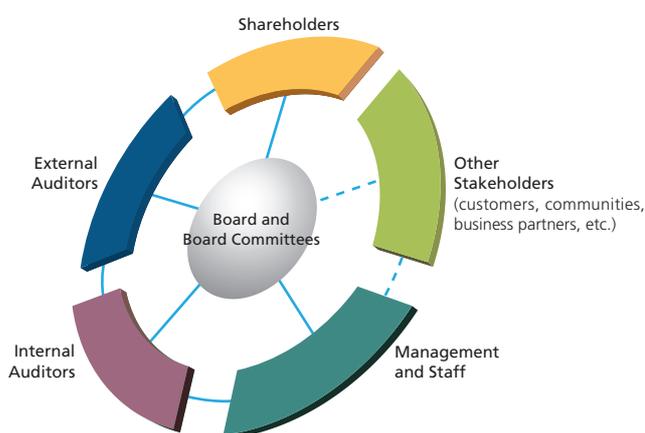


Corporate Governance Report

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



CLP's Corporate Governance Framework

We use the CLP Corporate Governance Framework 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.

This framework rests on two important commitments. First, we disclose our corporate governance practices openly and fully, so that our shareholders can form their own judgment on whether these meet their expectations. Secondly, we review our principles and practices in light of experience, regulatory requirements and international developments – recognising that corporate governance is an evolving process and that we should respond rapidly to incoming regulatory changes and developing corporate governance practices.

This Corporate Governance Report explains how we are making good on these commitments.

"The CLP Code on Corporate Governance"

In November 2004, the Hong Kong Stock Exchange issued its "Code on Corporate Governance Practices and Corporate Governance Report", which subject to a grace period, has taken effect for accounting periods commencing on or after 1 January 2005. The Stock Exchange's Code on Corporate Governance Practices (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 allows 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 immediate effect. The CLP Code was issued to shareholders with our 2004 Annual Report and is set out on our website. In addition, copies are available from the Company Secretary on request. 

The CLP Code builds on and supersedes the framework expressed in "Corporate Governance – CLP Principles and Practices" issued in 2000 and updated in 2003. The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception 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.

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

Exceeding	Meeting	Deviation	
✓✓			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. 
✓✓			In addition to the disclosure of interests of Directors and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, we disclose Senior Management's interests in CLP Holdings' securities and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions.
✓✓			We issue a formal letter of appointment for Non-executive Directors, 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". 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. 
✓✓			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.
	✓		All Code Provisions of the Stock Exchange Code.
	✓		All Recommended Best Practices of the Stock Exchange Code, except the single one explained below.
		✗	<p>Recommended Best Practice – an issuer should announce and publish quarterly financial results.</p> <p>CLP issues quarterly statements which include turnover, interim dividends and progress in major business activities. However, CLP does not issue quarterly financial results.</p> <p>The reason for deviation from this Recommended Best Practice is 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. We repeated this invitation in our 2004 Annual Report. 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.  </p>

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. 

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 focuses more on how those practices were actually applied by the Company during the year under review.

The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices, which in a number of respects went beyond the terms of the Stock Exchange Code, in our own words and with a structure which corresponded to our existing framework.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong.

In 2005, we made further progress in the evolution of our corporate governance practices, in line with our Code and emerging developments in global corporate governance practices.

Evolution of CLP's Corporate Governance in 2005

- Adoption of the CLP Code on Corporate Governance
- Establishment of a Social, Environmental & Ethics Committee of the Board
- Addition of two more Independent Non-executive Directors (from 1 January 2006 onwards, seven out of 18 directors are Independent Non-executive Directors – compared to five out of 17 as at 1 January 2005)
- A majority of the Human Resources & Remuneration Committee members are Independent Non-executive Directors
- Second member of the Audit Committee appointed with appropriate professional qualifications and experience in financial matters
- Rolled out the development programme for Directors
- Implemented formal letters of appointment of Non-executive Directors modelled on U.K. best practice
- Effectuated fixed-term appointments for Non-executive Directors
- Confirmation from Senior Management on their compliance with the Model Code and CLP Code for Securities Transactions
- General Mandate to issue new shares voluntarily reduced from 10% to 5% of the share capital in issue

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 28 April 2005 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. Andrew Brandler, The Hon. Sir Michael Kadoorie, The Hon. Sir S. Y. Chung, Mr. J. A. H. Leigh and Mr. Paul M. L. Kan as Directors of the Company (98.467% to 99.996% in respect of each individual resolution);
- Approval of the fixed term of appointment for Non-executive Directors (99.665%);
- Amendment to the Articles of Association so that if the number of all Directors is not a multiple of three, the number nearest to, but greater than one third shall retire

from office and be subject to re-election (99.665%) (this was the only change made to the Articles of Association during 2005); and

- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (85.896%).

