

Corporate Governance Report

Corporate Governance Practices

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

This involves, amongst others, two important commitments. First, to disclose our corporate governance practices openly and fully, so that our shareholders can form their own judgment on whether these meet their expectations. Secondly, to review our principles and practices in light of experience, regulatory requirements and international developments - recognising that corporate governance is an evolving process and to move on a timely basis in response to incoming regulatory changes and developing corporate governance practices.

The inclusion, for the first time, of a formal "Corporate Governance Report" from the Board in this year's Annual Report is an example of our determination to make good on both these commitments.

In November 2004, the Hong Kong Stock Exchange issued its "Code on Corporate Governance Practices and Corporate Governance Report" (the Stock Exchange Code), with a grace period such that it will take effect for accounting periods commencing on or after 1 January 2005. The Stock Exchange Code sets out principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and
- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

The Stock Exchange has allowed issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate, provided reasons are given for any deviation from the Stock Exchange Code.

On 28 February 2005, the Board approved a ["CLP Code on Corporate Governance"](#) (the CLP Code) with effect from that date. The CLP Code is issued to shareholders with this Annual Report and set out on our website. In addition, copies are available from the Company Secretary on request.



The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected the following considerations:

- We had already developed and implemented our own corporate governance framework, expressed in "Corporate Governance – CLP Principles and Practices" first issued in 2000 and updated in 2003;
- We wanted to express our corporate governance practices in our own words and with a structure which corresponds to our existing framework; and
- We did not want to take the Stock Exchange Code as a ceiling for governance practices and procedures. In a number of respects CLP had practices in place that went beyond the terms of the Stock Exchange Code.

The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the few exceptions specified and explained below. It exceeds the requirements of the Stock Exchange Code in many aspects. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and this Corporate Governance Report. We have put on our website an annotated version of the CLP Code, with cross-references from the CLP Code to the corresponding Code Provisions and Recommended Best Practices of the Stock Exchange Code.

The Stock Exchange Code replaced the Code of Best Practice at Appendix 14 of the Listing Rules with effect from 1 January 2005. Throughout the year ended 31 December 2004, the Company complied with the Code of Best Practice.

The following are the major respects in which the CLP Code exceeds the Code Provisions and Recommended Best Practices of the Stock Exchange Code.

CLP has established a Corporate Governance Framework which covers all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way.

CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance".

CLP has adopted its own [Code for Securities Transactions by Directors](#), which is on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. This Code also applies to other "Specified Individuals" such as members of the CLP Group's senior management. A copy of this Code is available on the CLP website.

We will issue a [formal letter of appointment for Non-executive Directors](#), modelled on the letter of appointment in the "Higgs Report" in the UK on the "Review of the Role and Effectiveness of 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 Audit Committee comprises only Independent Non-executive Directors.

CLP publishes an annual [Social and Environmental Report](#) on these aspects of its performance.

We announce our financial results within two months after the end of the financial year and send audited accounts to shareholders within the month following that announcement.

We enhance disclosure of financial information about the CLP Group's jointly controlled entities and associated companies.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) make an annual "[General Representation Letter](#)" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures.

We issue a Remuneration Report which sets out the policies applied to determining remuneration levels and explains the remuneration paid to all Directors and Senior Management.

We adopt a [Fair Disclosure Policy](#).

The following are all the deviations, with considered reasons, of the CLP Code and our actual practices, from the Recommended Best Practices of the Stock Exchange Code.

It is a Recommended Best Practice that an issuer should appoint Independent Non-executive Directors representing at least one-third of the Board.

In CLP's case, the Board presently comprises 17 Directors, of whom 5 are Independent Non-executive Directors. This exceeds the current minimum requirement under the Listing Rules, which is to have 3 such directors.

The reasons for deviation from this Recommended Best Practice are that CLP considers that the Independent Non-executive Directors on the Board are already of sufficient calibre and number for their views to carry weight. Nevertheless, it is the Company's aim, as confirmed in the CLP Code at paragraph II.B.21, that Independent Non-executive Directors should comprise at least one-third of the Board. The Nomination Committee has been reviewing appointees for recommendation to the Board and subsequent approval by shareholders.

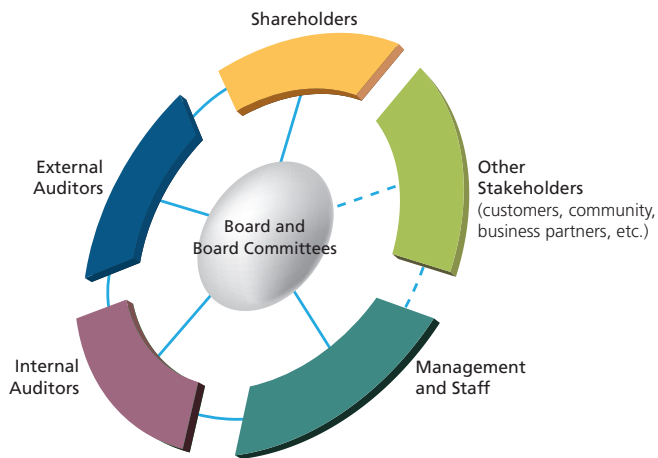
It is a Recommended Best Practice that an issuer should announce and publish quarterly financial results.

