

Corporate Governance Report

Message from the Company Secretary

We recognise the growing interest in, and significance of, issues relevant to the long-term sustainability of our business and we are committed to presenting our disclosures in a more “reader friendly” manner; disclosures that are useful and presented with clarity.

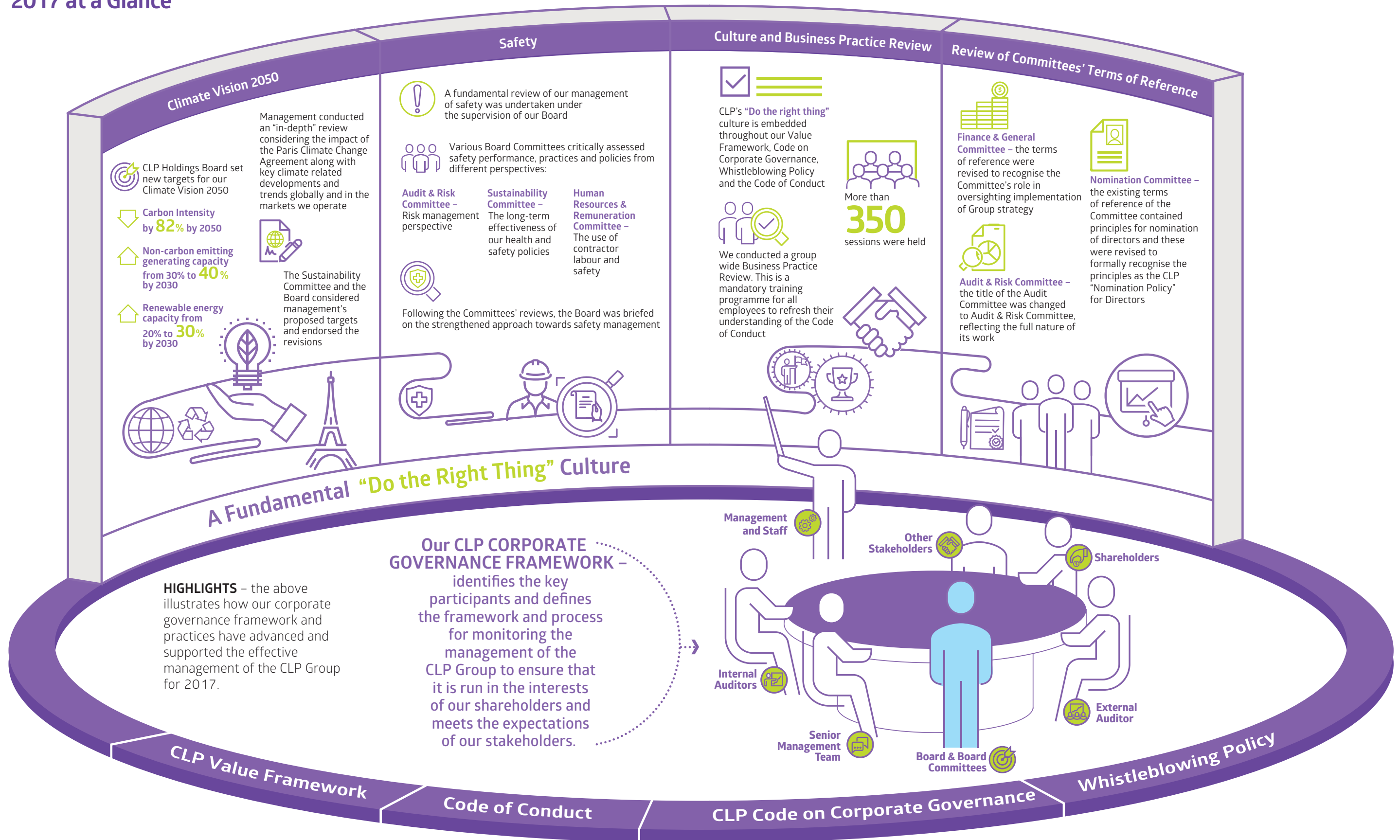
Our integrated approach to annual reporting supports this objective. A key aspect of this year’s Annual Report is the disclosure of (i) the sustainability topics that matter most to our business and to our key sustainability stakeholders and (ii) the reporting boundaries of these topics. The sustainability topics have been determined by Senior Management by applying our boundary scoping and materiality identification methodology. From this exercise, the “most material” topics have been included in this Annual Report and are discussed in greater detail in the Capitals section on page 66. This year, the process has been enhanced by an additional survey of our key sustainability stakeholders which provided a further reference for our assessment.

We believe our integrated approach to reporting will provide a useful insight into how we manage our business at CLP.

David Simmonds
Company Secretary



Company Secretary David Simmonds (first on the right) discusses and exchanges views with shareholders during our Shareholders' Visit Programme



The CLP Code: Compliance and more

The “[CLP Code on Corporate Governance](#)” (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 (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange). The only exception to this however, concerns quarterly reporting, details of which are explained on page 106. [📄](#)

Our CLP Code exceeds the code provisions and recommended best practices of the Stock Exchange Code. Our Code enables us to continue to monitor and develop our practices, ensuring that these are consistent with the practices and standards which our shareholders would expect of us. We have made **further enhancements to our corporate governance practices in 2017** and these are highlighted in “**2017 at a Glance**”.

Areas in which our Code exceeds the Stock Exchange Code

Our Board

- The composition of the Board and the Audit & Risk Committee exceed the independence requirements under the Listing Rules.
- We conduct a regular evaluation of the performance of the Board and its Committees and a [summary](#) of the conclusions is published on the CLP website. [📄](#)
- We issue a formal letter of appointment for Non-executive Directors. The [model letter](#) is on our website and deals with a range of matters regarding a Director’s appointment and responsibilities. [📄](#)

Our unique policies and practices

- CLP has established its own Corporate Governance Framework, a Value Framework and its own Code for Securities Transactions.
- We have formulated our own Anti-Fraud Policy which stipulates our commitment to preventing, detecting and reporting fraud, bribery and extortion.
- General Representation Letters are issued by our CEO and CFO to the Audit & Risk Committee as verification compliance.

