

## Message from the Company Secretary

CLP has long been committed to a high standard of corporate governance and to adapt and improve our practices in light of our experience and the expectations of our investors and regulators. Consistent with this approach, we have again this year taken a number of steps to enhance our corporate governance practices.

A number of these changes can be found in our revised Board Diversity Policy. Our Board plays a critical role in ensuring that our corporate governance best serves the Company's interest in building a sustainable business. The Board evaluation process completed in 2018 confirms that the Board continues to perform at a high standard. We also recognise that the business environment globally, and our industry, is changing and we must not stand still.

We have recently made a number of changes to our Board Diversity Policy to ensure that the Board continues to possess a balance of skills and experience appropriate for the requirements of the Company. Among the changes introduced is a retirement age guideline for our Non-executive Directors designed with the specific needs of CLP in mind. Under the guideline, Non-executive Directors (other than the Chairman) will not be considered for re-election if they have reached the age of 72, except where a Director is considered by the Board to have certain skills, experience or capabilities that cannot be readily replaced.

We believe this guideline will help with Board succession planning and facilitate the gradual refreshment of the Board with an appropriate degree of flexibility to meet the needs of the Company. Most important of all, it will ensure that CLP can, in our Chairman's words, continue to have the best Board for the Company in the years ahead.

**David Simmonds**  
Company Secretary

**Board Refreshment**

- Two new appointments – Mr Philip Kadoorie (Non-executive Director) and Ms May Tan (Independent Non-executive Director) were appointed in August 2018. The appointments were made following the retirement of Ms Irene Lee (a former Independent Non-executive Director) in May 2018.
- Revised Board Diversity Policy with a retirement age guideline for Non-executive Directors (other than the Chairman) – recognises the importance of Board refreshment in a gradual and orderly manner to ensure the Board continues to have the skills and experience to meet the needs of the Company.
- Onboarding Guidelines introduced – this serves as a “road map” to guide new Directors to engage with fellow Directors, management and other management personnel with insights into CLP and our business environment.

**Nomination Committee related Work**

- Committee is now chaired by an Independent Non-executive Director – Mr Nicholas C. Allen is the Committee Chairman after the CLP Holdings Chairman stepped down as Chairman of this Committee and remained as a Member.
- New appointments and Board composition – the Committee held an extra meeting this year to consider the replacement of Ms Irene Lee and the appointment of the new Directors, Mr Philip Kadoorie and Ms May Tan.
- Added focus on succession planning and Board Diversity Policy – The Committee spent a considerable amount of time during the Committee meetings as well as time between meetings to consider the issues related to succession planning and the Board Diversity Policy, in particular, the retirement age guideline applicable to CLP Holdings Non-executive Directors (other than the Chairman).

**Cyber Security Governance Review**

- Independent review of CLP’s cyber security governance – a comprehensive review was undertaken by a specialist cyber security consultant and involved detailed assessment of our cyber security policies, procedures, organisation, resourcing and business culture.
- Review and findings – objective of the review was to enhance and strengthen CLP’s cyber security governance. Detailed findings and recommendations were presented to the Audit & Risk Committee and a dedicated briefing was also presented to the CLP Holdings Directors.
- Recommendations and implementation – all the recommendations made were accepted by management and an implementation plan was presented to and endorsed by the Board.

**Review of CLP Code on Corporate Governance (CLP Code)**

- Our unique CLP Code was updated – key changes set out below.
- Listing Rules related changes – with a particular focus on the important role of the Independent Non-executive Directors (INEDs) and their election, a Chairman meeting with INEDs only, the promotion of board diversity and also the diversity of Senior Management and their direct reports.
- Updates reflecting CLP’s recent enhancements in corporate governance practices – including the setting up of a Continuous Disclosure Committee, adoption of the Onboarding Guidelines for newly appointed Directors and amendments to the Board Committees’ Terms of Reference and Company Management Authority Manual.

**CLP Value Framework**

**Code of Conduct**

**CLP Code on Corporate Governance**

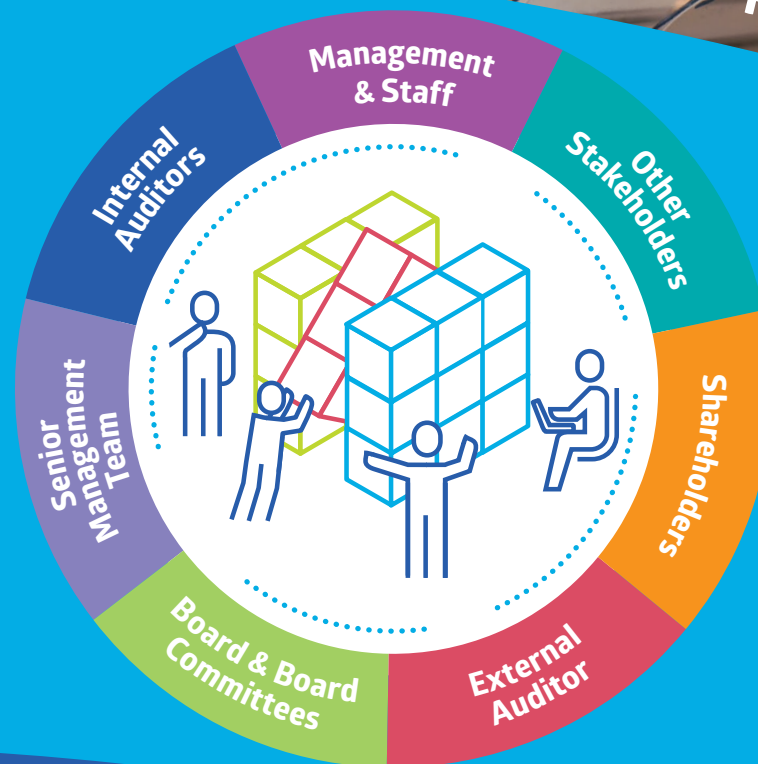
**Whistleblowing Policy**

**Highlights**

– the above illustrates how our corporate governance framework and practices have advanced and supported the effective management of the CLP Group for 2018.

