

Remuneration Report

We attach great importance to the effective oversight of CLP's remuneration policies and their implementation in practice.

1. Introduction

Issues relating to the remuneration of directors (both non-executive and executive) and senior management remain of particular importance to shareholders. Unjustified and improper payments can be a route to the inappropriate extraction of value away from a company and its shareholders. On the other hand, properly structured and fair remuneration can support the alignment of the interests of directors and senior management with those of the company and its shareholders.

The Report sets out the policies applied to determining remuneration levels and explains the remuneration paid to Non-executive Directors, Executive Directors and Senior Management. This Remuneration Report has been reviewed and endorsed by the Human Resources and Remuneration Committee of the Board.

Sections 4, 6, 7 and 9 below comprise the "auditable" part of the Remuneration Report and have been audited by the Company's auditors.

2. Policies

The main elements of CLP's remuneration policies are:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom CLP competes for human resources; and
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

3. Non-executive Directors – Principles of Remuneration

The role of non-executive directors has become more complex and demanding – as a result of regulatory change and the increasing part they play in the governance of listed companies. In the U.K., the "Review of the Role and Effectiveness of Non-executive Directors" ("The Higgs Report") published in January 2003 discussed these trends. It concluded that "the level of remuneration for any particular non-executive director should reflect the likely workload, the scale and complexity of the business and the responsibility involved" and that "it may be helpful in assessing remuneration for non-executive directors to use as a benchmark the daily remuneration of a senior representative of the company's professional advisors". The U.K. Combined Code on Corporate Governance of July 2003 provides that levels of remuneration for non-executive directors should reflect the time commitments and responsibilities of the role, but should not include share options.

Non-executive Directors of the Company are paid fees in line with market practice, based on a formal independent review undertaken no less frequently than every three years. In view of the growing responsibilities of non-executive directors and market trends as illustrated by the Higgs Report and the U.K. Combined Code. At the beginning of 2004 CLP reviewed the fees paid to its Non-executive Directors. The methodology adopted in this review was aligned with the recommendations of the Higgs Report and included:

- application of an hourly rate of HK\$4,000 as an average of the partner rates charged by legal and financial advisors and accounting and consulting firms in providing professional services to CLP;

- calculation of the time spent by Non-executive Directors on CLP's affairs (including attendance at Board and Board Committee meetings, reading of papers, site visits etc.). A Non-executive Director can be expected to spend approximately 50 hours per annum on Board matters (excluding additional time spent in serving on Board Committees); and
- an additional fee of about 40% and 10% for chairmanship of the Board/Board Committees and vice-chairmanship of the Board respectively.

The resulting fees were then benchmarked against comparable companies in Hong Kong (as far as possible, given the limitations of the information then publicly available). The methodology and resulting fees were independently reviewed by Deloitte & Touche Enterprise Risk Services Limited (DTERS).

In line with our policy that no individual should determine his or her own remuneration, the fees set out in the table below for service on the Board and Board Committees (save for those proposed fees for the newly established Social, Environmental & Ethics Committee and China Committee) were recommended by the Management, reviewed by DTERS and approved by our shareholders at the Annual General Meeting on 22 April 2004.

Using the same methodology for calculation of Directors' fees as explained above, it is envisaged that the fees payable to the Chairmen and Members (other than Executive Directors and Management) of the Social, Environmental & Ethics Committee and China Committee will be fixed at the levels as set out in the table below to take effect from the date of their respective first meeting. The proposed levels of fees for service on the Social, Environmental & Ethics Committee and China Committee are subject to the approval of our shareholders at the Annual General Meeting on 25 April 2006.