Our disclosure

- Our Fair Disclosure Policy sets out the principles for the broad and non-exclusionary distribution of information to the public.
- Our Continuous Disclosure Obligation Procedures guide the organisation in monitoring and disclosing potential inside information.
- The Continuous Disclosure Committee (established in 2016) conducts regular assessment of potential inside information.
- Our Risk Management Report sets out CLP’s risk management framework and how CLP manages the Group’s material risks.
- We disclose our Senior Management’s CLP shareholding interests and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, in addition to similar disclosures by our Directors.
- We have enhanced our disclosure of financial information on the CLP Group’s joint ventures and associates.
- We issue individual reports for the Audit & Risk Committee, Human Resources & Remuneration Committee and Sustainability Committee.
- We announce our financial results within two months after the end of the financial year. We publish our full Annual Report on our website within the following fortnight and send this to shareholders about two weeks after that. [📄](#)

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

Throughout the year, the Company has met the Code Provisions and applied all the principles in the Stock Exchange Code. CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results.


Our Considered Reasons for not Issuing Quarterly Financial Results

While CLP does issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major activities, we do not issue quarterly financial results for the following considered reasons:

- they do not bring significant benefits to our shareholders;
- they encourage a short-term view of the 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 costly, including the opportunity cost of Board and management time spent on quarterly reporting.

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.

CLP's Approach to ESG Reporting

- Compliance and more: we follow the Hong Kong Stock Exchange's ESG Reporting Guide and take an integrated approach under the <IR> guidelines published by the International Integrated Reporting Council (IIRC).
- ESG information in the 2017 Annual Report:
 - Key Performance Indicators (KPIs) – the ESG KPIs for 2017 along with the previous four years (2013-2016) are disclosed in the Five-year Summary: CLP Group Statistics on pages 266 and 267 of this Annual Report; these include the Hong Kong Stock Exchange's ESG Reporting Guide Reference as well as other relevant KPIs;
 - Discussion – a full discussion of the relevant policies, practices and performances are disclosed in the Capitals section (pages 66 to 93) and the Corporate Governance Report (pages 102 to 126) of this Annual Report; and
 - Scoping and Materiality – how we determine what is material and the reporting boundaries for disclosure are highlighted in "Message from the Company Secretary".
- Our [2017 Sustainability Report](#), which is published online at the same time, captures in detail our delivery of social and environmental value in 2017 and reports, in an integrated manner, all aspects of our activities, prepared in accordance with the Core option of the new Global Reporting Initiative's Sustainability Reporting Standards. It also includes an independent assurance report from PricewaterhouseCoopers (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.

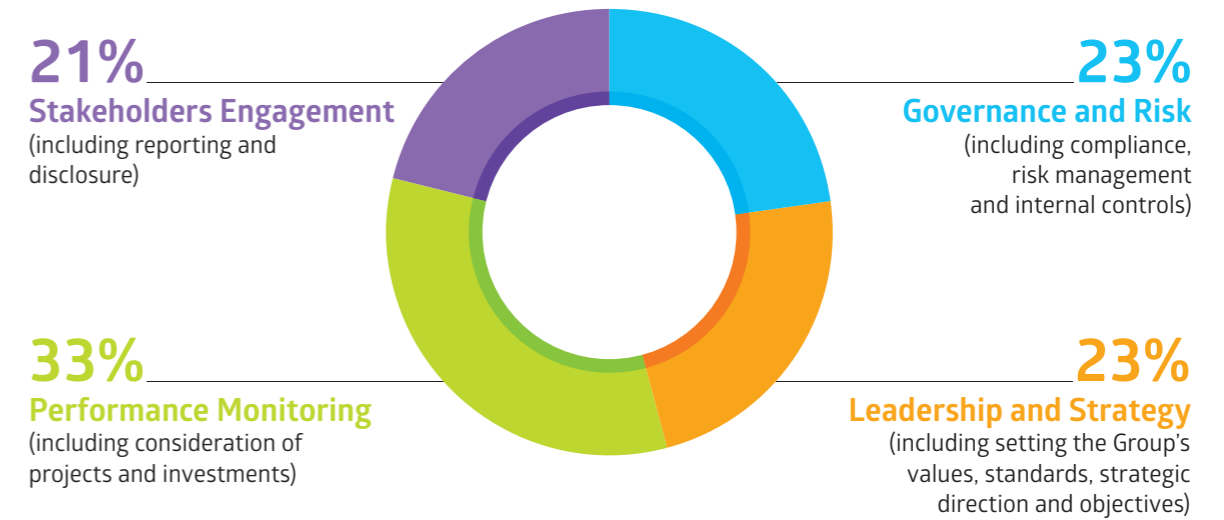
How the Board Spent its Time in 2017

The following table shows a breakdown of the matters considered by, and briefings to, the Board in 2017.

	Annual recurring matters	Briefings on selected topics
January – March	<ul style="list-style-type: none"> Annual Report and 2016 Results 2016 Fourth Interim Dividend Evaluation of Audit & Risk Committee Effectiveness 2016 Audit Fees Continuing Connected Transactions 	<ul style="list-style-type: none"> Solar Technology
April – June	<ul style="list-style-type: none"> Quarterly Statement 2017 (January – March) 2017 First Interim Dividend 	
July – September	<ul style="list-style-type: none"> Interim Report and 2017 Interim Results 2017 Second Interim Dividend 	<ul style="list-style-type: none"> Swissgrid Digital Transformation Experience Smart City and Smart Meters
October – December	<ul style="list-style-type: none"> Quarterly Statement 2017 (January – September) 2017 Third Interim Dividend CLP Group Business Plan & Budget Directors' and Officers' Liability Insurance Policy Renewal 	<ul style="list-style-type: none"> Big Data and Data Analytics

