

Corporate Governance

Maintaining high standards of corporate governance in everything we do

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

In 2004, the Company continued to comply with the Code of Best Practices, as set out in Appendix 14 of the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited.

Board of Directors

The Board of Directors, 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 Company views well-developed and timely 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.

Responsibilities of the Board of Directors

In the course of discharging their duties, the Board acts in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. 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.
- Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
- 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 organisational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

A number of Board Committees have been established by the Board to help with the discharge of its responsibilities.

Audit Committee

The Company's Audit Committee is composed of three independent Non-executive Directors and a Non-executive Director. It 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 reviews the effectiveness of internal controls and risk evaluation. The written terms of reference which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

Remuneration Committee

The Company's Remuneration Committee was established on 1st January 2005 and is composed of two independent Non-executive Directors. The Remuneration Committee's responsibilities are to review and consider the Company's policy for remuneration of Directors and senior management, to determine the remuneration packages of Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and to recommend to the Board the remuneration of Non-executive Directors.

Internal Control

The Group places great importance on internal control and risk management. The Board of Directors is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The Group encourages a risk aware and control conscious environment throughout the Company. The Board, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Group. These include strategic planning, political and regulatory, acquisitions, investments, expenditure control, treasury, environment, health and safety, and customer service.

Shareholder Communication

The objective of Hongkong Electric's shareholder communication is to provide our shareholders with detailed information about the Company so they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include the Annual General Meeting, the annual report, various notices, announcements and circulars, and the Company's website: <http://www.hec.com.hk>.