All resolutions put to shareholders were passed at the 2005 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 2005. 

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;
- An explanation of the extent of the Company's public float as at 28 February 2006, being the latest practicable date prior to the issue of this Annual Report; and
- A calendar of important shareholders' dates for 2006.

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 Group;
- The objectives of the Group;
- 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 Group's values and standards.

The Directors are responsible for the preparation of the accounts for each financial period which give a true and 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 2005, 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.

As from 1 January 2006, the Board comprises 18 Directors. All Directors (with the exception of the CEO and two Executive Directors) are non-executive and independent of Management, thereby promoting critical review and control of the management process. The Board includes seven 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, CEO, Executive Directors, Non-executive Directors and Independent Non-executive Directors are given on pages 96 and 97 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 2005, 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 from 1 June 2005 onwards, exceeded the Listing Rules' requirements, by having more than one director with appropriate professional qualifications or accounting or related financial management expertise on the Audit Committee.

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her 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 2005 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	Social, Environmental & Ethics Committee [Ⓞ]	AGM
Non-executive Directors									
The Hon. Sir Michael Kadoorie	4/5				2/2				1
Mr. W. E. Mocatta	5/5		4/6	1/1 ^		2/2	2/2		1
Mr. J. S. Dickson Leach	4/5		5/6	1/1			2/2		1
Mr. R. J. McAulay	4/5								1
Mr. J. A. H. Leigh	5/5								1
Mr. R. Bischof	4/5					2/2			1
Mr. I. D. Boyce	5/5								1
Mr. P. C. Tan	2/5			1/1 ^			2/2		1
Independent Non-executive Directors									
The Hon. Sir S. Y. Chung	5/5	3/3		1/1	2/2		2/2		1
Dr. William K. Fung	2/5				2/2			1/1	
Mr. V. F. Moore	5/5	3/3	5/6	1/1			1/2		1
Mr. Hansen C. H. Loh	5/5	3/3					2/2		1
Mr. Paul M. L. Kan	5/5	1/1 #							1
Professor Judy Tsui	3/3 *	1/2 #						1/1	
Executive Directors									
Mr. Andrew Brandler	5/5		5/6				2/2	1/1	1
Mr. Peter P. W. Tse	5/5		6/6			2/2	2/2		1
Mr. Peter W. Greenwood	3/3 **								1
Dr. Y. B. Lee	5/5						2/2		1

* Appointed as an Independent Non-executive Director with effect from 10 May 2005

** Resigned as the Director & Company Secretary with effect from 27 August 2005

Mr. Paul M. L. Kan resigned and Professor Judy Tsui was appointed a Member of the Audit Committee both with effect from 1 June 2005

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

Ⓞ Mr. Jason Whittle, who is an Alternate Director of the Company, attended the Social, Environmental & Ethics Committee meeting held in December 2005 as a Member

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 2005 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 2006 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 96 and 97 of this Annual Report and on CLP's website. 

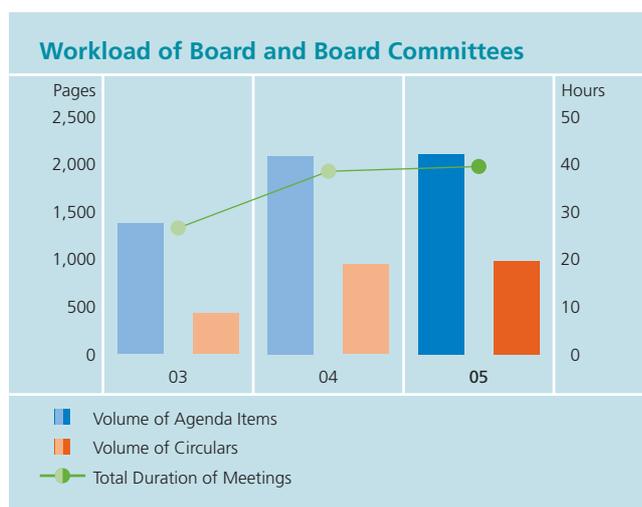
The Board is committed to ensuring that there is effective oversight of the Company's activities, wherever they are carried out. The diversification of those activities in recent years has meant that an increasing proportion of CLP's assets and operations is located outside of our original base in Hong Kong.