CLP issues quarterly statements which include turnover, interim dividends and progress in major business activities over the quarter. However, CLP does not issue quarterly financial results.

The reasons for deviation from this Recommended Best Practice are a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. CLP's [position](#) is set out on our website as an update of the views that we expressed in 2002 and which were accompanied by a standing invitation to shareholders to let us know if their views differed. Up to the date of this Report, we have received no such feedback from shareholders. We would review our position if and when there was a clear demand from shareholders for quarterly reporting – since it would be for their benefit and at their cost. CLP's focus remains on enhancing the quality of its reporting to shareholders through existing channels such as the Annual Report, Social and Environmental Report and its website – all of which exceed regulatory requirements in the extent of disclosure made.

Corporate Governance Report

CLP's Corporate Governance Framework



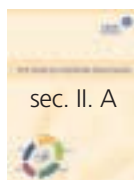
The CLP Corporate Governance Framework is used in the CLP Code to identify the key players involved in ensuring the application of good governance practices and policies within the CLP Group and to give structure to our explanation of those practices and policies.

Shareholders will find our ongoing corporate governance practices are now set out more fully in the CLP Code than in this Annual Report. In addition to reporting on compliance with the Stock Exchange's requirements, this Corporate Governance Report will focus more on how those practices were actually applied by the Company during the year under review.

This Corporate Governance Report includes the mandatory disclosure requirements and all the recommended disclosures listed in Appendix 23 to the Listing Rules. To help shareholders relate the Company's corporate governance practices during 2004 to those laid out more fully in the CLP Code, this Corporate Governance Report adopts the same order as that used in the CLP Code to explain our corporate governance framework. We also set out the corresponding cross-references to sections of the CLP Code.

Shareholders

The Board and Senior Management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. The "CLP and



our Shareholders" section of this Annual Report details our policies and actions in this respect. In addition, the CLP Code highlights key rights enjoyed by shareholders.

The Company is incorporated in Hong Kong. We believe that it is appropriate to have chosen to be subject to the company law of the jurisdiction in which our business is based, where our shares are listed and where the vast majority of our shareholders are resident.

Further to the Hong Kong Companies Ordinance and our Articles of Association, an Extraordinary General Meeting (EGM) can be convened by a written request signed by shareholders holding not less than one-twentieth of the paid-up share capital of CLP, stating the objects of the meeting, and deposited at our registered office in Hong Kong at 147 Argyle Street, Kowloon.

The procedures for shareholders to put forward proposals at an Annual General Meeting (AGM) or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the registered office. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to the election of a person other than a Director of the Company as a Director. The relevant procedures are set out in the Notice of AGM which accompanies the despatch of this Annual Report to shareholders and will be included with the notice to shareholders of any future AGM. [The procedures for shareholders to convene and put forward proposals at an AGM or EGM](#) are available on our website or on request to the Company Secretary.

The most recent shareholders' meeting was the AGM held on 22 April 2004 at the Peninsula Hotel, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Re-election of Mr. Vernon F. Moore, Mr. Rudolf Bischof, Mr. Hansen Loh, Mr. William E. Mocatta and Mr. Peter P. W. Tse as Directors of the Company and the election of Dr. Y. B. Lee as a Director of the Company (99.478% to 99.59% in respect of each individual resolution);

- Amendments to the Articles of Association in order to make these consistent with the Companies (Amendment) Ordinance 2003 and amendments to Appendix 3 of the Listing Rules (99.782%). These were the only changes made to the Articles of Association during 2004;
 - Introduction of retirement by rotation for all Executive Directors (99.608%);
 - Revised levels of remuneration payable to the Non-executive Directors, effective from 1 July 2004 (99.972%); and
 - General mandate to Directors to issue additional shares in the Company, not exceeding 10% of the issued share capital (80.725%).
- An explanation of the extent of the Company's public float as at 28 February 2005, being the latest practicable date prior to the issue of this Annual Report; and
 - A calendar of important shareholders' dates for 2005.

All resolutions put to shareholders were passed at the 2004 AGM. The [results of the voting by poll](#) have been published on CLP's website, the website of the Hong Kong Stock Exchange and also by notice in local newspapers. The [full proceedings of the AGM](#) can be viewed on the "Corporate Governance" section of the Company's website. Minutes of the AGM were sent to shareholders along with the Company's first quarterly statement for 2004.

CLP uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports and quarterly statements. In addition, the AGM provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in the corporate year and all Directors and Senior Management make an effort to attend. The Chairmen of the Audit Committee and Human Resources & Remuneration Committee will usually attend the AGM and answer questions. It is our policy to involve shareholders in the Company's affairs and to communicate with them face-to-face at the AGM and during visits to CLP about our activities and prospects.