Key areas of focus	Commentary
Climate Vision 2050 – review and setting of new targets	The Board approved the new targets for our Climate Vision 2050. The Board has set the targets following a comprehensive review that was undertaken by management. Before the new targets were considered by the Board, the proposal along with progressive updates were presented to the Sustainability Committee for the members to discuss openly.
Our key markets	<p>The Board received updates on the latest developments for the Group's key markets and had detailed discussions with management on the key challenges and opportunities for the different markets.</p> <p>Hong Kong – regulatory matters (New Scheme of Control Agreement 2018 and Development Plan)</p> <p>Mainland China – power sector reform and outlook</p> <p>Australia – performance, hedging policy, national energy policy and regulatory related developments</p> <p>India – potential strategy and investment opportunities</p>
Briefings and reporting – Management Talent Development and Succession Planning – Cyber and physical security – Health, Safety, Security and Environment (HSSE)	To strengthen the Board's oversight of the areas that are delegated to other Board Committees, the Board received briefings and reports on those areas that fall under the direct responsibilities of the Human Resources & Remuneration Committee (Management Talent Development and Succession Planning), Audit & Risk Committee (cyber and physical security and HSSE) and Sustainability Committee (HSSE).
Board evaluation follow-up	The Board received the report and recommendations from the external Board evaluation. Key recommendations that were adopted included strengthening the Board reporting of the work at the Committees level and the recognition of the Finance & General Committee's role in overseeing implementation of the Group strategy.

This illustrates how the Board spent its time on the following main categories*:



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

Attendance at our Board Meetings and the interaction between Senior Management and our Directors

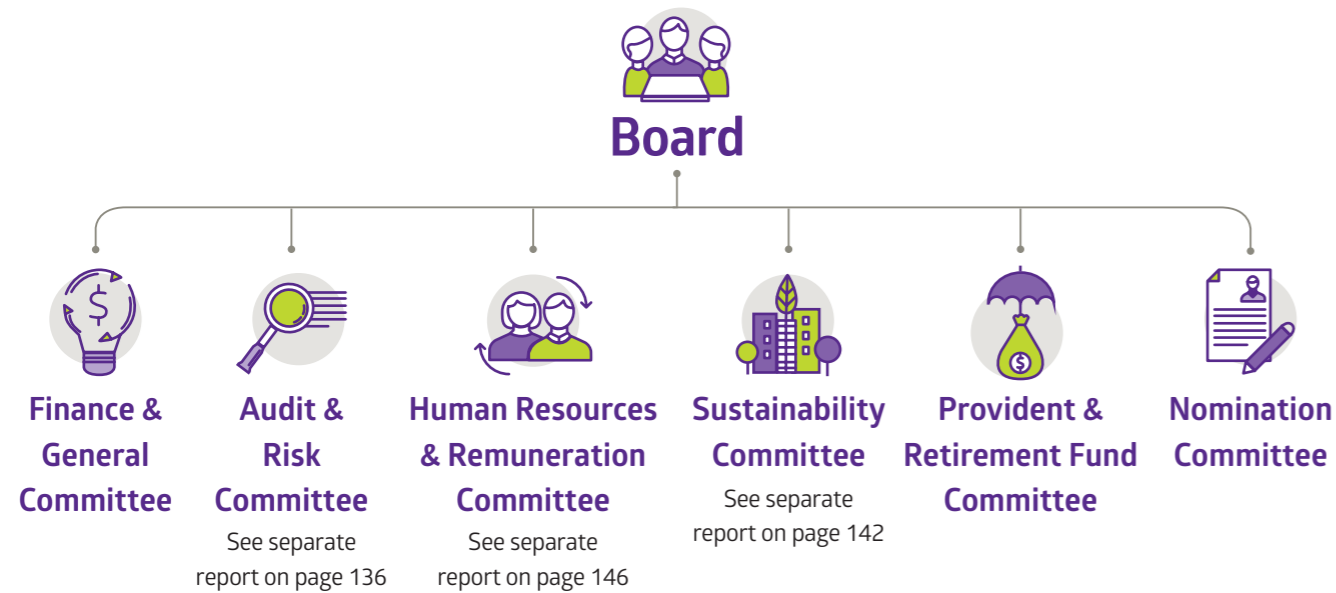
Our Board Meetings are typically attended by the following members of our Senior Management:

- Mrs Betty Yuen (Group Director & Vice Chairman – CLP Power Hong Kong);
- Mr Chiang Tung Keung (Managing Director – CLP Power Hong Kong);
- Mr Chan Siu Hung (Managing Director – China);
- Mr Rajiv Mishra (Managing Director – India);
- Ms Catherine Tanna (Managing Director – EnergyAustralia);
- Mr Derek Parkin (Chief Operating Officer); and
- Mr David Simmonds (Group General Counsel & Chief Administrative Officer).

Our Board meetings are generally followed by or preceded by a luncheon hosted by the Chairman. This is typically attended by the Directors and members of the Senior Management who join the Board meetings and provides a good opportunity for Directors and Senior Management to interact with each other in an informal setting and to discuss a wide range of issues including those concerning the Group.

Board Committees

The following diagram explains the responsibilities and the work that each Board Committee undertook during 2017 and in 2018 up to the date of this Report (the Relevant Period). The terms of reference for the Nomination Committee, the Finance & General Committee and the Audit & Risk Committee have been updated, the key changes are set out in the respective reports and highlights for the Committee.



[Terms of reference and membership of all Board Committees](#) are disclosed in full on the websites of CLP and the Hong Kong Stock Exchange. They are also available upon request from the Company Secretary.

The Board discharges some of its responsibilities through delegation, with appropriate oversight, 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 & Risk 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 & Risk Committee);
- (e) develops, reviews and monitors the Code of Conduct applicable to employees (Audit & Risk Committee); and
- (f) reviews the Company's compliance with the CLP Code and disclosure in the Corporate Governance Report (Audit & Risk Committee).

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 overall portfolio, the investment managers and operational efficiency. Education and communication are arranged for schemes members for better retirement planning.

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

Key changes to the terms of reference:

- the role of the Committee in the review of the implementation of the CLP Group Strategy is formally recognised.

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. As reflected in the amended terms of reference, the Committee reviews the implementation of the Company's strategy approved by the Board and the performance and business environment of the Company; and the Committee will also identify any matters that should be referred to the Board for review and further consideration.