	Proposed fees per annum (w.e.f. the date of first Committee meeting) HK\$	Fees per annum (w.e.f. 1 July 2004) HK\$	Fees per annum (before 1 July 2004) HK\$
Board			
Chairman	–	280,000	225,000
Vice Chairman	–	220,000	150,000
Non-executive Director	–	200,000	100,000
Nomination Committee*			
Chairman	–	10,000	–
Member	–	10,000	–
Audit Committee			
Chairman	–	140,000	50,000
Member	–	100,000	50,000
Finance & General Committee			
Chairman	–	110,000	–
Member	–	80,000	–
Human Resources & Remuneration Committee			
Chairman	–	14,000	–
Member	–	10,000	–
Regulatory Affairs Committee			
Chairman	–	30,000	–
Member	–	20,000	–
Provident & Retirement Fund Committee**			
Chairman	–	–	–
Member	–	–	–
Social, Environmental & Ethics Committee			
Chairman	30,000	N/A	N/A
Member	20,000	N/A	N/A
China Committee			
Chairman	56,000	N/A	N/A
Member	40,000	N/A	N/A

Notes:

Executive Directors and Management serving on the Board and Board Committees are not entitled to any Directors' fees.

* There was no additional fee paid to the Chairman of the Nomination Committee, as this comprises only three members.

** No fees were paid to the Chairman and Members of the Provident & Retirement Fund Committee, on which no Independent Non-executive Directors serve.

N/A: Not applicable.

4. Non-executive Directors – Remuneration in 2005

The fees paid to each of our Non-executive Directors in 2005 for their service on the CLP Holdings Board and, as applicable, on its Board Committees are set out below. It should be noted that there was no increase in the levels of Directors' fees in 2005. The increase in total Directors' fees, compared to 2004, is due to the appointment of an additional Independent Non-executive Director in 2005 and that this was the first full year in which the revised fees approved by shareholders at the 2004 AGM took effect.

In HK\$	Board	Audit Committee	Nomination Committee	Finance & General Committee	Regulatory Affairs Committee	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Total 2005	Total 2004*
Non-executive Directors									
The Hon. Sir Michael Kadoorie	280,000	–	10,000	–	–	–	–	290,000	257,500
Mr. W. E. Mocatta**	220,000	–	–	80,000	20,000	1,602	0	321,602	240,000
Mr. J. S. Dickson Leach	220,000	–	–	110,000	20,000	14,000	–	364,000	257,000
Mr. R. J. McAulay	200,000	–	–	–	–	–	–	200,000	150,000
Mr. J. A. H. Leigh	200,000	–	–	–	–	–	–	200,000	150,000
Mr. R. Bischof	200,000	–	–	–	–	–	0	200,000	150,000
Mr. I. D. Boyce	200,000	–	–	–	–	–	–	200,000	150,000
Mr. P. C. Tan**	200,000	–	–	–	20,000	1,602	–	221,602	165,000
Independent Non-executive Directors									
The Hon. Sir S. Y. Chung	200,000	100,000	10,000	–	20,000	10,000	–	340,000	245,000
Dr. William K. Fung [^]	200,000	–	10,000	–	–	–	–	210,000	155,000
Mr. V. F. Moore	200,000	140,000	–	80,000	20,000	10,000	–	450,000	300,000
Mr. Hansen Loh	200,000	100,000	–	–	20,000	–	–	320,000	235,000
Mr. Paul M.L. Kan [#]	200,000	41,713	–	–	–	–	–	241,713	225,000
Professor Judy Tsui ^{##^}	128,729	58,288	–	–	–	–	–	187,017	–
Total								3,745,934	2,679,500

* On the basis of the fees which applied prior to 1 July 2004 and the revised fees which took effect from that date.

** Mr. W. E. Mocatta and Mr. P. C. Tan resigned respectively as the Vice Chairman and a Member of the Human Resources & Remuneration Committee with effect from the close of business of 28 February 2005.

[#] Mr. Paul M. L. Kan resigned as a Member of the Audit Committee with effect from 1 June 2005.

^{##} Professor Judy Tsui was appointed an Independent Non-executive Director and a Member of the Audit Committee with effect from 10 May 2005 and 1 June 2005 respectively.

