

# Remuneration Report

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.

## 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.

## 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

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.

The role of Non-executive Directors has become more complex and demanding – as a result of both regulatory change and the increasing part such directors play in the good governance of listed companies. In the U.K., the "Review of the Role and Effectiveness of Non-executive Directors" (commonly known as "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.

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 (which we expected to be reflected in the Hong Kong regulatory framework in due course), CLP undertook a review at the beginning of 2004 of 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.). This indicated that 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 publicly available). The methodology and proposed 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 proposed fees for Non-executive Directors were recommended by the Management, reviewed by DTERS and approved by our shareholders at the Annual General Meeting on 22 April 2004. The revised fees took effect as from 1 July 2004 and are as follows:

	<b>Fees per annum (w.e.f. 1 July 2004) HK\$</b>	Fees per annum in 2003 HK\$
<b>Board</b>		
Chairman	<b>280,000</b>	225,000
Vice Chairman	<b>220,000</b>	150,000
Non-executive Director	<b>200,000</b>	100,000
<b>Nomination Committee</b>		
Chairman	<b>10,000</b>	–
Member	<b>10,000</b>	–
<b>Audit Committee</b>		
Chairman	<b>140,000</b>	50,000
Member	<b>100,000</b>	50,000
<b>Finance &amp; General Committee</b>		
Chairman	<b>110,000</b>	–
Member	<b>80,000</b>	–
<b>Human Resources &amp; Remuneration Committee</b>		
Chairman	<b>14,000</b>	–
Member	<b>10,000</b>	–
<b>Regulatory Affairs Committee</b>		
Chairman	<b>30,000</b>	–
Member	<b>20,000</b>	–
<b>Provident &amp; Retirement Fund Committee</b>		
Chairman	–	–
Member	–	–

Note: Executive Directors 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.

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## 4. Non-executive Directors – Remuneration in 2004

On the basis of the fees which applied prior to 1 July 2004 and the revised fees which took effect from that date, the fees paid to each of our Non-executive Directors in 2004 for their service on the CLP Holdings Board and, as applicable, on its Board Committees were as follows:

In HK\$	Board	Audit Committee	Nomination Committee	Finance & General Committee	Regulatory Affairs Committee	Human Resources & Remuneration Committee	Provident & Retirement Fund Committee	Total 2004	Total 2003
<b>Non-executive Directors</b>									
Dr. The Hon. Michael D. Kadoorie	252,500	–	5,000	–	–	–	–	257,500	225,000
Mr. W. E. Mocatta	185,000	–	–	40,000	10,000	5,000	0	240,000	150,000
Mr. J. S. Dickson Leach	185,000	–	–	55,000	10,000	7,000	–	257,000	150,000
Mr. R. J. McAulay	150,000	–	–	–	–	–	–	150,000	100,000
Mr. J. A. H. Leigh	150,000	–	–	–	–	–	–	150,000	100,000
Mr. R. Bischof	150,000	–	–	–	–	–	0	150,000	100,000
Mr. I. D. Boyce	150,000	–	–	–	–	–	–	150,000	100,000
Mr. P. C. Tan	150,000	–	–	–	10,000	5,000	–	165,000	100,000
<b>Independent Non-executive Directors</b>									
The Hon. Sir S. Y. Chung	150,000	75,000	5,000	–	10,000	5,000	–	245,000	150,000
Dr. William K. Fung	150,000	–	5,000	–	–	–	–	155,000	100,000
Mr. V. F. Moore	150,000	95,000	–	40,000	10,000	5,000	–	300,000	150,000
Mr. Hansen Loh	150,000	75,000	–	–	10,000	–	–	235,000	150,000
Mr. P. Kan	150,000	75,000	–	–	–	–	–	225,000	150,000
							Total	2,679,500	1,725,000

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

	2004 HK\$	2003 HK\$
Mr. W. E. Mocatta	237,000	227,000
Mr. J. S. Dickson Leach	206 *	75,000
Mr. J. A. H. Leigh	75,000	75,000
	<b>312,206</b>	<b>377,000</b>

\* Mr. J. S. Dickson Leach resigned from the Board of CLP Power Hong Kong Limited on 2 January 2004 and the amount of director's fees only included the fee for the period he served as director.

## 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. The Chairman of the Human Resources & Remuneration Committee has sought the views of institutional shareholders in CLP on the structure and reasonableness of the remuneration of the Executive Directors. Achievement of performance plays a significant part in individual rewards as part of our policy to attract, motivate and retain high performing individuals. There are three key components of Executive Directors' remuneration:

### (a) 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.

### (b) 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.

### (c) 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.

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## 6. Executive Directors – Remuneration in 2004