The work performed by the Committee during the Relevant Period included the review and the consideration of the following matters:

- the Company's interim and annual results and the dividends payable to shareholders for the financial years ended 31 December 2016 and 2017;
- the CLP Group Business Plan and Budget 2018 – 2022;
- the 2018 tariff strategy and the development plan for the Hong Kong business;
- the Argyle Street redevelopment project;
- investment in specific projects in Australia, China, India and Vietnam;
- investment in an energy-related technology fund;
- funding arrangements for the Yangjiang investment;
- performance of the coal-fired generation portfolio in China;
- implementation of Group strategy for selected business units;
- the CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures; and
- revision of the terms of reference of the Committee.

The nature of the work of the Committee includes the review of transactional items which may arise from time to time and require the review on the part of the Committee on a time sensitive basis. During the Relevant Period, the Committee convened two additional Committee meetings to consider these type of transactional items in July 2017 and January 2018.

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

Key changes to the terms of reference:

- a "Nomination Policy" for Directors was formally adopted and this incorporated the existing nomination criteria and principles for Directors that are set out in the Committee's terms of reference.

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 continuous professional 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 the Directors who are due to retire, namely, Mr Nicholas C. Allen, Mrs Fanny Law and Ms Irene Lee. Except for Ms Irene Lee, all the retiring Directors will present themselves for re-election by shareholders at the 2018 Annual General Meeting (AGM);
- considering the approach and revising the terms of reference of the Committee to recognise and adopt the provisions regarding nomination criteria and principles as the Nomination Policy;
- reviewing the training and continuous professional development of Directors; and
- evaluating Directors' time commitment and the contribution required from Directors to discharge their responsibilities.

Directors' Attendance and Development

In 2017, six Board meetings were held and the overall attendance rate of Directors at Board meetings was 90.24% (2016: 89.11%).

Details of Directors' attendance at the AGM, Board and Board Committee meetings and development programmes in the year 2017 are set out in the following table.

	Board ¹	Audit & Risk Committee ²	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee ³	Provident & Retirement Fund Committee	Sustainability Committee	AGM ^{2,4}	Directors Development Programme*
Non-executive Directors									
The Hon Sir Michael Kadoorie	5/6 ^(C)				1/1 ^(C)			1	A, B, C
Mr William Mocatta	6/6 ^(VC)		6/6 ^(C)	3/3		2/2 ^(C)		1	A, B, C
Mr J. A. H. Leigh	6/6							1	A, B
Mr Andrew Brandler	5/6		6/6				2/3	1	A, B, C
Dr Y. B. Lee	6/6							1	A, B, C
Independent Non-executive Directors									
Mr Vernon Moore	6/6	6/6 ^(C)	5/6	3/3				0	A, B, C
Sir Rod Eddington	6/6		5/6					0	A, B
Mr Nicholas C. Allen	4/6	6/6	5/6	3/3	1/1		3/3	1	A, B, C
Mr Vincent Cheng	4/6		6/6	3/3 ^(C)	1/1			1	A
Mrs Fanny Law	6/6	6/6					3/3	1	A, B, C
Ms Irene Lee	5/6	6/6	5/6				3/3	1	A, C
Mrs Zia Mody	5/6			2/3				0	A, C
Executive Directors									
Mr Richard Lancaster	5/5		6/6				3/3 ^(C)	1	A, B, C
Mr Geert Peeters	5/5		4/6			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 & Risk 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 2017.
- Out of the seven Independent Non-executive Directors, Mr Vernon Moore participated in the AGM through live webcast and two were unable to attend due to other overseas commitments. The other four Independent Non-executive Directors (along with other Directors) were available to take shareholders' questions specifically addressed to the Independent Non-executive Directors during the AGM (of which there were none).
- 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 (2016-2017 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.

Directors Time Spent on other CLP Affairs

In addition, our Non-executive Directors have also spent a considerable amount of time on other CLP affairs and these included the following:

- our Chairman, joined members of our Senior Management for a visit to Beijing and met with key stakeholders on the Mainland on matters such as energy policies and potential new opportunities;
- our Chairman, along with Mr William Mocatta (Non-executive Director and Chairman of CLP Power) and Mr Andrew Brandler (Non-executive Director and a Director of EnergyAustralia), visited the local operations of EnergyAustralia, met with local management and an interview with the Chairman was conducted for a staff townhall; and
- our Non-executive Directors (including Independent Non-executive Directors) had participated in various officiating events and ceremonies for CLP and this provided the opportunity to visit CLP's assets or operations and to meet and interact with CLP colleagues and management in an informal setting.

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 on 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 2017, 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 2018 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' biographies](#) are set out under "Board of Directors" on pages 96 to 99 of this Annual Report and on CLP's website. [📄](#)

Board Evaluation

In 2017, the Board reviewed and considered the summary findings of the independent evaluation of the Board and the Committees that was carried out by Heidrick & Struggles. Subsequently, the [summary findings](#) have been published on the CLP website. [📄](#)

As follow-up action to the recommendations from the independent evaluation, a number of actions were taken in 2017:

- the Board considered the role and responsibilities of the Finance & General Committee in reviewing the implementation of the CLP Group's strategy and the Board subsequently approved the Committee's terms of reference to recognise these;
- a more focused approach on the use of experts and the selection of topical issues were taken with respect to the expert briefing topics for the Board; and
- to strengthen the collaboration and information sharing between the Board and the Committees, the Board received a number of briefings and updates in terms of the work undertaken by various Committees such as the Human Resources & Remuneration Committee (Management Talent Development and Succession Planning), Audit & Risk Committee (cyber and physical security and HSSE) and Sustainability Committee (HSSE).

In line with our CLP Code, we will undertake the performance evaluation of our Board and Committees on an ongoing basis and in respect of the Board year for 2017, an evaluation will be conducted internally.