[^] Subject to Shareholders' approval of the level of fees payable to Non-executive Directors serving on the Social, Environmental & Ethics Committee, HK\$1,699 each was accrued to Dr. William K. Fung and Professor Judy Tsui.

During the year, the following directors also received fees for their directorships in subsidiary companies and affiliated companies:

	2005 HK\$	2004 HK\$
Mr. W. E. Mocatta	227,000 ⁽¹⁾	237,000
Mr. J. S. Dickson Leach	–	206 ⁽³⁾
Mr. J. A. H. Leigh	55,435 ⁽²⁾	75,000
	282,435	312,206

⁽¹⁾ Fees from CLP Power Hong Kong Limited, Hong Kong Nuclear Investment Company Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited.

⁽²⁾ Mr. J. A. H. Leigh resigned from the Board of CLP Power Hong Kong Limited on 27 September 2005.

⁽³⁾ Mr. J. S. Dickson Leach resigned from the Board of CLP Power Hong Kong Limited on 2 January 2004.

5. Executive Directors – Components of Remuneration

In determining the remuneration of Executive Directors, the remuneration data of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our remuneration policy to align with companies with whom CLP competes for human resources. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. The three components of Executive Directors' remuneration are explained below:



Base Compensation

Base compensation accounts for approximately 56% of total remuneration. It is reviewed annually taking into consideration the competitive market position, market practice and individual performance for the Executive Directors.

Performance Bonus

The levels of the performance bonus are set by the Human Resources & Remuneration Committee. No Executive Directors serve on the Committee.

Annual Incentive

The annual incentive payout depends upon the performance of the CLP Group, the functions and the individuals concerned. Key measures include achievement of financial goals and operational performance targets and demonstration of key leadership competencies, such as creating shared vision and developing talents.

Each of the Executive Directors is assigned a "target" annual incentive, which accounts for 28% of his/her total remuneration. Only individuals who attain a satisfactory performance are awarded any annual incentive. The amount of the annual incentive is capped at twice the "target" annual incentive, with the actual amount being subject to performance.

Long-term Incentive

The Executive Directors are also eligible to take part in the Long-term Incentive Plan (LTIP). The "target" long-term incentive accounts for 9% of his/her total remuneration. The LTIP is designed to align the interests of the Executive Directors with those of the shareholders by an award that is pegged to the creation of shareholder value. A three-year financial target is set every year to drive towards higher performance and to ensure that such performance is sustained over the long term. At the end of the three-year period, an award is made which is based on performance against the financial target. The award ranges from zero to one and a half times the "target" long-term incentive. The actual payout is further adjusted to reflect the share price performance of CLP Holdings, with dividends reinvested, over the same three-year period. Subject to certain vesting conditions, the award is payable in the fourth year. The LTIP was introduced in 2001 with the first award being paid to the eligible individuals in 2004.

Pension Arrangements

The Executive Directors are eligible to join the defined contribution section of the Group's retirement fund. The Group's contribution to the retirement fund amounts to a maximum of 12.5% of base compensation, subject to a 5% contribution by the employee. This accounts for 7% of his/her target total remuneration.

The Group does not have, and has never had, a share option scheme.

No Executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind.