**Our CLP corporate governance framework**

– identifies the key participants and defines the framework and process for monitoring the management of the CLP Group to ensure that it is run in the interests of our shareholders and meets the expectations of our stakeholders.



A Fundamental “Do the Right Thing” Culture

## 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 (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 110. [🔗](#)

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 2018** and some of these are highlighted in **“2018 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. [🔗](#)
- The CLP Onboarding Guidelines for Directors have been adopted in 2018 with the key objective of assisting new Directors in their understanding of CLP’s business, governance and Board and Committee dynamics. The [Guidelines](#) are available on the CLP website. [🔗](#)

#### 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.
- Our disclosure of financial information on the CLP Group’s joint ventures and associates are enhanced in various ways such as the inclusion of off-balance sheet contingent liabilities.
- We issue individual reports for the Audit & Risk Committee, Sustainability Committee, Nomination Committee and Human Resources & Remuneration Committee.
- We announce our financial results within two months after the end of the financial year. We publish our full Annual Report and our [Sustainability Report](#) on our website within the following fortnight; the Annual Report will also be sent to shareholders about two weeks after that. [🔗](#) [SR](#)

### Our unique policies and practices

- CLP has established its own Corporate Governance Framework, the 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.
- Shareholder visits to CLP's facilities in Hong Kong are held throughout the year with an annual attendance of around 3,000 shareholders and their guests. This gives shareholders the unique opportunity to have a face-to-face engagement with management and to exchange views and feedback with members of our CLP Holdings Board and management.
- We conduct a group-wide Business Practice Review for our staff on a periodic basis to foster employees' understanding of our Code of Conduct under CLP's Value Framework. An important aspect of this is ensuring that our employees maintain a good understanding of CLP's culture and values.
- Under our Value Framework, we also have a Responsible Procurement Policy Statement. This sets out our expectations of the suppliers and of their suppliers and subcontractors and we encourage them to follow the same standards of integrity and transparency in doing business with us.
- Our Audit & Risk Committee will regularly examine the audit activity reviews conducted by the Internal Auditors. The Internal Auditors will highlight the significant events and findings which require the Committee's attention and further examination, where appropriate.

## 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 2018 Annual Report:
  - Key Performance Indicators (KPIs) – the ESG KPIs for 2018 along with the previous four years (2014-2017) are disclosed in the Five-year Summary: CLP Group Statistics on pages 288 and 289 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 68 to 95) and the Corporate Governance Report (pages 106 to 132) of this Annual Report; and
  - Scoping and Materiality – the 2018 materiality assessment process has been enhanced to prioritise the material topics, which supported the development of a more focused [Sustainability Report](#). 
- Our 2018 [Sustainability Report](#), which is published online at the same time, captures in detail our delivery of social and environmental value in a rapidly changing environment and reports, in an integrated manner, all aspects of our activities, prepared in accordance with the Core option of the 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 15 Directors with three female Directors and the Independent Non-executive Directors representing almost 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

As highlighted in the "Message from the Company Secretary", our Board plays a critical role in ensuring that our corporate governance best serves the Company's interest in building a sustainable business. 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 Group.

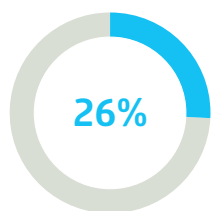
### How the Board Spent its Time in 2018

The following shows a breakdown of the matters considered by, and briefings to, the Board in 2018.



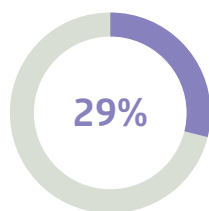
Key areas of focus	Commentary
<p><b>Business related</b></p>	<p>The Board kept up-to-date on the latest developments for the Group's key markets and had detailed discussions with management on the key challenges and opportunities for the different markets.</p> <p>A dedicated Board session was also held to consider and approve the investment strategy for each of the Group's markets and businesses. In addition, the Board considered the following items:</p> <p>Hong Kong – 2018-2023 Development Plan and the associated Tariff Review under the New Scheme of Control Agreement 2018, the Hong Kong Government's proposed public consultation on long-term decarbonisation strategy as well as key updates on major infrastructure projects for the Hong Kong business.</p> <p>India – the completed transaction for the introduction of CDPQ as a strategic shareholder of CLP India.</p>
<p><b>Briefings and reporting</b></p> <ul style="list-style-type: none"> <li>– Corporate Governance</li> <li>– Cyber security governance</li> <li>– Safety improvement strategy</li> </ul>	<p>In addition to the business market updates and briefings, the Board examined a number of selected topics. This included briefings on corporate governance proposed changes, governance of cyber security and the group-wide safety improvement strategy.</p>

This illustrates how the Board spent its time on the following key matters\*:



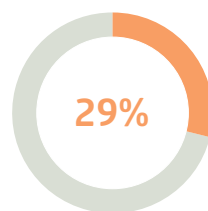
#### **Governance and Risk**

(including compliance, risk management and internal controls)



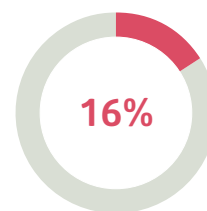
#### **Leadership and Strategy**

(including matters relevant to the Group's values, standards, strategic direction and objectives)



#### **Performance Monitoring**

(including consideration of projects and investments)



#### **Stakeholders Engagement**

(including reporting and disclosure)

\* In determining the estimated time spent, we took into account the number of agenda items related to each category, 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:


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

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 section sets out and refers to the responsibilities and the work that each Board Committee undertook during 2018 and in 2019 up to the date of this Report (the Relevant Period).



[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) considers the nomination of qualified individuals for Director appointments and succession planning for Directors as well as reviews the contribution required from Directors and whether they are spending sufficient time performing their responsibilities to the Company (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).



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### Membership of Finance & General Committee

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Mr William Mocatta (Chairman), Mr Vernon Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms May Siew Boi Tan (appointed in August 2018), Ms Irene Lee (until her retirement as Director at the conclusion of the 2018 AGM in May), Mr Andrew Brandler, Mr Richard Lancaster, Mr Geert Peeters and Mrs Betty Yuen.