Nomination and Appointment of Directors

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

CLP's Nomination Policy

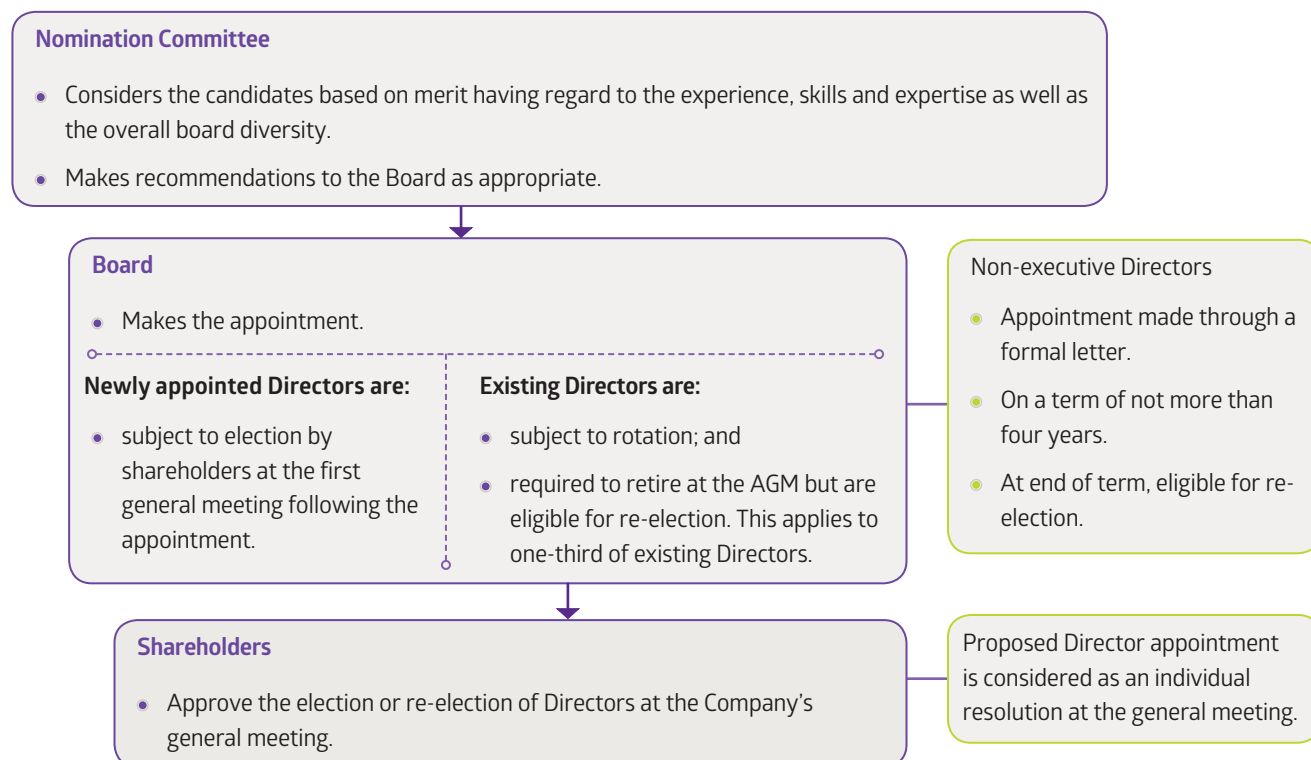
Our Board has adopted the following Nomination Policy:

The Nomination Committee will:

- 1 review and monitor the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board on an annual basis and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- 2 identify and nominate qualified individuals for appointment as additional Directors or to fill Board vacancies as and when they arise. The criteria to be adopted by the Board in considering each individuals shall be their ability to contribute to the effective carrying out by the Board of its responsibilities set out in the CLP Code, in particular, those relating to new directors having such expertise to make a positive contribution to the Board and that every director can give sufficient time and attention to the Company's affairs; and that all non-executive directors are independent of management with a defined set of responsibilities (as fully set out in paragraphs II.B.34 and 35 of the CLP Code);
- 3 make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the CEO; and
- 4 make recommendations to the Board with particular regard to ensuring a substantial majority of the Directors on the Board being independent of management.

CLP's process for appointing a Director

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



Why Board Diversity is Important to CLP

CLP's Value Framework emphasises our respect for people and diversity. The CLP Board Diversity Policy was adopted by the Board in 2013 and incorporated Code Provisions of the Stock Exchange Code. Our concept of diversity incorporates a number of different aspects, such as independence, professional experiences, business perspectives, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service.

The Value in Board Diversity

- Enhances decision-making capacity
- Improves effectiveness in dealing with organisational changes
- Reduces likelihood of group thinking
- Contributes to sustainable development

How is this Relevant to our Shareholders?

- The Nomination Committee reviews the Board Diversity Policy periodically
- Shareholders approve the election or re-election of Directors
- Directors and the Board are responsible for promoting the shareholders' interests
- Shareholders need to be satisfied with the level of board diversity
- We are committed to providing shareholders sufficient information to assess our board diversity

Assessment Results of Diversity

We assessed the diversity of our Board and revealed that:



The independence of Directors remains at the same high level of 50%



The diversity level in terms of nationality and professional background and experience is maintained at a high level with no single group representing more than 50% of the total



Gender diversity (female representation) remains at 21% while high by local standards would not be regarded as high in jurisdictions such as the UK (FTSE 100 average of 26.7%)



Representation of Executive Directors on the Board remains at the same level of 14%



