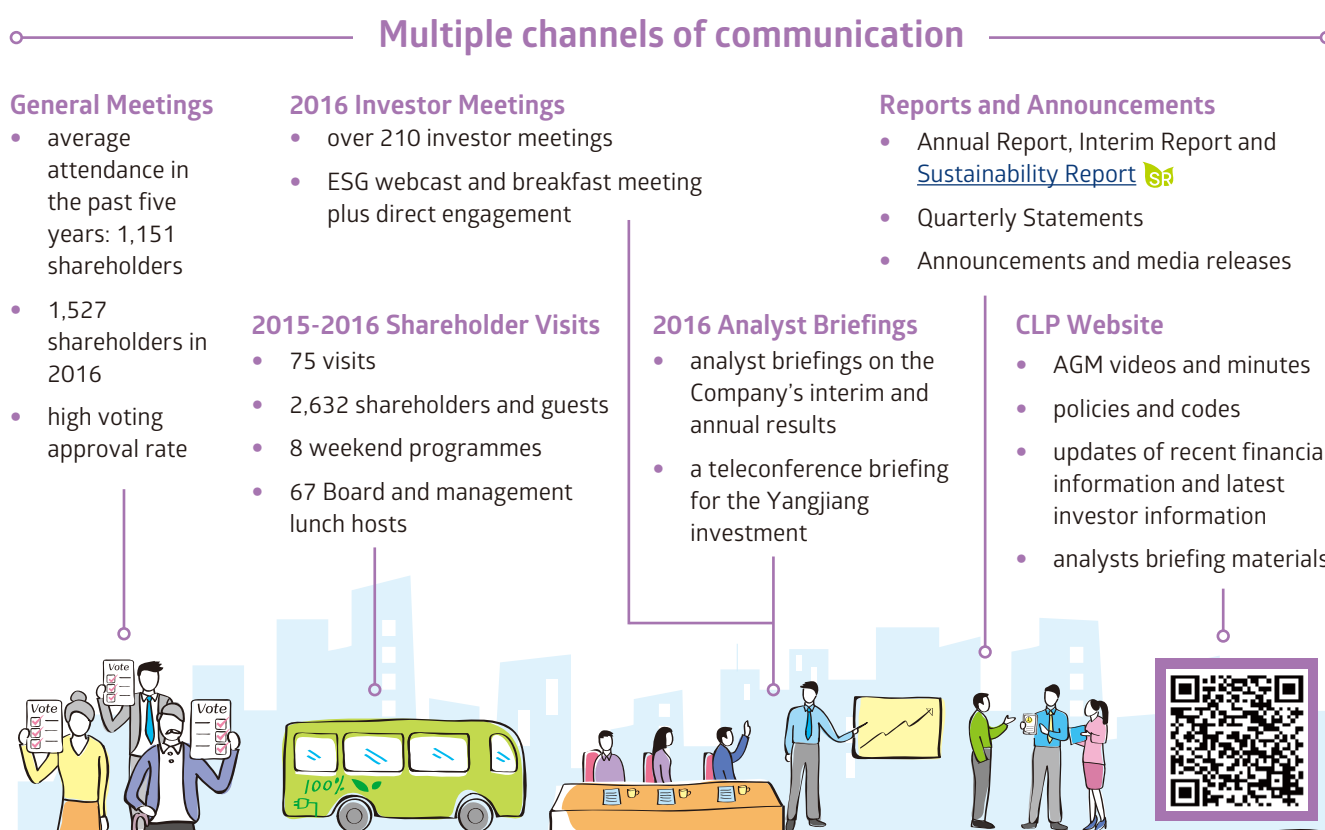
At our 2016 AGM held on 5 May 2016 at the Grand Ballroom, 1/F., Crowne Plaza Hong Kong Kowloon East, 3 Tong Tak Street, Tseung Kwan O, Hong Kong, this was well supported by our shareholders with:

- a record breaking attendance of over 1,500 shareholders; and
- a high level of votes approving the following major items:
 - the election and re-election of directors ranging from over 95% to over 99%;
 - the fees payable to our Non-executive Directors (99.99%); and
 - the general mandate to issue new shares of up to 5% of shares in issue only, at a price not being at a discount of more than 10% to a benchmarked price and to repurchase shares of not more than 10% shares in issue (over 99%).