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### 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. In addition, 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 2017 and 2018;
- the CLP Group Business Plan and Budget 2019-2023;
- the 2019 tariff strategy and the 2018-2023 development plan for the Hong Kong business;
- potential investment in specific projects in Australia, China, India and Vietnam;
- the transaction which saw the introduction of CDPQ as a strategic shareholder of CLP India;
- progress on innovation activities;
- energy import from Daya Bay Nuclear Power Station;
- implementation of Group strategy for selected business units;
- the CLP Group cost of capital study; and
- CLP's foreign exchange translation risk and counterparty exposures.

The nature of the work of the Committee includes the consideration of transactional items which may arise from time to time and require the review and approval by the Committee via circulation of papers on a time sensitive basis. During the Relevant Period, the Committee convened one additional Committee meeting to consider a transactional item in January 2018.

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### Membership of Provident & Retirement Fund Committee

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

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### 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.

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## Corporate Governance Report

### Directors' Attendance and Development

In 2018, six Board meetings were held and the overall attendance rate of Directors at Board meetings was 96.30% (2017: 90.24%).

Details of Directors' attendance at the AGM, Board and Board Committee meetings and development programmes in the year 2018 are set out in the following table.

	Board <sup>1</sup>	Audit & Risk Committee <sup>2</sup>	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee <sup>3</sup>	Provident & Retirement Fund Committee	Sustainability Committee	AGM <sup>2,4</sup>	Directors Development Programme <sup>*</sup>
<b>Non-executive Directors</b>									
The Hon Sir Michael Kadoorie	5/6 <sup>(C)</sup>				2/2 <sup>6</sup>			1	A, B, C
Mr William Mocatta	6/6 <sup>(VC)</sup>		5/5 <sup>(C)</sup>	3/3		2/2 <sup>(C)</sup>		1	A, B, C
Mr J. A. H. Leigh	6/6							1	A, C
Mr Andrew Brandler	6/6		5/5				3/3	1	A, B, C
Dr Y. B. Lee	6/6							1	A, B, C
Mr Philip Kadoorie <sup>7</sup>	2/2							N/A	A, B, C
<b>Independent Non-executive Directors</b>									
Mr Vernon Moore	6/6	6/6 <sup>(C)</sup>	4/5	2/3				1	A, B, C
Sir Rod Eddington	6/6		5/5					1	A
Mr Nicholas C. Allen	5/6	6/6	5/5	3/3	2/2 <sup>(C)6</sup>		3/3	1	A, B, C
Mr Vincent Cheng	6/6		5/5	3/3 <sup>(C)</sup>	2/2			1	A
Mrs Fanny Law	6/6	6/6					3/3	1	A, B, C
Ms Irene Lee <sup>8</sup>	1/1	3/3	1/2				1/1	1	N/A <sup>8</sup>
Mrs Zia Mody	5/6			3/3				0	A, C
Ms May Siew Boi Tan <sup>9</sup>	2/2	1/1	1/1				2/2	N/A	A, B, C
<b>Executive Directors</b>									
Mr Richard Lancaster	5/5		5/5				3/3 <sup>(C)</sup>	1	A, B, C
Mr Geert Peeters	5/5		5/5			2/2		1	A, B, C

Notes:

- 1 Included a Board meeting where the Chairman met Independent and other Non-executive Directors in the absence of the Executive Directors and management. Starting from 2019, the Chairman will hold separate annual meetings with the Independent Non-executive Directors and Non-executive Directors (without the presence of other Directors and management).
- 2 Representatives of the independent auditor participated in every Audit & Risk Committee meeting and the AGM.
- 3 The Nomination Committee considered and reviewed the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development in 2018.
- 4 Mrs Zia Mody was unable to attend the 2018 AGM due to other overseas commitments. The other six 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).
- 5 Chairmen of the Board and Board Committees and the Vice Chairman of the Board are indicated by (C) and (VC) respectively.
- 6 With effect from 1 June 2018, Mr Nicholas C. Allen was appointed as the Chairman of the Nomination Committee and The Hon Sir Michael Kadoorie remained as a Member of the Nomination Committee.
- 7 Mr Philip Kadoorie was appointed as a Non-executive Director with effect from 7 August 2018.
- 8 Ms Irene Lee retired as an Independent Non-executive Director and a Member of the Audit & Risk Committee, the Finance & General Committee and the Sustainability Committee with effect from the conclusion of the 2018 AGM held on 4 May 2018.
- 9 Ms May Siew Boi Tan was appointed as an Independent Non-executive Director and a Member of the Audit & Risk Committee, the Finance & General Committee and the Sustainability Committee with effect from 7 August 2018.

\* Our Directors Development Programme includes:

A – reading regulatory and industry related updates;

B – meeting with local management and stakeholders, including hosting shareholders' visits (2017-2018 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.

#### *Onboarding for new Directors*

Our Onboarding Guidelines for Directors was adopted by the Board in August 2018 and components of our Onboarding Programme includes:

- an introduction session;
- face-to-face and one-on-one meetings with the Chairman of the Board, Chairmen of the Board Committees and the Senior Management who work closely with the Board and Board Committees;
- access to information that provides a broad overview of the CLP Group;
- invitation to attend Board Committee meetings to assist with the understanding of the work carried out by various Board Committees; and
- visits to the major facilities of CLP and / or special projects with CLP's involvement.

Our Onboarding Programme for the newly appointed Directors is individually designed with the specific Director in mind having regard to the Director's unique background, skills, experience and perspective. Following the appointment of Mr Philip Kadoorie and Ms May Tan in 2018, they participated in their respective bespoke programme. For instance, in the initial round of meeting sessions, Mr Philip Kadoorie met with the management team of the Hong Kong business before meeting with the Senior Management; whereas for Ms May Tan, her initial round of meeting sessions were with members of the Senior Management.