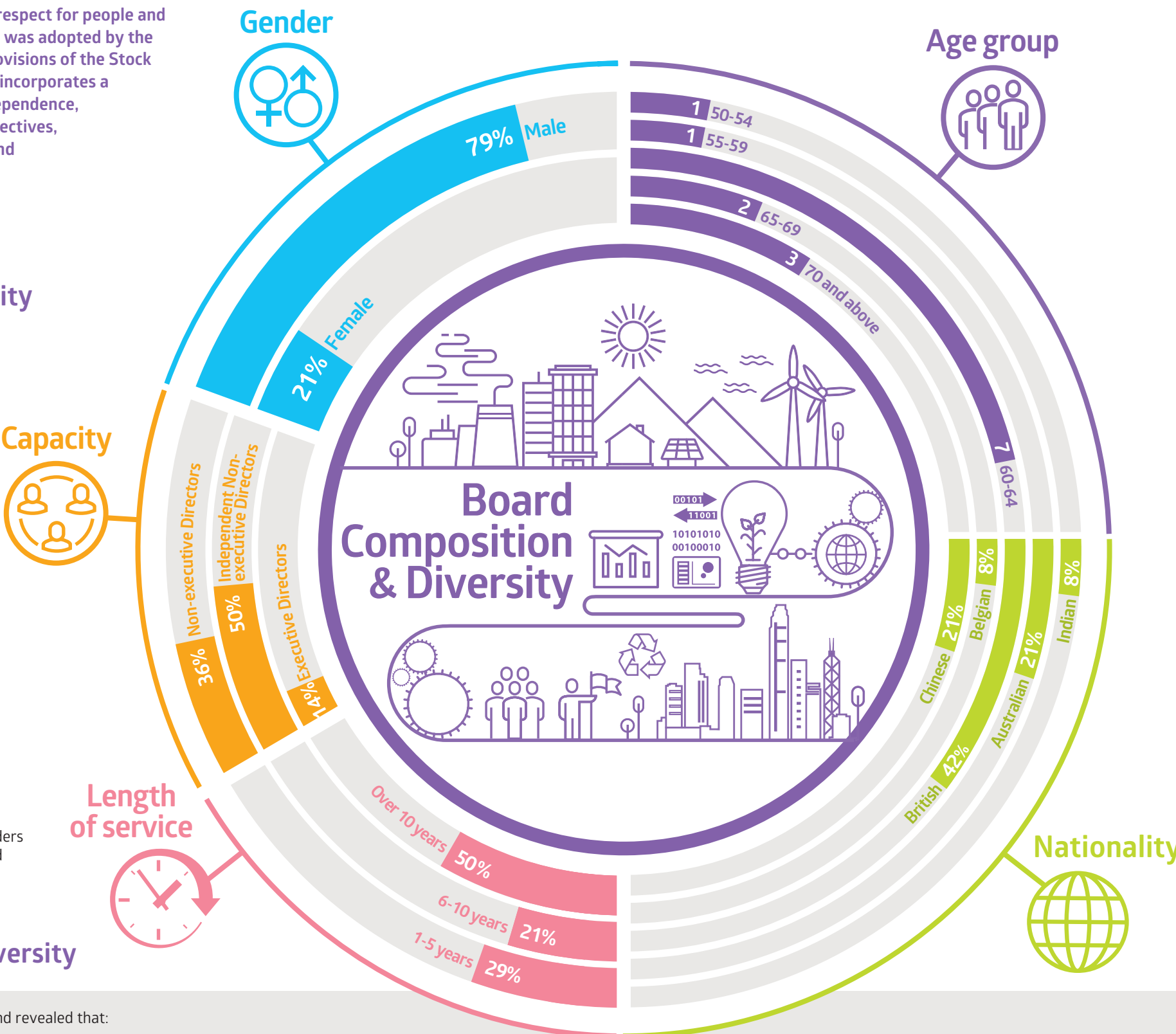
Of directors have served on the Board for over 10 years



The age group of 60-64 represents half of the Board



The overall diversity of the Board remains at high level similar to last year



Board Expertise

An analysis of the skills set mix was considered by the Nomination Committee and the Board continues to possess a balance of skills appropriate for the requirements of the business of the Group. The table below highlights the breakdown of the skills set mix of our Directors and demonstrates the broad and diverse mix of experience and background relevant to CLP that the Directors can bring to the Board and its Committees.

Expertise	No. of Directors
CLP market experience (Australia/China/India)	8/14
Related industry experience (Power/Property/Retail/Steel infrastructure)	10/14
Technology	2/14
Global market experience	10/14
Other industries (Aviation/Banking/Mining/Travel & leisure)	4/14
Other listed board roles	11/14
Company executive	9/14
Public administration	1/14
Professional	12/14
• Engineering	4/14
• Legal	3/14
• Accounting	4/14
• Banking and Finance	3/14

Note:
Multiple professional background and experience may apply to a Director.

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 2017, none of the Directors were required to withdraw from meeting in these circumstances.

The Company follows guidelines at each financial reporting period to obtain confirmations 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.

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.

Details of all Directors and their biographies including, if any, relationship between the members are disclosed on pages 96 to 99.

Directors' Shareholding Interests

Directors' interests in CLP's securities as at 31 December 2017 are disclosed in the Directors' Report on page 161. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2017 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 set 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, CLP's shareholders and other stakeholders, and these have been documented in our Code of Conduct.

In 2017, we conducted a group wide Business Practice Review (other than EnergyAustralia who will undertake this in 2018) which provided a mandatory in-person training for our Group's employees to refresh their understanding of the Code of Conduct and other major policies.

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).

In 2017, we also updated the CMAM of one of our key CLP Group subsidiaries and the revised CMAM provided further clarity in terms of the delegation of authority to management, this is part of our ongoing efforts to review and to ensure that our CMAM and the delegation of authority remain valid and relevant in terms of empowering our management to undertake management decisions in the proper carrying out of their duties.

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 (including anti-corruption practices) and communicate openly. These principles cover all aspects of our operations.
- 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 2017, there was no Code of Conduct violation in respect of bribery (2016: one suspected case).
- 2017 – there were 28 breaches (2016: 21) of the Code – see also Audit & Risk 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.
- 2017 – there were 11 reported cases (2016: 23).

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 Transactions.
- Securities Transactions: All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2017 they have complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.
- Shareholding in CLP shares: Save for the interest disclosed by the CEO in the Directors' Report on page 174 and the interest in 600 shares disclosed by the Managing Director – China, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2017.

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 access to on-line learning and information sources, formal executive development programmes at leading business schools and attendance at executive briefings on matters of topical interest provided through our strategic partnerships with organisations such as Chatham House, École Polytechnique Fédérale de Lausanne and IMD. We also make selective use of systematic and independent executive assessment and coaching 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 2017

Senior Management	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
Mr Richard Lancaster		✓	✓	✓
Mr Geert Peeters	✓	✓	✓	✓
Mr Derek Parkin		✓	✓	✓
Mr David Simmonds ¹	✓	✓	✓	✓
Ms Quince Chong		✓	✓	✓
Mr Roy Massey		✓	✓	✓
Mrs Betty Yuen		✓	✓	✓
Mr Chiang Tung Keung ²	✓	✓	✓	✓
Mr Chan Siu Hung		✓	✓	✓
Mr Rajiv Mishra		✓	✓	✓
Ms Catherine Tanna	✓	✓	✓	✓

Notes:

1 During 2017, 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.

2 Mr Chiang Tung Keung was appointed as a member of Senior Management on 1 June 2017.

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 2018 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 meetings.