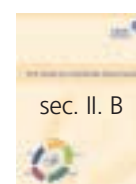
The "CLP and Our Shareholders" Section of this Annual Report sets out a wide range of other information of particular interest to shareholders, including:

- Details of the profile of the shareholders in the Company and aggregate shareholding;

Enquiries may be put to the Board by contacting either the Company Secretary through our shareholders' hotline 852-2678 8228, e-mail at cosec@clp.com.hk or directly by questions at an AGM or EGM. Questions on the procedures for convening or putting forward proposals at an AGM or EGM may also be put to the Company Secretary by the same means.

The Board

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.



The types of decisions which are to be taken by the Board include those relating to:

- The strategic direction of the Company;
- The objectives of Management;
- Monitoring the performance of Management;
- Overseeing the management of CLP's relationships with stakeholders, such as Government, customers, the community and others who have a legitimate interest in the responsible conduct of the Group's business;
- Ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- Setting the Company's values and standards.

The Directors are responsible for the preparation of the accounts for each financial period which give a true and

Corporate Governance Report

fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2004, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

The Board comprises 17 Directors. All Directors (with the exception of the Group Managing Director and three Executive Directors) are non-executive and independent of Management, thereby promoting critical review and control of the management process. The Board includes five influential and active Independent Non-executive Directors to whom shareholder concerns can be conveyed. The non-executive members of the Board also bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group.

Details of all Directors, including the Chairman, Group Managing Director, Executive Directors, Non-executive Directors and Independent Non-executive Directors are

given on pages 92 and 93 of this Annual Report. The relationships (including financial, business, family or other material or relevant relationships) among Members of the Board are also disclosed. There is no such relationship as between the Chairman and the CEO.

During the year ended 31 December 2004, the Board at all times exceeded the minimum requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors, and complied with the requirement that these should include one such director with appropriate professional qualifications or accounting or related financial management expertise.

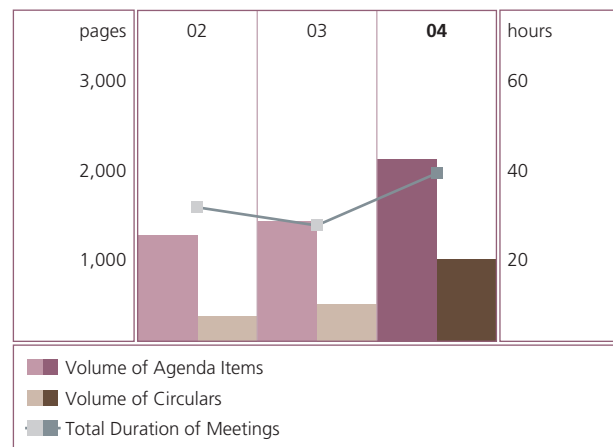
Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.

The full Board meets in person at least quarterly and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the AGM, Board and Board Committee Meetings held in 2004 are set out in the following table:

Directors	Meetings Attended/Held							
	Board	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Regulatory Affairs Committee	AGM
Non-executive Directors								
Dr. The Hon. Michael D. Kadoorie	3/5				1/1			1
Mr. W. E. Mocatta	5/5		5/5	1/1		2/2	2/2	1
Mr. J. S. Dickson Leach	5/5		4/5	1/1			1/2	1
Mr. R. J. McAulay	4/5							
Mr. J. A. H. Leigh	1/5							1
Mr. R. Bischof	4/5					2/2		1
Mr. I. D. Boyce	4/5							1
Mr. P. C. Tan	2/5			1/1			1/2	1
Independent Non-executive Directors								
The Hon. Sir S. Y. Chung	5/5	3/3		1/1	1/1		2/2	1
Dr. William K. Fung	2/5				1/1			1
Mr. V. F. Moore	5/5	3/3	5/5	1/1			2/2	1
Mr. Hansen C. H. Loh	4/5	3/3					2/2	1
Mr. Paul M. L. Kan	5/5	3/3						1
Executive Directors								
Mr. Andrew Brandler	5/5		5/5				2/2	1
Mr. Peter P. W. Tse	5/5		5/5			2/2	1/2	1
Mr. Peter W. Greenwood	5/5							1
Dr. Y. B. Lee	5/5						2/2	1

To indicate the attention given by our Board to the oversight of CLP's affairs, we provide a further table summarising the duration of those meetings and the volume of papers reviewed by Directors during 2004.

Workload of Board and Board Committees



Directors ensure that they can give sufficient time and attention to the affairs of the Company. Directors have disclosed to the Company the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2004 no Director held directorships in more than seven public companies, including the Company. No Executive Directors hold any directorship in any other public companies, but they are encouraged to participate in professional, public and community organisations. In respect of those directors who stand for re-election at the 2005 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 Directors' appointments are set out in ["Directors and Senior Management"](#) on pages 92 and 93 of this Annual Report and on CLP's website.