#### *Visits*

In December 2018, our Chairman, Mr William Mocatta (Non-executive Director and Chairman of CLP Power Hong Kong), Mr Philip Kadoorie (Non-executive Director), Ms May Tan (Independent Non-executive Director) and Mr Nicholas C. Allen (Independent Non-executive Director), along with other Senior Management, visited the newly established Group Information Technology Monitoring Centre and SmartHub@CLP centre. This was a good opportunity to exchange and interact with the frontline management in understanding the Group's monitoring on information technology systems including potential cyber attacks and CLP's vision of a smart city.

#### *Monthly Management Reports*

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. With the growing complexity of the business of the CLP Group and heightened regulatory and compliance requirements, Non-executive Directors are well aware that they are expected to have, and have devoted, a sufficient time commitment to the Board.
- 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.

## Corporate Governance Report

- Other directorships: Save for Mr Vincent Cheng, none of our Directors, individually, held directorships in more than six public companies (including the Company) as at 31 December 2018. While Mr Vincent Cheng is an Independent Non-executive Director of seven public companies (including the Company) as at 31 December 2018, his experience in overseeing the affairs of various public companies across different industries provides unique and valuable contributions to the Board and the Board Committees that he sits on or chairs. It has been demonstrated to the satisfaction of the Company that Mr Cheng is able to devote sufficient time and attention to CLP affairs both inside and outside the boardroom context for the Company's Board and Committee level. This is especially the case having regard to his 100% attendance at the Company's meetings for the Board, the three Committees that he is a member of including one that he chairs and the AGM. Furthermore, in 2018, with the increased workload for the Nomination Committee, the Committee benefitted from his contribution inside and outside of the Committee meetings and this year saw an additional meeting for the Nomination Committee of which Mr Cheng attended.

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 election or re-election at the 2019 AGM, all their directorships and board committees membership 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 98 to 103 of this Annual Report and on CLP's website. [@](#)

### Board Evaluation

In line with our CLP Code, we will undertake the performance evaluation of our Board and Committees on an ongoing basis. In 2018, the performance evaluation of the CLP Holdings Board was conducted internally with the assistance of a London-based specialist advisory firm, Lintstock Limited. Lintstock assisted in designing the survey questionnaire and facilitated the process to ensure the anonymity of the responses and feedback from the Directors.

The process involved each Director completing a confidential online questionnaire jointly prepared by management and the external facilitator. The completed questionnaires were only available to the facilitator, who prepared a report for the Board.

For this survey, the questionnaire focused on the following issues:

- Board expertise;
- Board dynamics;
- Management of meetings;
- Board support;
- Focus of meetings;
- Strategic oversight;
- Risk management and internal control; and
- Priorities for change.

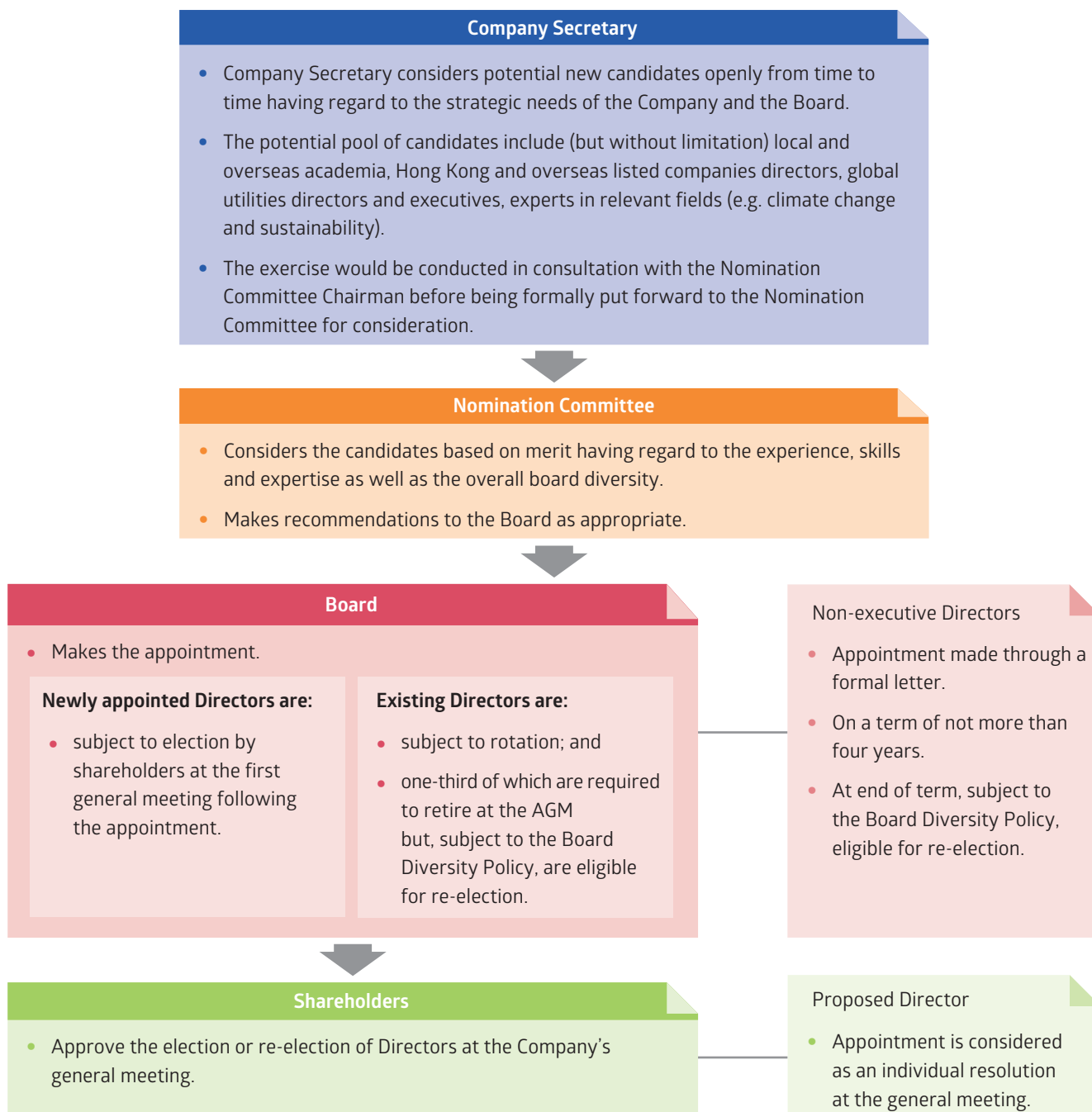
The Report of the 2018 Board Evaluation has been circulated to the Board. It provided a detailed analysis of the feedback on each of the above issues and confirmed that the Board continues to perform at a high standard; as a follow-up, the Board will discuss the findings of the Report in our Board meetings in 2019.