Our Responsibilities to Shareholders

- 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.

Other shareholder-related information:

- by type and aggregate shareholding – see page 22
- coming important dates – see page 25
- year-end CLP shares public float – see page 22

Our AGM – an important event for our shareholders

- 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
- minutes including the Q&A session are published after the meeting.

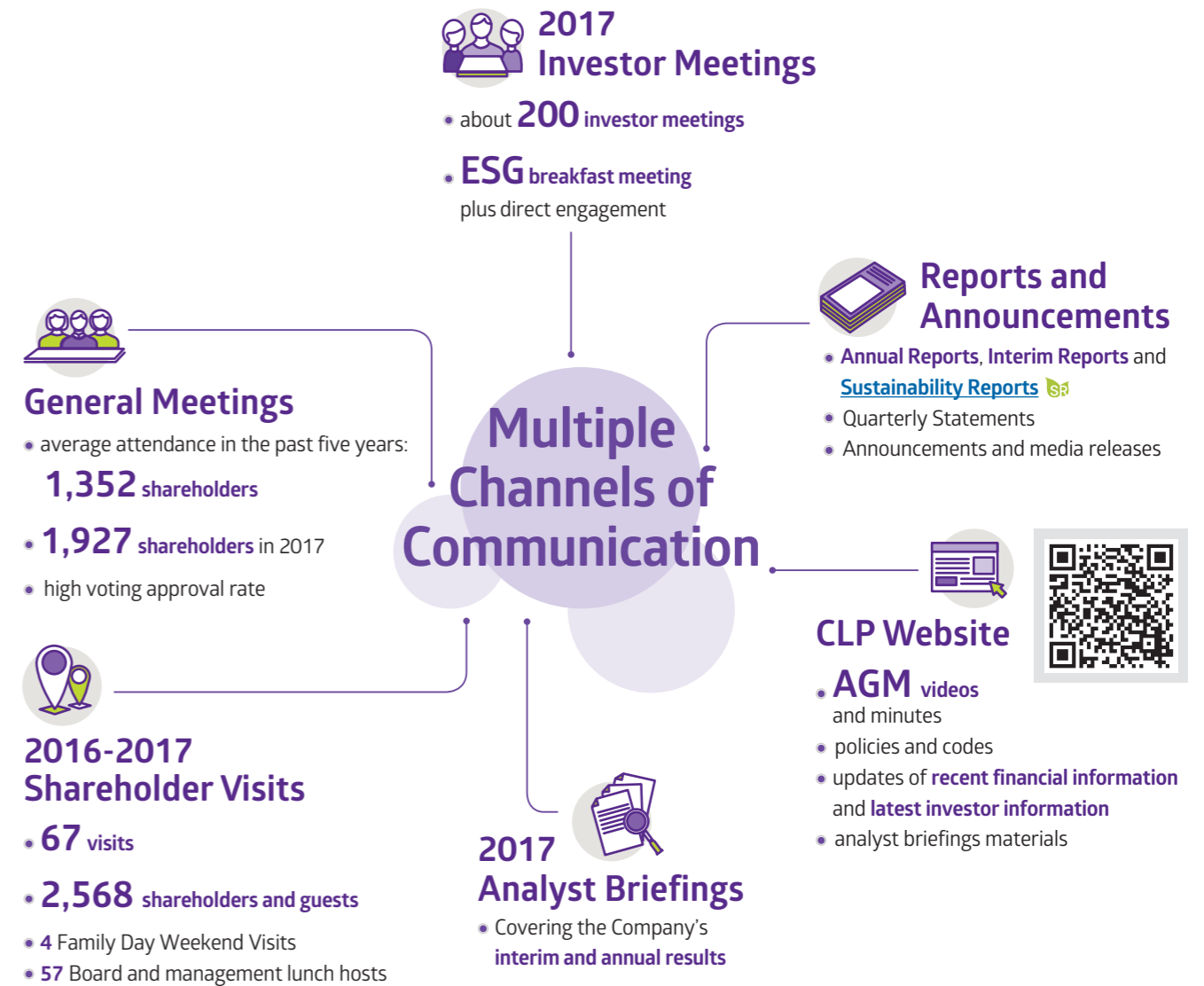
At our 2017 AGM held on 5 May 2017 at the Grand Ballroom, 1/F., Crowne Plaza Hong Kong Kowloon East, 3 Tong Tak Street, Tseung Kwan O, Hong Kong, this was well supported by our shareholders with:

- a record breaking attendance of over 1,900 shareholders; and
- a high level of votes approving the following major items:
 - the re-election of directors ranging from over 81% to over 98%; 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 diagram below shows the approach we take with our shareholders communications.



These 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 and enhancing shareholders communication

The Audit & Risk Committee is responsible for regularly reviewing the effectiveness of the Shareholders' Communication Policy. The most recent review was undertaken in October 2017 and the effectiveness of the Policy was confirmed.

We strive to further enhance the effectiveness of our communication with our shareholders, by undertaking a number of key measures in this area:

- we are continuously adopting a more "reader friendly" approach to our Annual Report. A key aspect of this year's Annual Report is the disclosure of "most material" sustainability topics and these are discussed in greater detail in the Capitals section.
- to broaden our shareholders participant base, invitations for our unique Shareholders' Visit Programme has been extended to non-registered shareholders; the 2017/2018 programme has been expanded to run for the whole year to attract more first time visitors; and "Family Day" weekend visits will be organised during summer holiday to cater for a younger demographic who can bring younger family members along;
- communications with institutional shareholders – meetings with both existing and potential institutional investors were held and the investors base whom management met with was further broadened; in Hong Kong, meetings with private bank client advisors were also held to assist them with their understanding in their advisory work for their clients; an investor tour of our Hong Kong generation facilities was conducted; a call with an institutional investor was conducted with the attendance and participation by one of our Independent Non-executive Directors; and
- direct engagement with targeted stakeholders on ESG.



