

Safeguarding a transparent system to govern corporate affairs

Sound corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment and provide shareholder value. Hongkong Electric is committed to high standards of corporate governance in its day-to-day operations.

In 2002, the Company continued to comply with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) issued by The Stock Exchange of Hong Kong Limited.

The Board, which meets formally at least four times a year, is made up of 14 individuals who have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity.

The Executive Committee of the Board, comprising the Chairman, Deputy Chairman, Group Managing Director and the Executive Directors, meets formally at least monthly to review and discuss management reports on the performance of the company, current plans and long term opportunities, and any other issues of immediate concern.

The Executive Directors are responsible for the day-to-day management of the Company's operations. These Directors conduct regular meetings with the senior management of the Company and its subsidiary and associated companies, at which operational issues and financial performance are evaluated.

The Group views well developed reporting systems and internal controls as essential and the Board of Directors plays a key role in the implementation and monitoring of internal financial controls. Their responsibilities include:

- Regular board meetings focusing on business strategy, operational issues and financial performance.

- Active participation on the Boards of subsidiary and associated companies.
- Approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities.
- Monitoring the quality, timeliness, relevance and reliability of internal and external reporting.
- Ensuring processes are in place to maintain the overall integrity of the company, including the financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Company's Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

The Company's Audit Committee is composed of three independent Non-executive Directors and written terms of reference which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The Audit Committee reports directly to the Board of Directors and reviews matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues, and review the effectiveness of internal controls and risk evaluation.