## Nomination and Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new Directors. CLP's Nomination Policy is disclosed in the Nomination Committee Report on page 155.

### 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

The CLP Board Diversity Policy was adopted by the Board in 2013 and incorporated Code Provisions of the Stock Exchange Code. A recently revised Policy was approved by the Board in February 2019.

The CLP Board Diversity Policy was updated with reference to the Guidance for Boards and Directors published by the Hong Kong Stock Exchange and incorporated the CLP Group Diversity and Inclusion Policy for Senior Management and Employees. The updated Policy introduced a retirement age guideline (at age 72) for our Non-executive Directors (other than the Chairman).

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.

Our Board Diversity Policy also recognises that board diversity can be achieved without increasing the size of the Board and that a reduction in board size due to retirements without replacement can also be a way to further diversity.

The revised [CLP Board Diversity Policy](#) is available on the CLP website. [📄](#)

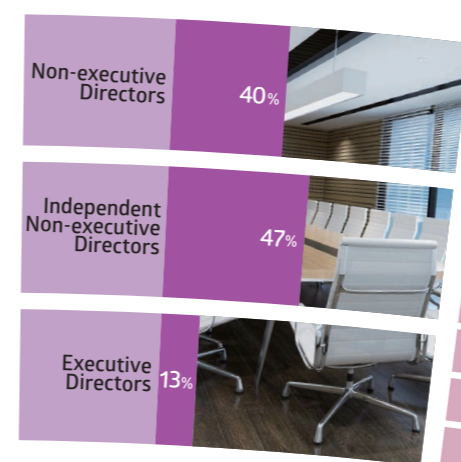
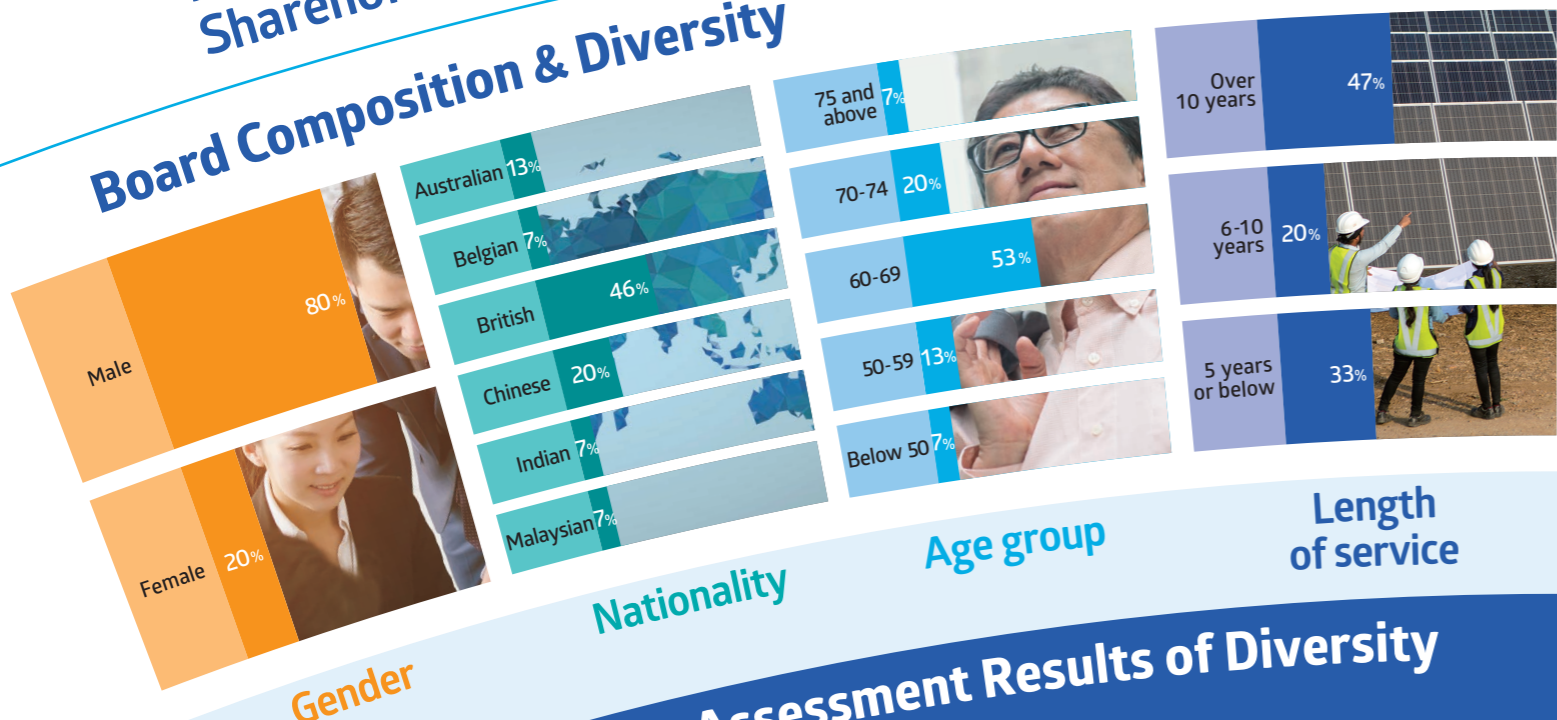
Our respect for people and diversity are embedded in CLP's Value Framework.