As a reflection of the oversight applied by Directors to such operations and assets, in 2005 our Finance and General Committee met for the first time outside Hong Kong – with a meeting in Melbourne which also included visits to facilities and presentations from local management.

In July 2005 the Chairman and other members of the Audit Committee visited our Australian operations with a view to gaining increasing familiarity with those operations, the local business environment, as well as internal controls and systems, so that this might assist the Audit Committee in fulfilling its ongoing obligations at Group level.

As part of the Continuous Professional Development Programme, Directors participated in safety visits to CLP's facilities, Shareholders' Visit Programme and various briefings including one on the Audit Committee's roles and responsibilities under the U.S. Sarbanes-Oxley Act.

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 2005. The increase in workload in 2005 reflects growing demands of regulatory compliance in both Hong Kong and the U.S.



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 2005 are disclosed in the Directors' Report on pages 122 to 124 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.

All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2005 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.

As approved 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. Sir Michael 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.

Board Committees

The Board has appointed a number of Board Committees to oversee particular aspects of the Company's affairs. The chart explains the membership as at the date of this Report and responsibilities of, and work done in 2005 by, each of those eight committees. The major terms of reference of those Committees are set out in the CLP Code and disclosed in full on the CLP website. They are also available in writing upon request to the Company Secretary. 

(C) – Chairman, (VC) – Vice Chairman

Membership of Finance & General Committee

Mr. W. E. Mocatta (C), Mr. V. F. Moore, Mr. J. S. Dickson Leach, Mr. Andrew Brandler, Mr. Peter P. W. Tse and Mr. Jason Whittle

Responsibilities

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.

Work Done

During 2005, the Finance and General Committee met on six occasions. The work performed by the Finance and General Committee in 2005 and at its subsequent meeting on 17 February 2006 included reviews of:

- the Company's interim and annual results and the amounts of interim and final dividends payable to shareholders for the financial years ended 31 December 2004 and 2005;
- the CLP Group's banking facilities and funding requirements;
- the acquisition of the MEB in Australia;
- the entry into a strategic partnership with Hydro Tasmania in Roaring 40s; and
- the CLP Group business plan and budget 2006-2008.

Membership of Human Resources & Remuneration Committee

Mr. W. E. Mocatta (C), The Hon. Sir S. Y. Chung and Mr. V. F. Moore

A majority of the members of the Committee are Independent Non-executive Directors. In line with good practice, there are no Executive Directors on this Committee.

Responsibilities

This Committee is responsible for the review of major human resources and pay issues including the approval of the Remuneration Report, which included emolument policies and long-term incentive schemes as well as the basis of emoluments paid to Directors.

Work Done

During 2005, the Committee met on one occasion. In performing its duties in accordance with its terms of reference, the work performed by the Committee during 2005 and at its subsequent meeting on 13 February 2006 included:

- the review of Group Performance for 2004 and 2005 and of Group Targets for 2005 and 2006;
- the approval of the 2004 and 2005 Remuneration Reports; and
- the Group's Base Pay Review for 2005 and 2006 for Hong Kong payroll staff.

Membership of Nomination Committee

The Hon. Sir Michael Kadoorie (C), The Hon. Sir S. Y. Chung and Dr. William K. Fung

A majority of the members of this Committee are Independent Non-executive Directors.

Responsibilities

This Committee is responsible for identification and recommendation to the Board of possible appointees as Directors of the Board, making recommendations to the Board on matters relating to appointment or reappointment of Directors and succession planning for Directors and assessing the independence of the Independent Non-executive Directors. 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.

Work Done

During 2005, the Nomination Committee had discussions on two occasions in furtherance of its duties with regard to the identification and recommendation to the Board of possible appointees as Directors of the Board. The work performed by the Committee during 2005 included:

- nomination of Professor Judy Tsui and Sir Rod Eddington as Independent Non-executive Directors of the Company; and
- nomination of The Hon. Sir S. Y. Chung and Mr. Paul M. L. Kan for re-election as Independent Non-executive Directors at the 2005 AGM.

At the 2006 AGM, two new Directors appointed by the Board will retire and present themselves for election and six 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.



Membership of Provident & Retirement Fund Committee

Mr. W. E. Mocatta (C), Mr. R. Bischof, Mr. Peter P. W. Tse and a Trustee

Responsibilities

This Committee advises the Trustees on investment policy and objectives for the Group's retirement funds, namely, the CLP Group Provident Fund Scheme and the Mandatory Provident Fund Scheme.