Directors are requested to declare their 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. The Company follows guidelines (available at the "Corporate Governance" Section of our website) at each financial reporting period to seek confirmation from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates. The identified significant related party transactions are disclosed in the Notes to the Accounts of the Annual Report.

The interests in CLP's securities held by Directors as at 31 December 2004 are disclosed in the Directors' Report on pages 118 to 120 of this Annual Report. Particular attention is given to dealings by Directors in shares in CLP. Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code for Securities Transactions also applies to other "Specified Individuals" such as Members of the CLP Group's senior management. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code.

Good corporate governance demands honest disclosure of compliance and non-compliance alike. In December 2004, The Hon. Michael D. Kadoorie, Mr. R. J. McAulay, Mr. J. A. H. Leigh and Mr. I. D. Boyce advised the Company that due to an oversight, a number of filings required under the Securities and Futures Ordinance and related notifications to the Company were not made within the prescribed time limits. These filings primarily related to a complex trust restructuring, during the course of which no outside consideration was involved and the overall number of CLP shares held by Kadoorie Family interests and their associated individuals or entities remained the same.

As soon as the Directors became aware of this oversight, they brought the matter to the attention of the Company, the Stock Exchange and the Securities and Futures Commission. The relevant filings were made with the Stock Exchange and the Company. These were then placed on the Exchange's website (www.hkex.com.hk) and in the Company's Registers of Interests of Directors and of Substantial Shareholders. An [explanation](#) of the differences between the interests as at 31 December 2003 and 30 June 2004, as compared to those previously disclosed by the Directors and Substantial Shareholders concerned, has been put on the CLP website.

The Company has been informed that the Directors concerned are taking steps to prevent such late filings from happening in the future. An in-house legal advisor has been engaged by Sir Elly Kadoorie & Sons Ltd. and has been tasked with formalising the disclosure process and developing a new system to support this.

Corporate Governance Report

The other Directors have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2004 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

Appointment of Directors

CLP follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Committee are then put to the full Board for decision. Thereafter, all Directors are subject to election by shareholders at the AGM in their first year of appointment.

Subject to approval by shareholders at the AGM in 2005, all Non-executive Directors are appointed for a term of not more than four years. This term is subject to curtailment upon that Director's retirement by rotation

and re-election by shareholders. One-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the AGM in each year. A retiring director is eligible for re-election.

All Non-executive Directors have a [formal letter of appointment](#), modelled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-Executive Directors".

Chairman and Chief Executive Officer

The posts of Chairman and CEO are held separately by The Hon. Michael D. Kadoorie and Mr. Andrew Brandler respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business. The respective responsibilities of the Chairman and CEO are more fully set out in the CLP Code.

Directors	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee [#]	Regulatory Affairs Committee [^]
Non-executive Directors						
Dr. The Hon. Michael D. Kadoorie				C		
Mr. W. E. Mocatta		VC	VC*		C	M
Mr. J. S. Dickson Leach		C	C			M
Mr. R. J. McAulay						
Mr. J. A. H. Leigh					M	
Mr. R. Bischof						
Mr. I. D. Boyce						
Mr. P. C. Tan			M*			M
Independent Non-executive Directors						
The Hon. Sir S. Y. Chung	M		M	M		M
Dr. William K. Fung				M		
Mr. V. F. Moore	C	M	M			M
Mr. Hansen C. H. Loh	M					M
Mr. Paul M. L. Kan	M					
Executive Directors						
Mr. Andrew Brandler		M				C
Mr. Peter P. W. Tse		M			M	M
Mr. Peter W. Greenwood	S	S	S	S		S
Dr. Y. B. Lee						M

C – Chairman
 VC – Vice Chairman
 M – Member
 S – Secretary

* Resigned with effect from 28 February 2005
[#] One of the members of the Provident & Retirement Fund Committee is Trustee
[^] Mrs. Betty Yuen is also a member of the Regulatory Affairs Committee

Board Committees

The Board has appointed a number of Board Committees to oversee particular aspects of the Company's affairs. Major [terms of reference](#) of these Committees are set out in the CLP Code and in full on the CLP website. They are also available in writing upon request to the Company Secretary.

The composition of the Board Committees during 2004 and up to the date of this Report is set out on page 100.

Audit Committee

The Audit Committee was established in 1981. All of its members are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualification and experience in financial matters.

The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

It is the practice of the Audit Committee to meet three times each year. Special meetings may be called at the discretion of the Chairman or at the request of the Group Managing Director or Group Internal Auditor to review significant control or financial issues. The Audit Committee Chairman gives an annual report to the Board covering the Committee's activities for the year and highlighting any significant issues.