Communication with Shareholders

The importance to CLP of an effective dialogue with shareholders and investors has been recognised with the implementation by the Board of a [Shareholders' Communication Policy](#), which is published on our website. This Policy forms the basis for extensive and ongoing engagement with our shareholders and the investment community. [🔗](#)

The table below shows the approach we take with our shareholders communications.



The above channels allow us to receive feedback from our shareholders and investment community. In addition, we have the shareholders' hotline as well as dedicated investor relations and company secretary email accounts for taking enquiries and for receiving information requests from shareholders.

Reviewing shareholders communication

The Audit Committee is responsible for regularly reviewing the effectiveness of the Shareholders' Communication Policy. The most recent review was undertaken in October 2016 and the effectiveness of the Policy was confirmed. In 2016, we sponsored research on shareholders communications conducted by the Hong Kong Institute of Chartered Secretaries. A number of measures to promote effective shareholders communications were identified and we were pleased to note that these were consistent with CLP's approach in shareholders communications.

Enhancing shareholders communication

As we strive to further enhance the effectiveness of our communication with our shareholders, we have undertaken a number of key measures in this area:

- on the recommendation of the Audit Committee, we are adopting a more “reader friendly” approach to our Annual Report;
- to broaden our shareholders participants base, our unique Shareholders’ Visit Programme has been expanded with “Family Day” weekend visits to allow children of our shareholders to attend; and
- our ESG briefing format was changed to direct engagement with targeted stakeholders.


Providing Feedback and Answering Questions

Feedback and questions are an essential part of effective communication. Recognising that some of the questions posed by our shareholders may be of interest to other shareholders, we have selected some of the key questions and issues in 2016 to be included in our Annual Report.

These cover the following topics:

- Progress on the regulatory discussions with the Hong Kong Government – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36), Social and Relationship Capital (page 81) and Risk Management Report (page 115).
- Proposals regarding:
 - the new gas-fired generation unit – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36) and Financial Capital (page 64); and
 - the floating offshore LNG Terminal in Hong Kong – please see the CEO’s Strategic Review (page 15) and Business Performance and Outlook – Hong Kong (page 36).
- Market developments in Mainland China, potential for direct sales of electricity, and impact on coal price – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – China (page 42), Financial Capital (page 64) and Risk Management Report (page 115).
- For India, renewable energy development opportunities, operational performance of the generation assets, loan financing, and green bonds – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – India (page 48), Financial Capital (page 64), Natural Capital (page 85) and Human Capital (page 75).
- EnergyAustralia – overall performance of our business, latest market developments and challenges in the wholesale and retail markets – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – Australia (page 56), Financial Capital (page 64), Intellectual Capital (page 72) and Risk Management Report (page 115).
- CLP’s investment strategy to address climate change, exposure to coal-fired generation and mitigation measures – please see the Chairman’s Statement (page 12), CEO’s Strategic Review (page 15), Business Performance and Outlook – Hong Kong (page 36), Business Performance and Outlook – China (page 42), Natural Capital (page 85) and Risk Management Report (page 115).
- Dividends, managing our financial and debt position as uncertainty in financial markets increases, use of cash generated in the business.
 - Dividends – see the Chairman’s Statement (page 12) and Financial Highlights (page 5).
 - Managing our financial position as markets change and uncertainty increases – see the Financial Capital (page 64).
 - Use of cash generated in the business – see Our Business Model and Value Creation Journey (page 7) and the Financial Review (page 24).

Internal Auditors

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. In 2016, the head of the department, Senior Director – Group Internal Audit was newly appointed and she leads a well-resourced department of 26 highly qualified professional staff. For detailed tasks of the department please see the [CLP Code](#) on the CLP website. 

The Senior Director – Group Internal Audit reports directly to the Audit Committee and the CEO and has direct access to the Board through the Chairman of the Audit Committee. The Senior Director – Group Internal Audit has the right to consult the Audit Committee without reference to management, and starting in 2016, became a member of the Group Executive Committee.