### The Value in Board Diversity

### How is this Relevant to our Shareholders

- Enhances decision-making capacity
- The Nomination Committee reviews the Board Diversity Policy periodically
- Improves effectiveness in dealing with organisational changes
- Shareholders approve the election or re-election of Directors
- Reduces likelihood of group thinking
- Directors and the Board are responsible for promoting the shareholders' interests
- Contributes to sustainable development
- Shareholders need to be satisfied with the level of board diversity
- We are committed to providing shareholders with sufficient information to assess our board diversity

### Board Composition & Diversity



## Board Expertise

An analysis of the skill 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 skill set mix of our Directors and demonstrates the broad and diverse mix of experience and background relevant to CLP that the Directors bring to the Board and its Committees.

Expertise	Relevance to CLP	No. of Directors
CLP market experience (Australia/ China/ India)	Facilitates the review of CLP's business and financial operations and investments in the respective region	8/15
Related industry experience (Power/ Property/ Retail/ Steel infrastructure)	Facilitates the review of CLP's business operations and investment opportunities in the related industries	11/15
Technology	Provides insights into the technological developments and the governance of cyber risks	2/15
Global market experience	Provides insights into the global economic trends and opportunities that CLP can explore	10/15
Other industries (Aviation/ Banking/ Mining/ Travel & leisure)	Brings in expertise in the areas of finance and technology, which are applicable across different industries	5/15
Other listed board roles	Brings in good practices as a board and/or board committee member of companies listed on the Hong Kong or overseas stock exchanges	12/15
Company executive	Provides insights into executive leadership and the management of CLP's business and operations	9/15
Public administration	Brings in experience in the areas of governance and stakeholder engagement	1/15
Professional	Brings in oversight, advisory and operational experience in the respective field of profession	12/15
• Engineering		4/15
• Legal		2/15
• Accounting		5/15
• Banking & finance		4/15

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

## Assessment Results of Diversity

- 47%** The percentage of Directors having served on the Board for over 10 years has slightly reduced to 47% from 50%
- < 50%** The diversity level in terms of nationality has been enhanced and no single group is representing more than 50% of the total
- The age distribution has been broadened with the appointments in 2018
- The Board has witnessed a strengthening in the Board expertise in the areas of related industry experience (property), other industries (banking/ aviation), other listed board roles, and professional background (accounting and banking and finance)
- 20%** Gender diversity (female representation) maintained at 20%
- 13%** Representation of Executive Directors in the Board remained at a relatively low level of 13%
- 47%** The independence of Directors maintained at a strong level of 47%

## The overall diversity of our Board was enhanced in 2018

### Disclosure of Conflict of Interest and Independence of Directors

#### *Conflicts*

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 2018, 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.

#### *Independence*

As required under the Listing Rules, the Company received written confirmations from all of the Independent Non-executive Directors regarding their independence. Effective from 1 January 2019, these written confirmations also covered the immediate family members of each of the Independent Non-executive Directors.

Among the Independent Non-executive Directors of the Company, three of them hold cross-directorships with other Directors:

- Both Mr Vincent Cheng and The Hon Sir Michael Kadoorie serve on the boards of the Company and CK Hutchison Holdings Ltd.;
- Both Mr Vincent Cheng and Mr Andrew Brandler serve on the boards of the Company and MTR Corporation Ltd.; and
- Both Mr Nicholas C. Allen and Ms May Tan serve on the boards of the Company and Link Asset Management Ltd.

Given that each of Mr Vincent Cheng, Mr Nicholas C. Allen and Ms May Tan plays a non-executive role and holds less than 1% of the number of issued shares in each of the relevant companies, the Company considers that such cross-directorship would not undermine their independence with respect to their directorships at CLP Holdings.

Taking into account all of the circumstances described in this section, the Company considers all of the Independent Non-executive Directors to be independent.

#### *Our view on independence*

The Company is of the view that a Director's independence is a question of fact and this is formally recognised in the Board Diversity Policy. The Board is committed to assessing this on an ongoing basis with regard to all relevant factors concerned. Some of these factors include: the ability to continually provide constructive challenge for management and other Directors and to express one's own views independent of management or other fellow Directors and the gravitas inside and outside the boardroom context. The Company has seen these attributes and behaviour having been demonstrated by our Independent Non-executive Directors as circumstances require.

Details of all [Directors](#) and their biographies including, if any, relationship between the members are disclosed on pages 98 to 103 and on our website. [📄](#)

#### *Directors' Shareholding Interests*

Directors' interests in CLP's securities as at 31 December 2018 are disclosed in the Directors' Report on page 175. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2018 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 "living" 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. CLP recognises the importance of diversity not just at the Board level but throughout the CLP Group. Under the Board Diversity Policy, we have recently made amendments to specifically acknowledge and incorporate the CLP Group Diversity and Inclusion Policy for Senior Management and Employees.

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 (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.
  - For a quicker response to Code of Conduct violations in Australia, EnergyAustralia (EA) has been delegated the responsibility to manage and take action on violations for EA employees. EA will inform the CLP Holdings Audit & Risk Committee of cases involving senior EA employees.
  - In 2018, there was no convicted cases of corruption at CLP (2017: nil).
  - 2018 – there were 20 breaches (2017: 28) of the Code – see also Audit & Risk Committee Report.
- Whistleblowing Policy
  - Applies to CLP Group with specific policy for each of CLP India and EA.
  - Allows employees and third parties to report suspected misconduct, malpractice or irregularity.
  - 2018 – there were 16 reported cases (2017: 11).



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 2018 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 190 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 2018.