During 2004, the Audit Committee met on three occasions and discharged its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties as set out in the CLP Code. The work performed by the Audit Committee in 2004 included reviews of:

- the Company's Directors' Report and Accounts for the year ended 31 December 2003 and the annual results announcement, with a recommendation to the Board for approval;
- the CLP Group Interim Accounts for the six months ended 30 June 2004 and the interim results announcement, with a recommendation to the Board for approval;
- the compliance by the Company with the Code of Best Practice, Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the financial year ended 31 December 2003. No breaches were identified*;
- the actions taken by Management regarding legal cases in which CLP Holdings or any member of the CLP Group was a named defendant*;
- the General Representation Letter signed jointly by the Group Managing Director & CEO and Group Executive Director & CFO regarding compliance with the internal control systems, disciplines and procedures for the year ended 31 December 2003*;
- the report and management letter submitted by the External Auditors, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2003 such as in respect of auditing and accounting matters, taxation issues and internal controls, together with the manner in which they had been addressed*;
- the audit fees payable to External Auditors for the year ended 31 December 2003 for approval by the Board*;
- the audit strategy submitted by the External Auditors for the year ended 31 December 2004 with a recommendation to the Board for them to be re-appointed for the financial year 2004 subject to final approval by the shareholders;
- the audit related and permissible non-audit services including audit of provident funds (auditors appointed by trustee), tax advisory and filing services for staff working outside Hong Kong etc. and their related fees. For these matters, pre-approval was given in accordance with the set guidelines*;
- 25 reports on the CLP Group's affairs submitted by Group Internal Audit during the course of 2003. Of these, two carried an unsatisfactory audit opinion. The issues arising from these have been addressed;
- the staffing and resources of the Group Internal Audit Department;
- the Group Internal Audit Plan for 2004 with areas of emphasis identified;

Corporate Governance Report

- the Code of Conduct issues identified in 2003*;
- the principal types of liability which were identified as not covered by the Company's Directors' and Officers' Liability Insurance, together with the measures that the Company had taken to mitigate such risks and liability; and
- the status of CLP's procedures and internal controls with regard to customer complaints, in order to check that management disciplines and internal controls were in place to ensure maintenance of a high level of overall customer satisfaction.

At its meeting on 21 February 2005 the Audit Committee reviewed the Directors' Report and Accounts for the year ended 31 December 2004 and the annual results announcement, with a recommendation to the Board for approval. The Audit Committee was advised that two out of 28 reports on the CLP Group's affairs submitted by Group Internal Audit during the course of 2004 carried an unsatisfactory audit opinion, and the issues arising from these audits are being addressed. Other work performed by the Committee on that occasion included that marked '*' in the above list, save that in each case the work related to the year ended 31 December 2004. The Committee also reviewed the External Auditors' audit strategy for 2005, the staffing and resources of the Group Internal Audit Department and the Internal Audit Plan for 2005.

In addition, the Committee carried out other work during 2004 pertaining to the U.S. reporting requirements arising from the registration of the Company's American Depositary Receipts with the U.S. Securities and Exchange Commission and the issue of Yankee Bonds by CLP Power Hong Kong Limited. This work included:

- approval of the Form 20-F of the Company for the financial year ended 31 December 2003 for filing with the U.S. Securities and Exchange Commission;
- reviews of the status of compliance by the CLP Group with the Sarbanes-Oxley Act 2002; and
- reviews of Management's work to prepare for the CLP Group's compliance with the internal control requirements (Section 404) of the Sarbanes-Oxley Act.

Finance and General Committee

The Finance and General Committee meets as and when required to review the financial operations of the Company. Such reviews include Group-wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets. The Committee also reviews major acquisitions of, or investments in, companies, businesses or projects and their funding requirements.

Human Resources & Remuneration Committee

Following the recent changes in its composition, a majority of the members of the Committee are now Independent Non-executive Directors. In line with good practice there are no Executive Directors on this Committee.

During 2004, the Committee met on one occasion. In performing its duties in accordance with its terms of reference, the work performed by the Committee during 2004 and at its subsequent meeting on 31 January 2005 included:

- the review of Group Performance for 2003 and 2004 and of Group Targets for 2004 and 2005;
- the application of the 2001 Long-term Incentive Plan;
- the approval of the 2003 and 2004 Remuneration Reports; and
- the Group's Base Pay Review for 2005.

A particular responsibility of the Committee is the review and approval of the Remuneration Report which is set out on pages 108 to 115 of this Annual Report and includes a description of emolument policy and long-term incentive schemes as well as the basis of determining the emoluments payable to Directors.

Nomination Committee

During 2004, the Nomination Committee met on one occasion, in addition to a number of informal discussions, in furtherance of its duties with regard to the identification and recommendation to the Board of possible appointees as Directors of the Board. During the year under review, there were no resignations from the Board and all those Directors who retired by rotation at the 2004 AGM presented themselves for re-election by shareholders. In

the circumstances, the Committee was not called upon to consider new appointees to fill Board vacancies.