6. Executive Directors – Remuneration in 2005

The remuneration paid to the Executive Directors of the Company in 2005 was as shown below:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus (Note A)		Ex-gratia Payment HK\$M	Provident Fund Contribution HK\$M	Total HK\$M
		Annual Incentive HK\$M	Long-term Incentive HK\$M			
2005						
CEO (Mr. Andrew Brandler)	5.3	4.9	1.9	–	0.7	12.8
Group Executive Director & CFO (Mr. Peter P. W. Tse)	4.1	3.0	1.6	–	0.5	9.2
Group Executive Director (Dr. Y. B. Lee)	3.5	2.3	1.4	–	0.4	7.6
Director & Company Secretary (Mr. Peter W. Greenwood) (Note B)	2.9	4.1	4.2	2.2	0.3	13.7
	<u>15.8</u>	<u>14.3</u>	<u>9.1</u>	<u>2.2</u>	<u>1.9</u>	<u>43.3</u>
2004						
CEO	5.0	4.1	1.6	–	0.6	11.3
Group Executive Director & CFO	4.1	2.8	1.4	–	0.5	8.8
Group Executive Director	3.5	2.2	2.1#	–	0.4	8.2
Director & Company Secretary	3.7	3.2	0.9	–	0.4	8.2
	<u>16.3</u>	<u>12.3</u>	<u>6.0</u>	<u>–</u>	<u>1.9</u>	<u>36.5</u>

Note A:

Performance bonus consists of (a): annual incentive and (b): long-term incentive.

(a) The annual incentive for the Executive Directors and the members of Senior Management for 2005 is yet to be reviewed and approved by the Human Resources & Remuneration Committee. Accordingly, the total amount of annual incentive includes: i) the accruals that have been made in the performance bonus for the Executive Directors and members of Senior Management at the target level of performance; and ii) the actual bonus paid for the last year in excess of the previous accruals made.

(b) The long-term incentive is the incentive for 2002, paid in 2005 when the vesting conditions had been satisfied (the comparative figures are the incentive for 2001 paid in 2004). About 44% of the amount of 2002 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2002 and 2005, with dividends reinvested.

In 2001 when the long-term incentive was granted, Dr. Y. B. Lee was not an Executive Director. He then held the office of Managing Director of CLP Power China and his long-term incentive was assessed based on the performance of the Group's projects in the PRC.

Note B:

Mr. Peter W. Greenwood resigned as the Director & Company Secretary with effect from 27 August 2005. The annual incentive amount of HK\$4.1 million included the amount of incentive payment for 2005 for the period he served as director. The long-term incentive amount of HK\$4.2 million was for the years 2002, 2003, 2004 and 2005 paid to Mr. Greenwood upon leaving the Company. The ex-gratia payment was made in recognition of his contribution to the Group.

Ex-gratia payments may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee and are not part of the remuneration arrangements for Executive Directors.

7. Total Directors' Remuneration in 2005

The total remuneration of Directors (Non-executive and Executive) is shown below:

	2005 HK\$M	2004 HK\$M
Fees	4	3
Base compensation, allowances and benefits in kind	16	16
Performance bonus*		
– Annual incentive	14	12
– Long-term incentive	9	6
Provident fund contributions	2	2
Ex-gratia payment#	2	–
	<u>47</u>	<u>39</u>

* Refer to Note A on performance bonus on page 116.

Refer to Note B on Ex-gratia payment on page 116.

Of the total remuneration paid to Directors, HK\$2 million (2004: HK\$3 million) has been charged to the SoC operation.

8. Senior Management – Components of Remuneration

In this section, Senior Management means the Group Director – Managing Director Hong Kong, Group Director – Managing Director Asia Pacific and Group Director – Operations, as well as the Executive Directors. These three individuals are subject to the same pay policies of the Group, i.e. market alignment and reward for performance, as those applied to the Executive Directors. Similarly, they are eligible for the three components of total remuneration, as payable to the Executive Directors, namely, base compensation, incentive bonus (including annual incentive and long-term incentive) and pension arrangements. The principles for the application of these components are the same for all members of Senior Management and are explained below:



Base Compensation

For Senior Management, base compensation accounts for approximately 56% of total remuneration. It is reviewed annually taking into consideration the competitive market position, market practice and individual performance.

Annual Incentive

The "target" annual incentive accounts for 28% of total remuneration for Senior Management. An award was made in 2005, based on an assessment of the 2004 performance of the Group, the business units, the functions and the individuals concerned. The average payout to this group in 2005 was 75% above the target level as supported by the achievement of financial goals, operational performance targets and individual objectives for 2004.