The remuneration paid to the Executive Directors of the Company in 2004 was as shown below:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus (Note A)		Provident Fund Contribution HK\$M	Total HK\$M
		Annual Incentive HK\$M	Long-term Incentive HK\$M		
<b>2004</b>					
Group Managing Director & CEO (Mr. Andrew Brandler)	5.0	4.1	1.6*	0.6	11.3
Group Executive Director & CFO (Mr. Peter P. W. Tse)	4.1	2.8	1.4*	0.5	8.8
Group Executive Director (Dr. Y. B. Lee)	3.5	2.2	2.1#	0.4	8.2
Director & Company Secretary (Mr. Peter W. Greenwood)	3.7	3.2	0.9*	0.4	8.2
	16.3	12.3	6.0	1.9	36.5
<b>2003</b>					
Group Managing Director & CEO	4.9	3.3	–	0.6	8.8
Group Executive Director & CFO	4.2	2.8	–	0.5	7.5
Group Executive Director (Note B)	1.4	0.7	–	0.2	2.3
Director & Company Secretary	3.4	2.6	–	0.4	6.4
	13.9	9.4	–	1.7	25.0

Note A: Performance bonus consists of annual incentive and long-term incentive. 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. The long-term incentive is the incentive for 2001 (the year when such incentive scheme was first introduced), paid in 2004 when the vesting conditions had been satisfied.

\* About 44% of the amount of 2001 long-term incentive payments results from the appreciation of CLP Holdings' share price between 2001 and 2004, 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 achievements of the Group's projects in the PRC.

Note B: Dr. Y.B. Lee was appointed as Executive Director from 4 August 2003; the amount of director's remuneration only included remuneration for the period he served as director.

Early retirement/termination compensation is not part of the remuneration arrangements for the Executive Directors, but may be payable, where appropriate, upon approval by the Chairman of the Human Resources & Remuneration Committee.

## 7. Total Directors' Remuneration in 2004

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

	2004 HK\$M	2003 HK\$M
Fees	3	2
Base compensation, allowances and benefits in kind	16	14
Performance bonus*		
– Annual incentive	12	9
– Long-term incentive	6	–
Provident fund contributions	2	2
	<b>39</b>	<b>27</b>

\* Refer to the note on performance bonus on page 112.

Of the total remuneration paid to Directors, HK\$3 million (2003: HK\$2 million) has been charged to the SoC operation.

## 8. Senior Management – Components of Remuneration

In this section, Senior Management means the two Managing Directors of our major subsidiaries, CLP Power Hong Kong Limited and CLP Power Asia Limited, as well as the Executive Directors. These two 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 both eligible for the three components of total remuneration, as payable to the Executive Directors, namely, base compensation, incentive bonus and pension arrangements. The principles for the application of these three components are the same for all members of Senior Management.

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.

The “target” annual incentive accounts for 28% of total remuneration for Senior Management. An award was made in 2004, based on an assessment of the 2003 performance of the Group, the business units, the functions and the individuals concerned. The average payout to this group in 2004 was 51% above the target level as supported by the achievement of financial goals, operational performance targets and individual objectives for 2003.

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

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.

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## 9. Senior Management – Remuneration in 2004

The six highest paid individuals in the Group during the year included four (2003: three) who served as Directors for the full year (2003: one served as a Director for part of the year). The details of the remuneration of the four individuals who served as Directors in 2004 are set out in Section 6 above. Details of the remuneration of the remaining two individuals were:

	Base Compensation, Allowances & Benefits HK\$M	Performance Bonus*			Total HK\$M
		Annual Incentive HK\$M	Long-term Incentive HK\$M	Provident Fund Contribution HK\$M	
<b>2004</b>					
Managing Director, CLP Power Hong Kong Limited (Mrs. Betty Yuen)	3.9	2.8	–	0.5	7.2 <sup>#</sup>
Managing Director, CLP Power Asia Limited (Mr. Richard McIndoe)	3.7	2.7	–	0.5	6.9
	<b>7.6</b>	<b>5.5</b>	<b>–</b>	<b>1.0</b>	<b>14.1</b>
<b>2003</b>					
Managing Director, CLP Power Hong Kong Limited	4.0	2.5	–	0.5	7.0 <sup>#</sup>
Managing Director, CLP Power Asia Limited	3.3	1.7	–	0.4	5.4
	<b>7.3</b>	<b>4.2</b>	<b>–</b>	<b>0.9</b>	<b>12.4</b>

\* Refer to the note on performance bonus on page 112.  
The above two individuals were not in the LTIP in 2001.

<sup>#</sup> The total remuneration has been charged to the SoC operation.

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

	2004 HK\$M	2003 HK\$M
Base compensation, allowances and benefits in kind	24	23
Performance bonus*		
– Annual incentive	18	15
– Long-term incentive	6	–
Provident fund contributions	3	3
	<b>51</b>	<b>41</b>

\* Refer to the note on performance bonus on page 112.

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

	Number of Individuals	
	2004	2003
HK\$ 5,000,001 – HK\$ 5,500,000	–	1
HK\$ 6,000,001 – HK\$ 6,500,000	–	2
HK\$ 6,500,001 – HK\$ 7,000,000	1	–
HK\$ 7,000,001 – HK\$ 7,500,000	1	2
HK\$ 8,000,001 – HK\$ 8,500,000	2	–
HK\$ 8,500,001 – HK\$ 9,000,000	1	1
HK\$ 11,000,001 – HK\$ 11,500,000	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.



J. S. Dickson Leach  
 Chairman  
 Human Resources & Remuneration Committee  
 Hong Kong, 28 February 2005