In 2015, an independent external review of the GIA function noted the function as a high performing one, with a number of recommendations for consideration in 2016. These recommendations were followed up by GIA with the action items reviewed and approved by the Audit Committee.

External Auditor

The Group's external auditor is PricewaterhouseCoopers (PwC) and we recognise their independence as an external auditor is a fundamental governance principle.

How the Group ensure the independence of the external auditor

- The lead audit partner of PwC is subject to rotation every seven years (as per The Independent Federation of Accountants rules on independence of external auditors).
- As part of the rotation, the current lead audit partner was first appointed for the 2014 financial year-end audit and he did not have any involvement in CLP Group for 10 years prior to the appointment in 2014.
- PwC is required to give an annual confirmation on their independence.


In addition, PwC will not be engaged to perform non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been pre-approved by the Audit Committee or its delegates. There must be clear efficiencies and value-added benefits to CLP from the work being undertaken by the external auditor, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditor provided the following audit and permissible audit related and non-audit services to the Group:

	2016 HK\$M	2015 HK\$M
Audit	39	39
Permissible audit related and non-audit services		
Accounting / tax advisory services	5	2
Other services	4	6
Total	48	47

(For these purposes, **Permissible audit related and non-audit services** include any entity under common control, ownership or management with the external auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.)

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our [Sustainability Report](#), available on the [CLP website](#), explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate. 

Risk Management and Internal Control

Effective risk management and internal control systems help the organisation anticipate its risk exposure, put controls in place to counter threats, and effectively pursue the set objectives. They are therefore an essential part of an organisation's operation and governance processes. This section explains (and contains cross references) the key features of our risk management and internal control systems.

Risk Management

CLP's overall risk management framework is overseen by, and the responsibility of, the Board, through its Audit Committee, and comprises four key elements:

- Risk management philosophy – CLP recognises that risk management is the responsibility of everyone within CLP and thus it is integrated into the business and decision-making process;
- Risk Appetite – the nature and extent of the risks that the Group is willing to undertake in pursuit of its strategic and business objectives;
- Risk Governance Structure – clear roles and responsibilities are assigned to multiple layers within the organisation. The structure facilitates risk identification and escalation; and
- Risk Management Process – through an integrated top-down and bottom-up risk review process, which enables risks identification and prioritisation throughout the Group, management maintains an open and effective communication channel to enable the timely escalation of material risk and adequate supervision of risk mitigation.

The way we manage risk is set out in the Risk Management Report on page 115.

Internal Control

The Company's structures of internal control is based on the internationally recognised COSO (Committee of Sponsoring Organizations of the Treadway Commission) 2013 integrated framework. This comprised 17 principles under the five COSO components of an effective internal control framework.

Our internal control system covers every activity and transaction of our Group. Management (which includes qualified accountants) is primarily responsible for the design, implementation, and maintenance of internal controls. It is based on clear stewardship responsibilities, authorities and accountability, supported by well-defined policies and procedures established and communicated to all staff.

With our developed internal control framework, we have continued to maintain voluntary compliance with the substance of the requirements under the Sarbanes-Oxley Act. We were required to comply with this Act when our Yankee Bonds were still in issue prior to its redemption and deregistration from the US Securities and Exchange Commission in 2008.

Identifying, Evaluating and Managing Significant Risks

Management and our staff concerned evaluate the control environment and conduct risk assessments of the business and processes. Key risks and associated controls, including mitigation when needed, are continually reviewed and updated.

High risks key controls are required to be tested annually by management. Based on the testing results, process owners are able to represent to Senior Management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses are identified. The Board and its Audit Committee oversee management's monitoring activities, and thus the effectiveness of the controls that have been put in place.