Long-term Incentive

Senior Management are also eligible to take part in the LTIP, which accounts for 9% of their remuneration at target performance.

Pension Arrangements

The retirement benefits for Senior Management represent 7% of their target total remuneration.

The pay policies applied to the Senior Management also form the basis of the remuneration for leading managers across the CLP Group.

9. Senior Management – Remuneration in 2005

The six highest paid individuals in the Group during the year included three (2004: four) who served as Directors for the full year and one who served as Director for part of the year (2004: all Directors served for the full year). The details of the remuneration of the four individuals who served as Directors in 2005 are set out in Section 6 above. The remaining two individuals are the Group Director – Managing Director Hong Kong and Group Director – Managing Director Asia Pacific. Details of the remuneration of these two individuals and that of Group Director – Operations are shown below:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus*		Provident Fund Contribution HK\$M	Total HK\$M
		Annual Incentive HK\$M	Long-term Incentive HK\$M		
2005					
Group Director – Managing Director Hong Kong (Mrs. Betty Yuen)	4.0	3.5	1.2	0.5	9.2 [#]
Group Director – Managing Director Asia Pacific (Mr. Richard McIndoe)	4.0	3.6	–	0.5	8.1
	<u>8.0</u>	<u>7.1</u>	<u>1.2</u>	<u>1.0</u>	<u>17.3</u>
Group Director – Operations Mr. Peter Littlewood (Note C)	2.4	2.0	0.9	0.3	5.6
	<u>2.4</u>	<u>2.0</u>	<u>0.9</u>	<u>0.3</u>	<u>5.6</u>
2004					
Group Director – Managing Director Hong Kong	3.9	2.8	–	0.5	7.2 [#]
Group Director – Managing Director Asia Pacific	3.7	2.7	–	0.5	6.9
	<u>7.6</u>	<u>5.5</u>	<u>–</u>	<u>1.0</u>	<u>14.1</u>

* Refer to Note A on performance bonus on page 116.

Mrs. Betty Yuen joined the LTIP in 2002, and Mr. Richard McIndoe joined in 2003.

[#] The total of this remuneration has been charged to the SoC operation.

Note C:

Mr. Peter Littlewood was appointed as Group Director – Operations effective from 1 November 2005, the amount of remuneration covers full year 2005.

The total remuneration of the six highest paid individuals in the Group is shown below:

	2005 HK\$M	2004 HK\$M
Base compensation, allowances and benefits in kind	24	24
Performance bonus*		
– Annual incentive	21	18
– Long-term incentive	10	6
Provident fund contributions	3	3
Ex-gratia payment [#]	2	–
	<u>60</u>	<u>51</u>

* Refer to Note A on performance bonus on page 116.

[#] Refer to Note B on Ex-gratia payment on page 116.

The remuneration paid to these six individuals is within the following bands:

	Number of Individuals	
	2005	2004
HK\$ 6,500,001 – HK\$ 7,000,000	–	1
HK\$ 7,000,001 – HK\$ 7,500,000	–	1
HK\$ 7,500,001 – HK\$ 8,000,000	1	–
HK\$ 8,000,001 – HK\$ 8,500,000	1	2
HK\$ 8,500,001 – HK\$ 9,000,000	–	1
HK\$ 9,000,001 – HK\$ 9,500,000	2	–
HK\$11,000,001 – HK\$11,500,000	–	1
HK\$12,500,001 – HK\$13,000,000	1	–
HK\$13,500,001 – HK\$14,000,000	1	–

10. Continued Scrutiny and Disclosure

The Human Resources & Remuneration Committee remains committed to continued scrutiny of remuneration levels, and to high standards of disclosure to shareholders on such matters.



W. E. Mocatta

Chairman

Human Resources & Remuneration Committee

Hong Kong, 28 February 2006