Notwithstanding the existing size of the Board, which, throughout 2004 comprised 17 Directors, the Nomination Committee did consider the need for and possible appointments with regard to additional Independent Non-executive Directors. Although no such additional appointments have yet been recommended to the Board, the Committee is continuing its deliberations in this respect, including with a view to meeting the objective, expressed in the CLP Code, that one-third of the Board should comprise Independent Non-executive Directors. This, in the Company's case, would require the appointment of one additional Independent Non-executive Director, assuming that the remaining composition of the Board was unchanged.

In considering the appointment of Directors, the Committee applies the criteria set out in the CLP Code, notably the ability of potential appointees to contribute to the effective carrying out by the Board of the responsibilities set out in the Code.

At the 2005 AGM, five Directors will retire by rotation and present themselves for re-election by shareholders. The independence of those who are Independent Non-executive Directors has been reviewed by the Nomination Committee.

Provident & Retirement Fund Committee

The Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely, CLP Group Provident Fund Scheme and Mandatory Provident Fund Scheme. The Committee met on two occasions during 2004 and reviewed the position of the Funds, monitored the performance of the investment managers and considered and made recommendation to the Trustee on the appointment and removal of investment managers and on the investment of available funds outside the portfolios of the investment managers.

Regulatory Affairs Committee

The Regulatory Affairs Committee met on two occasions in 2004. It meets as and when required in order to review and advise upon matters in respect of the present or future regulation of CLP's Hong Kong electricity business. During 2004, in light of the importance of these matters

and the impending review by Government of the post-2008 regulatory regime for that business, the full Board itself paid particular attention to these matters.

Management and Staff

The task of CLP's Management and staff is the successful implementation of the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and CLP's shareholders and other stakeholders.



The division of responsibilities as between the Board, Board Committees, CEO and Management is aligned with the provisions of the CLP Code. The written procedures documenting the delegation by the Board of specific authorities, including those to Management, are expressed in the form of a "Company Management Authority Manual" (CMAM). Revisions to the CMAM which amend the approved authority delegated from the Board to Board Committees and the CEO require the approval of the Board. Revisions to delegation to Management and staff below the level of the CEO can be approved by the CEO.

All Management and staff, as well as Directors themselves, are subject to a formal [Code of Conduct](#) which places them under specific obligations as to the ethics and principles by which our business is conducted. Management and staff receive training on the Code and its implications. Management and staff above a designated level are required to sign annual statements confirming compliance with the Code. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprising the CFO, Company Secretary and Group Human Resources Director in order to ensure consistency and fairness.

During 2004, there were 11 breaches of the Code. Sanctions applied in 2004 ranged from reprimands to dismissal. None of the breaches of the Code involved senior managers or was material to the Group's financial statements or overall operations. No waivers of any of the requirements of the Code of Conduct were granted to any Director or senior manager or, for that matter, any other employee.

Corporate Governance Report

Senior Management (comprising the four Executive Directors and the Managing Directors of CLP Power Hong Kong Limited and CLP Power Asia Limited, whose biographies are set out on pages 92 and 93 of this Annual Report) and Specified Individuals are subject to the CLP Code for Securities Transactions in the same manner as Directors with respect to the notification and reporting requirements to the Company for dealings in CLP Holdings' securities and the prohibitions to deal. Save for the shareholdings disclosed by the four Executive Directors in the Directors' Report on pages 118 and 119 of this Annual Report, Senior Management do not have any interests in CLP Holdings' securities as at 31 December 2004.

Internal Auditors

CLP has a Group Internal Audit Department which plays a major role in monitoring the internal governance of the CLP Group. The Department is led by the Group Internal Auditor and includes 15 other professional staff. The tasks of the Department are set out in the CLP Code and include:



- Unrestricted access to review all aspects of the CLP Group's activities and internal controls;
- Comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries on a regular basis; and
- Special reviews of areas of concern identified by Management or the Audit Committee.

The Group Internal Auditor reports directly to the Audit Committee and Group Managing Director and has direct access to the Board through the Chairman of the Audit Committee. The Group Internal Auditor has the right to consult the Committee without reference to Management.

During 2004, the Group Internal Audit Department issued reports to Senior Management covering various operational and financial units of the Group, including several joint venture activities outside Hong Kong. Group Internal Audit also conducted reviews of major projects and contracts as well as areas of concern identified by Management.

The Annual Audit Plan, which is reviewed by the Audit Committee, is based on a risk assessment methodology, which assists in determining business risks and establishing audit frequencies. Concerns which have been reported by Group Internal Audit are monitored quarterly by Management and by the Audit Committee until corrective measures have been implemented.

External Auditors

The Group's External Auditors are PricewaterhouseCoopers. In order to maintain their independence, PricewaterhouseCoopers will not be employed for non-audit work unless this constitutes permissible non-audit work as defined in the Sarbanes-Oxley Act and has been pre-approved by the Audit Committee. In addition, there must be clear efficiencies and value-added benefits to CLP from that work being undertaken by the External Auditors, with no adverse effect on the independence of their audit work, or the perception of such independence.