CLP's 2017 AGM attracts a record breaking attendance of over 1,900 shareholders


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 in 2017 to be included in our Annual Report. Given the significance of these topics, these are commented in the Chairman's Statement on page 14 and/or CEO's Strategic Review on page 17 and are also discussed in selected sections as highlighted below.

These cover the following topics:

Topics	Sections
1 The New Scheme of Control Agreement	<ul style="list-style-type: none"> • Business Performance and Outlook – Hong Kong (page 38) • Risk Management Report (page 127)
2 Hong Kong – progress on construction of the new gas-fired generation unit, proposal of the floating offshore LNG Terminal in Hong Kong and development of the Argyle Street site	<ul style="list-style-type: none"> • Business Performance and Outlook – Hong Kong (page 38) • Financial Capital (page 68) • Notes to the Financial Statements (page 206)
3 China – completion of Yangjiang nuclear power acquisition, market sales, pressure on performance of the coal-fired generation portfolio	<ul style="list-style-type: none"> • Business Performance and Outlook – Mainland China (page 45) • Financial Capital (page 68) • Risk Management Report (page 127)
4 India – renewable energy development opportunities, operational performance of the generation assets, and power purchase agreement renewal	<ul style="list-style-type: none"> • Business Performance and Outlook – India (page 51) • Financial Capital (page 68) • Natural Capital (page 90)
5 EnergyAustralia – progress of the Restore Value Programme, policy and regulation uncertainty, development of renewables generation projects, future opportunities for the business and progress of the litigation regarding our sale of Iona Gas Plant	<ul style="list-style-type: none"> • Business Performance and Outlook – Australia (page 59) • Financial Capital (page 68) • Risk Management Report (page 127)
6 CLP's investment strategy to address climate change, exposure to coal-fired generation and mitigation measures	<ul style="list-style-type: none"> • Business Performance and Outlook – Hong Kong (page 38) • Business Performance and Outlook – Mainland China (page 45) • Business Performance and Outlook – Australia (page 59) • Financial Capital (page 68) • Natural Capital (page 90) • Risk Management Report (page 127)
7 Dividends, managing our financial and debt position as uncertainty in financial markets increases, use of cash generated in the business	<ul style="list-style-type: none"> • Financial Highlights (page 3) • 2017 In Figures (page 5) • Financial Review (page 28) • Financial Capital (page 68)

Internal Auditors

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. The head of the department, Senior Director – Group Internal Audit, 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 is a member of the Group Executive Committee, who reports directly to the Audit & Risk Committee and the CEO and has direct access to the Board through the Chairman of the Audit & Risk Committee. The Senior Director – Group Internal Audit has the right to consult the Audit & Risk Committee without reference to management.

External Auditor

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

How the Group ensures 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 & Risk Committee or its delegates. There must be clear efficiencies and value-added benefits to CLP from the work being undertaken by PwC, with no adverse effect on the independence of their audit work, or the perception of such independence.

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



	2017 HK\$M	2016 HK\$M
Audit	39	39
Permissible audit related and non-audit services		
Audit related (including Sustainability Report assurance, Continuing Connected Transactions limited assurance, audits of CLP's provident funds and auditor's attestation)	6	4
Non-audit services (including tax advisory and other services)	3	5
Total	48	48

(For these purposes, **Permissible audit related and non-audit services** include any entity under common control, ownership or management with PwC 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.)

The fees of PwC and other non-principal external auditor are shown in Note 4 to the Financial Statements.

For the year ended 31 December 2017, the fees for permissible audit related and non-audit services accounted for 12.5% and 6.3% of the total fees respectively.

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 & Risk 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. This 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 127.

Internal Control

The Company's structure 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 while lower risk key controls are tested on rotational basis. 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 & Risk Committee oversee management's monitoring activities, and thus the effectiveness of the controls that have been put in place.

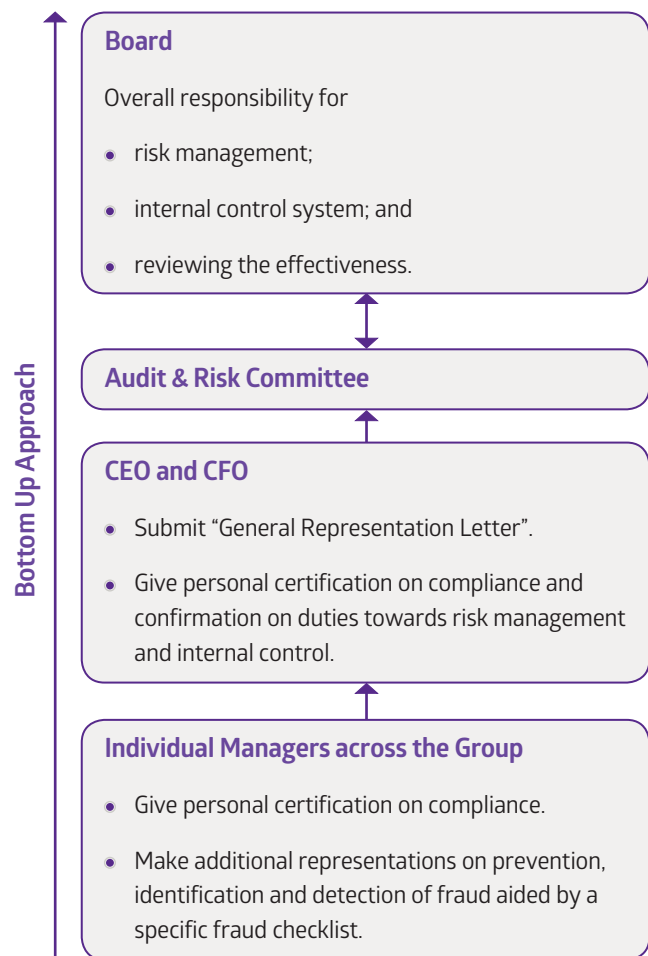
GIA provides independent assurance to the Board on the adequacy and effectiveness of internal controls for CLP. They adopt a risk-based approach, concentrating on areas with significant risks or where significant changes have been made. GIA is equipped with well qualified and capable staff with access 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 & Risk 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 & Risk 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 & Risk 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 2017, 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. The Continuous Disclosure Committee (established in 2016) conducted 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 105 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, 26 February 2018