### 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 online 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 2018

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 <sup>1</sup>	✓	✓	✓	✓
Ms Quince Chong	✓	✓	✓	✓
Mr Roy Massey		✓	✓	✓
Mrs Betty Yuen		✓	✓	✓
Mr Chiang Tung Keung	✓	✓	✓	✓
Mr Chan Siu Hung		✓	✓	✓
Mr Rajiv Mishra	✓	✓	✓	✓
Ms Catherine Tanna		✓	✓	✓

Note:

- 1 During 2018, Mr David Simmonds, the Company Secretary, served as a Council member, the Vice-Chairman of the Membership Committee, 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 to receive declared 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 2019 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](mailto: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 23
- coming important dates – see page 27
- year-end CLP shares public float – see page 23

#### 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 2018 AGM held on 4 May 2018 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 2,100 shareholders; and
- a high level of votes approving the following major items:
  - the re-election of Directors ranging from over 93% to over 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. [🔗](#)

## Multiple Channels of Communication and Engagement

Our approach to shareholders communication and engagement:

Channels	Highlights
 <p><b>Annual General Meeting</b> (Led by Chairman and attended by CLP Holdings Board, Senior Management and management team)</p>	<ul style="list-style-type: none"> <li>Chairman keynote speech</li> <li>Average attendance in the past five years: <b>1,571 shareholders</b></li> <li><b>2,100 shareholders</b> attended in 2018</li> <li>High voting approval rate on resolutions considered</li> </ul>
 <p><b>2018 Investor Meetings</b> (Led by CEO, CFO and Director – Investor Relations)</p>	<ul style="list-style-type: none"> <li>Over <b>160 investor meetings</b></li> <li><b>Non-deal roadshows</b> in Asia, Europe and North America</li> <li><b>ESG breakfast meeting</b> plus direct engagement</li> </ul>
 <p><b>2017-2018 Shareholder Visits</b> (Hosted by representatives of CLP Holdings Board, Senior Management and management team)</p>	<ul style="list-style-type: none"> <li><b>83 visits</b></li> <li><b>2,993 shareholders</b> and guests</li> <li>6 Family Day Visits</li> <li>66 Board and management lunch hosts</li> </ul>
 <p><b>2018 Analyst Briefings</b> (Led by CEO, CFO and Director – Investor Relations and attended by investment community)</p>	<ul style="list-style-type: none"> <li>Covering the Company's <b>interim and annual results</b></li> </ul>
 <p><b>Reports and Announcements</b></p>	<ul style="list-style-type: none"> <li>Annual Reports, Interim Reports and <a href="#">Sustainability Reports</a> </li> <li>Quarterly Statements</li> <li>Announcements and media releases</li> </ul>
 <p><b>CLP Website</b></p> 	<ul style="list-style-type: none"> <li><a href="#">AGM videos and minutes</a></li> <li><a href="#">Policies and codes</a></li> <li>Updates of <a href="#">recent financial information and latest investor information</a></li> <li><a href="#">Analyst briefings materials</a></li> </ul>

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 November 2018 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:

- additional disclosures under the new Listing Rules requirements effective from 1 January 2019 have been included in this Annual Report;
- for the 2019 Shareholders' Visit Programme, besides continuing with our "Family Day Tour" during the summer holidays, "Saturday Half Day Tour" will also be organised for shareholders to visit "Smart Energy@Mong Kok", where shareholders can learn more about the latest innovative household appliances and gain first-hand experience in IC Cooking and low carbon living; the 2019 programme will also see the inclusion of a visit to the new "SmartHub@CLP" which showcases CLP's latest developments for a greener and smarter city;
- communications with institutional investors – A series of meetings were held where our CEO and / or CFO met with equity analysts and institutional investors; investor briefings for our 2017 Annual Results and 2018 Interim Results were well attended in person and through the webcast; in Hong Kong, we also conducted meetings with private banking client advisors to improve their ability to reach out to high net worth investors; and
- direct engagement with targeted stakeholders on ESG.


### 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 2018 to be included in our Annual Report. Given their significance, these topics are commented in the Chairman's Statement on page 14 and /or CEO's Strategic Review on page 18 and are also discussed in selected sections as highlighted below.

These cover the following topics:

Topics	Sections
1 The New Scheme of Control Agreement and the initial five-year Development Plan	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – Hong Kong (page 40)</li> <li>• Risk Management Report (page 133)</li> <li>• Scheme of Control Statement (page 283)</li> </ul>
2 Hong Kong – progress on construction of the new gas-fired generation unit and the floating offshore LNG Terminal in Hong Kong and the Feed-in Tariff Scheme	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – Hong Kong (page 40)</li> <li>• Financial Capital (page 70)</li> </ul>
3 China – operational performance of Yangjiang nuclear power plant, possible further nuclear opportunities, pressure on performance of the coal-fired generation portfolio	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – Mainland China (page 47)</li> <li>• Financial Capital (page 70)</li> <li>• Risk Management Report (page 133)</li> </ul>
4 India – introduction of CDPQ as strategic partner, renewable energy development opportunities, operational performance of the generation assets, and optimisation of asset after the expiry of power purchase agreement	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – India (page 54)</li> <li>• Financial Capital (page 70)</li> <li>• Natural Capital (page 93)</li> </ul>
5 EnergyAustralia – progress of restoring value in the business, policy and regulation uncertainties, wholesale energy prices and retail customer competition, development of renewables generation projects, future opportunities for the business	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – Australia (page 62)</li> <li>• Financial Capital (page 70)</li> <li>• Risk Management Report (page 133)</li> </ul>
6 CLP's investment strategy to address climate change, exposure to coal-fired generation and mitigation measures	<ul style="list-style-type: none"> <li>• Business Performance and Outlook – Hong Kong (page 40)</li> <li>• Business Performance and Outlook – Mainland China (page 47)</li> <li>• Business Performance and Outlook – Australia (page 62)</li> <li>• Financial Capital (page 70)</li> <li>• Natural Capital (page 93)</li> <li>• Risk Management Report (page 133)</li> </ul>
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"> <li>• Financial Highlights (page 3)</li> <li>• 2018 In Figures (page 6)</li> <li>• Financial Review (page 30)</li> <li>• Financial Capital (page 70)</li> </ul>

## 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 – GIA, leads a well-resourced department of 24 highly qualified professional staff. For detailed tasks of the department, please see the [CLP Code](#) on the CLP website. 

The Senior Director – GIA 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 – GIA 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. Accordingly, the terms "independent auditor" and "external auditor" are used interchangeably.