During the year, the External Auditors (which for these purposes include any entity under common control, ownership or management with the External Auditors 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) provided the following audit and permissible non-audit services to the Group:

	2004 HK\$M	2003 HK\$M
Audit	9	10
Permissible non-audit services		
Due diligence and accounting advisory services relating to business developments	2	2
U.S. compliance review services	3	–
Taxation services	–	1
Other advisory services	–	1

The Audit Committee has resolved the re-appointment of PricewaterhouseCoopers for statutory audits for the Financial Year 2005. This resolution has been endorsed by the Board and is subject to final approval and authorisation by the shareholders at the 2005 AGM.

The current lead audit partner of our External Auditors has now served in that capacity since 2001. By virtue of U.S. securities legislation to which the Company is subject, a lead audit partner may not serve for more than five consecutive years, starting from May 2003.

Other Stakeholders

Good governance requires due regard to the impact of business decisions (including their environmental impact), not only on shareholders, but also on other key stakeholders. This Annual Report and our Social and Environmental Report explain how the Company has discharged its responsibilities to shareholders, employees, customers, the environment and the communities in which we operate.

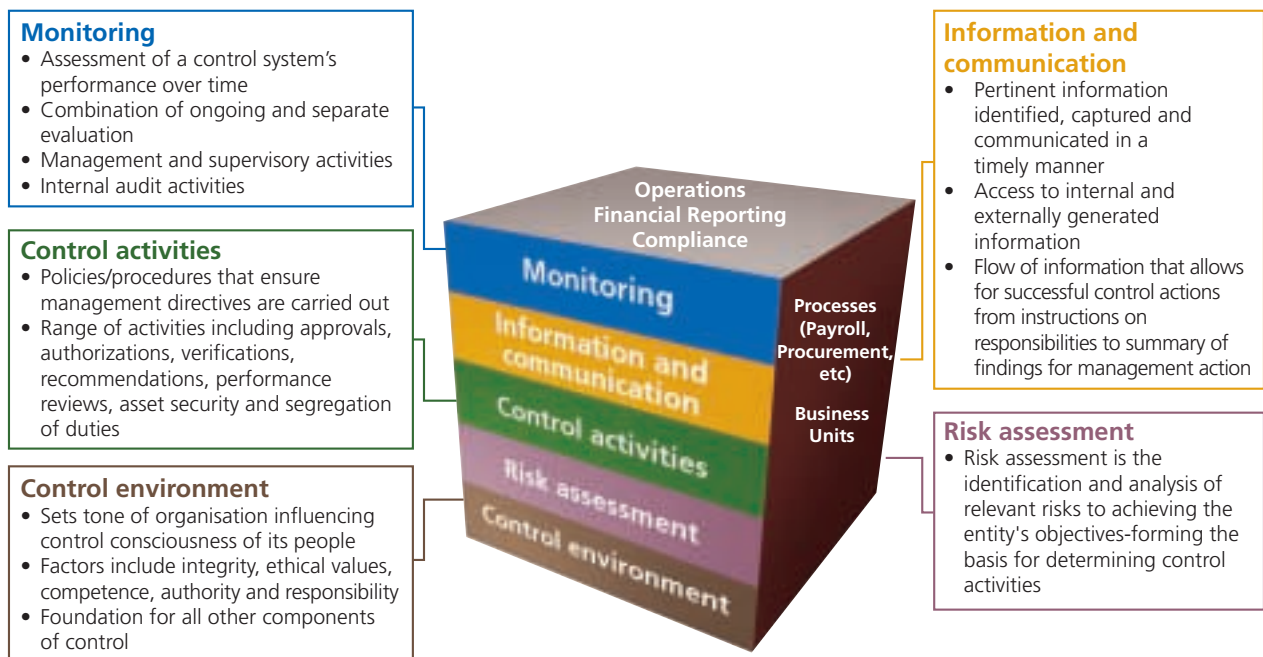


Internal Control

Internal control systems have been designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness.



The Company has implemented an integrated framework of internal controls patterned on the COSO framework (the Committee of Sponsoring Organisations of the Treadway Commission). This framework was developed in the early 1990s for evaluating the effectiveness of an organisation's internal controls and is illustrated below:



The Company's management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, have evaluated our control environment, conducted risk assessments of businesses and processes and documented those processes which are critical to the Company's performance.

As part of the documentation process, key risks have been identified along with the controls required to

mitigate those risks. Starting in 2005, all key controls will be tested periodically by process owners and the internal auditors, based on the frequency of transactions. External Auditors will also test key controls for those processes which are most critical to producing complete and accurate financial reports.

Based on the results of those tests, process owners will be able to certify to Senior Management that their internal controls are working as intended or that necessary

Corporate Governance Report

corrections have been made where control weaknesses have been found. Internal Auditors and External Auditors will also certify to Senior Management that controls have been working properly or that changes were made to ensure the integrity of financial statements.