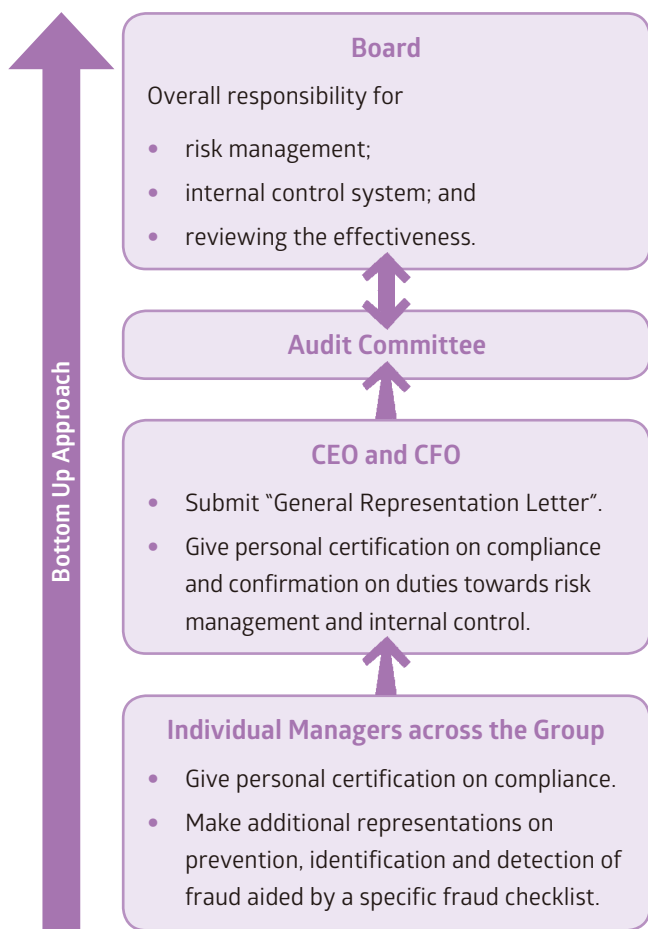
GIA provides independent assurance to the Board on the adequacy and effectiveness of internal controls for CLP. They adopt a risk-based approach, concentrating on areas with significant risks or where significant changes have been made. GIA is equipped with well qualified and capable staff with access to all the data and operations of the Group. Audit issues identified are followed up for proper implementation and the progress is reported to the Audit Committee periodically.

The external auditor also tests the key controls to the extent that they will be relied on for the audit. The Board is regularly informed of significant risks that may have an impact on CLP's performance.

Management Representation

The process of General Representation Letters reinforces personal responsibility for good governance and controls at all levels within CLP. It involves a procedure whereby individual managers across the Group are requested to verify compliance with internal controls in their particular businesses, departments and activities.

CLP's General Representation Letter Process – compliance verification



Effectiveness of Risk Management and Internal Control Systems

Through the Audit Committee's review, the Board is responsible for the Company's risk management and internal control systems and for reviewing their effectiveness.

The review process

Five times a year, the Audit Committee reviews the management's findings and opinion of GIA on the effectiveness of the Company's risk management and internal control systems. The reviews cover management's assessment of the internal controls of key business operations, changes in material risks, internal control and compliance issues (both financial and non-financial) and

significant issues arising from internal and the external audit reports.

For the year ended 31 December 2016, the Board considered the risk management and internal control systems of the Group to be effective and adequate. No significant areas of concern that might affect shareholders were identified.

Inside Information

We have our own [Continuous Disclosure Obligation Procedures](#) which set out the procedures and controls for handling and dissemination of inside information. The Procedures are on the CLP website. We have further enhanced our procedures in 2016 with the establishment of a continuous disclosure committee to conduct regular assessment of potential inside information. The members of the committee include the CEO, CFO, the Company Secretary and the Director – Investor Relations. Please also see page 96 on "Our disclosure". [🔗](#)

Corporate Governance – Continuing Evolution and Disclosure

Our own corporate governance practices evolve, not only in line with local requirements, but through our own experience and by reference to international developments. Through this Corporate Governance Report, the [CLP Code](#) and the [Corporate Governance section](#) of our website, we offer a comprehensive view of our practices and policies and how these are developing. Our objective is that, at all times, our corporate governance meets our shareholders' expectations and serves their interests. [🔗](#)

We will continue to review and, where appropriate, improve on our corporate governance practices in light of our experience, regulatory requirements and international developments.

By Order of the Board

David Simmonds

Company Secretary

Hong Kong, 27 February 2017