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:

	2018 HK\$M	2017 HK\$M
<b>Audit</b>	<b>39</b>	39
<b>Permissible audit related and non-audit services</b>		
Audit related services (including Sustainability Report assurance, Continuing Connected Transactions limited assurance, audits of CLP's provident funds and auditor's attestation)	<b>8</b>	6
Non-audit services (including tax advisory and other services)	<b>1</b>	3
<b>Total</b>	<b>48</b>	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 5 to the Financial Statements.

For the year ended 31 December 2018, the fees for permissible audit related and non-audit services accounted for 17% and 2% 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

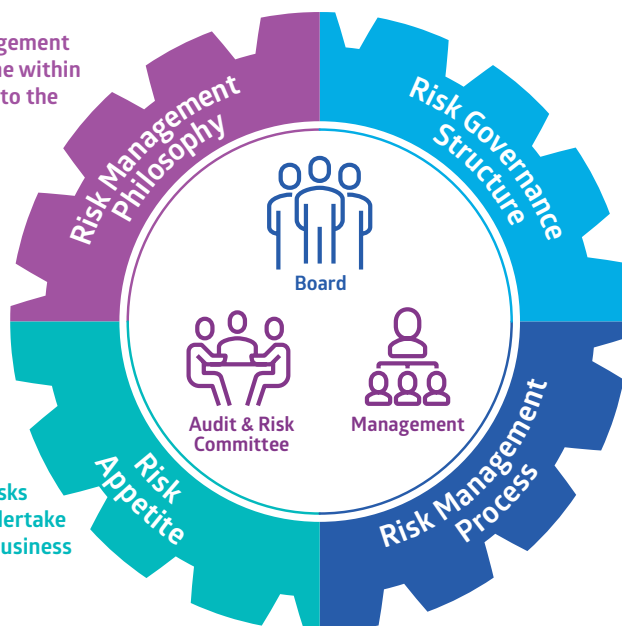
Effective risk management and internal control systems help the organisation anticipate its risk exposure, put controls in place to counter threats, and effectively pursue the set objectives. They are therefore an essential part of an organisation’s operation and governance processes. This section explains (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 is the responsibility of, the Board, through its Audit & Risk Committee, and comprises four key elements:

CLP recognises that risk management is the responsibility of everyone within CLP and thus it is integrated into the business and decision-making process.

The nature and extent of the risks that the Group is willing to undertake in pursuit of its strategic and business objectives.



Clear roles and responsibilities are assigned to multiple layers within the organisation. This structure facilitates risk identification and escalation.

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 133.

### 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 follow 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.

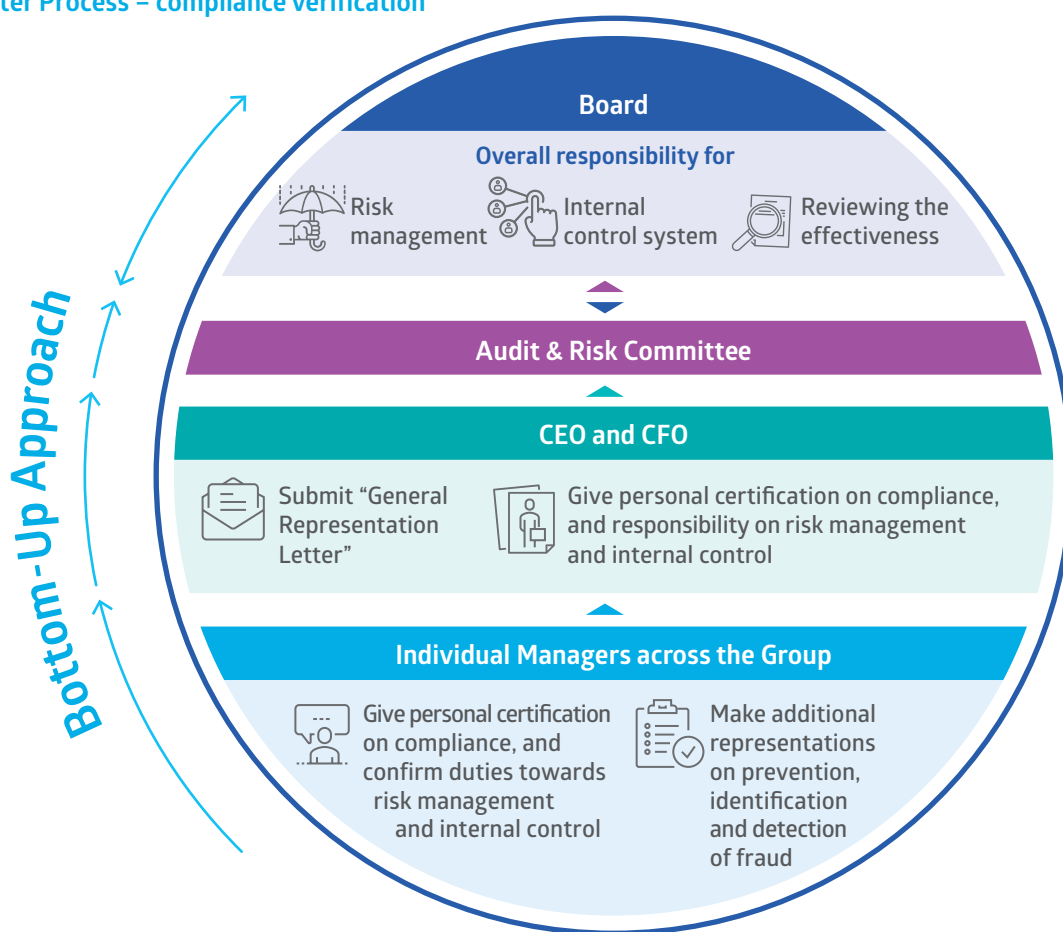
GIA provides independent assurance to the Board on the adequacy and effectiveness of internal controls for CLP. They adopt a risk-based approach, concentrating on areas with significant risks or where significant changes have been made. GIA is equipped with well qualified and capable staff with access 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.

### CLP's General Representation Letter Process – compliance verification

### 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 area of responsibility.



### 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 2018, 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.



## Corporate Governance Report

### 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 109 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, 25 February 2019