Senior Management will then review all of the certification documentation to determine whether the Company's internal control compliance is acceptable and report on this to the Board, through the Audit Committee. The Board assesses the effectiveness of the system of internal controls based on the results and criteria of the monitoring system included in the COSO framework. The monitoring system includes testing of key financial controls conducted by the process owners, the Internal Auditors and the External Auditors. All key financial controls are tested each year. The results of those tests, including significant deficiencies or material weaknesses, are reported to the Board through the Audit Committee.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and due diligence procedures, and to report any significant changes, deficiencies and material weaknesses in, and fraud related to, internal controls to the Audit Committee and the Group's External Auditors.

The CEO and CFO submit an annual "General Representation Letter" to the Audit Committee, in which they give a personal certification of compliance by themselves and their subordinates with a range of key internal control systems, disciplines and procedures. These letters rest on similar letters of representation issued by individual managers across the CLP Group, which certify compliance with internal controls as to their particular businesses, departments and activities. These General Representation Letters reinforce personal responsibility for good governance and controls at all levels within the Group.

As foreign private issuers, both CLP Holdings Limited and CLP Power Hong Kong Limited have to comply with the U.S. Sarbanes-Oxley Act. Under Section 404 of this Act, starting with the fiscal year ending on or after July 15, 2006, management of a foreign private issuer has to prepare annually a report on the issuer's system of internal control over financial reporting and to provide its opinion as whether or not such controls are effective.

Following the Group's practice of moving early to adopt best practices, since early 2004 we have commenced a Group-wide effort involving the thorough review of our internal control over financial reporting and assessing the risks involved, both at the entity level and also the various processes/transactions levels, and documenting the controls that we have put in place. By the end of 2004, we were already well advanced in this exercise, with our External Auditors undertaking dry run tests of our internal controls. No material deficiencies had been identified so far.

The Audit Committee and Management conduct a six-monthly review on the effectiveness of the Company's system of internal control, including those of its subsidiaries. The Audit Committee then reports to the Board on the findings of that review.

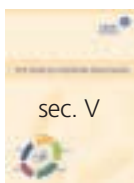
In respect of the year ended 31 December 2004, including by regard to the report made by the Audit Committee, the Board considered the internal control system effective and adequate and that there were no significant areas of concern which might affect shareholders.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information the Company

- is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guide on disclosure of price-sensitive information" issued by the Hong Kong Stock Exchange in 2002;
- has implemented and disclosed its own policy on fair disclosure (set out in Section V of the CLP Code);
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior managers of the Group are identified and authorised to act as the Company's spokespersons and respond to enquiries in allocated areas of issues.

Communication

CLP has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards, in that it provides our shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback to us. We understand that more disclosure does not necessarily result in increased transparency. The integrity of the information provided is essential for building market confidence.



Financial Reporting

CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited accounts are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

In 2004, we have moved to early adoption of the Stock Exchange's new requirements on financial disclosure in this Annual Report.

Social and Environmental Reporting

The CLP Group's Social and Environmental Report 2004, published at the same time as this Annual Report, gives a detailed description of our social and environmental performance on a group-wide basis for 2004. We are determined that our annual Social and Environmental Report should disclose our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. We shall continue to engage our stakeholders openly and report honestly on our progress in those areas. We welcome feedback, constructive or critical.

Reporting via Internet

The CLP website provides our shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of our website includes:

- [CLP Code on Corporate Governance](#);
- [CLP Fair Disclosure Policy](#);
- [CLP Value Framework including Code of Conduct](#);
- [Policy and Guidelines on the Provision of Gifts and Entertainment](#);

- [General Representation Letter](#);
- [Guidelines on Disclosure of Related Party Transactions](#);
- [Code for Securities Transactions by CLP Holdings Directors and Specified Individuals](#);
- [Memorandum and Articles of Association](#);
- [Procedures for shareholders to convene, and put forward proposals at an AGM or EGM](#);
- Biographical data on [Directors](#) and [Senior Management](#);
- [Model Letter of Appointment for Non-executive Directors](#);
- [Terms of Reference of Board Committees as well as the frequency and length of meetings, volume of briefing papers considered and Members' attendance](#);
- [AGM proceedings](#);
- [Top 10 Shareholders of the Company](#);
- [Analysts' briefings](#); and
- [Most frequently asked questions \(regularly updated\)](#).

We recognise that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the CLP Group website information listed above are available free of charge upon request to the Company Secretary.

Corporate Governance – an Evolving Process

This year, evolving corporate governance practices and, most notably, the issue of the Stock Exchange Code, have led to a significant review and revision of CLP's corporate governance practices and the manner in which we report on these. This has been reflected in the issue of the CLP Code and in this section of the Annual Report.

We will continue to review and, where appropriate, improve those practices in light of continuing experience, regulatory changes, international trends and developments and the views of our shareholders.

On Behalf of the Board

A handwritten signature in black ink that reads 'P.W. Greenwood'.

Peter W. Greenwood
Company Secretary
Hong Kong, 28 February 2005