Work Done

The Committee met on two occasions during 2005. It reviewed the position of the Funds, monitored the performance of the investment managers and considered and made recommendations to the Trustees on the appointment and removal of investment managers and on the investment of available funds outside the portfolios of the investment managers.

Membership of Regulatory Affairs Committee

Mr. Andrew Brandler (C), Mr. W. E. Mocatta, The Hon. Sir S. Y. Chung, Mr. V. F. Moore, Mr. P. C. Tan, Mr. Hansen C. H. Loh, Mr. Peter P. W. Tse, Mrs. Betty Yuen, Dr. Y. B. Lee, Mr. David C. L. Tong and Mr. Jason Whittle

Responsibilities

The Regulatory Affairs Committee reviews and advises upon matters in respect of the present or future regulation of CLP's Hong Kong electricity business.

Work Done

During 2005, the Committee met on two occasions. 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.

Membership of Social, Environmental & Ethics Committee

Mr. Andrew Brandler (C), Dr. William K. Fung, Professor Judy Tsui, Sir Rod Eddington, Mr. Jason Whittle and Dr. Gail Kendall

Responsibilities

This Committee oversees CLP's positions and practices on issues of corporate social responsibility, principally in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders.

Work Done

This Committee was recently established in October 2005. It met on one occasion during 2005. The work performed by the Committee during 2005 and at its subsequent meeting on 16 February 2006 included:

- the review of the CLP Climate Strategy Framework with a recommendation to the Board for approval; and
- the review of the CLP Group Social and Environmental Report 2005. **SER**

Membership of China Committee

The Hon. Sir Michael Kadoorie (C), Mr. Andrew Brandler (VC), Professor Judy Tsui, Ms. Marjorie Yang, Mr. W. E. Mocatta, Mr. P. C. Tan, Mr. David C. L. Tong, Mr. Peter P. W. Tse, Dr. Y. B. Lee, Mrs. Betty Yuen, Mr. Richard McIndoe and Mr. Thomas Kwong

Responsibilities

This Committee oversees CLP's strategy and standing in the Chinese mainland.

Work Done

This Committee was recently established in January 2006. At its inaugural meeting on 10 January 2006, the China Committee reviewed the business environment and power market in the Chinese mainland and the status of CLP projects and development opportunities there.

Membership of Audit Committee

Mr. V. F. Moore (C), The Hon. Sir S. Y. Chung, Mr. Hansen C. H. Loh and Professor Judy Tsui

All of its members are appointed from the Independent Non-executive Directors, with the Chairman and Professor Judy Tsui having appropriate professional qualifications and experience in financial matters.

Responsibilities

Its terms of reference 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 CEO or Director – Group Internal Audit 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.

Work Done in 2005

During 2005, 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 2005 included reviews of:

- the Company's 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 CLP Group Interim Accounts for the six months ended 30 June 2005 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 2004. No breaches were identified*;
- the compliance by the Company with the Stock Exchange Code throughout the six months ended 30 June 2005. CLP Holdings complies with all the Code Provisions and has one deviation from Recommended Best Practices, which is explained on page 99 of this Report;
- 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 CEO and Group Executive Director & CFO regarding compliance with the internal control systems, disciplines and procedures for the year ended 31 December 2004*;
- 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 2004 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 2004 for approval by the Board*;
- the audit strategy submitted by the External Auditors for the year ended 31 December 2005 with a recommendation to the Board for them to be re-appointed for the financial year 2005 subject to final approval by the shareholders;
- the audit related and permissible non-audit services including tax advisory, accounting and regulatory services in connection with the acquisition of the MEB and the refinancing of projects in Australia etc. and their related fees. For these matters, pre-approval was given in accordance with the set guidelines*;

- the guidelines on the hiring of employees or former employees of External Auditors;
- 28 reports on the CLP Group's affairs submitted by Group Internal Audit during the course of 2004. 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 2005 with areas of emphasis identified;
- the Code of Conduct issues identified in 2004*; and
- the potential deferred tax benefit arising from tax consolidations and acquisition of the MEB in Australia.

In addition, the Committee carried out other work 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 2004 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.

Work Done in 2006

At its meeting on 20 February 2006 the Audit Committee reviewed this Report, the Directors' Report and Accounts for the year ended 31 December 2005 and the annual results announcement, with a recommendation to the Board for approval. The Audit Committee was advised that one out of 21 reports on the CLP Group's affairs submitted by Group Internal Audit during the course of 2005 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 2005. The Committee also reviewed the changes in accounting policies arising from the new Hong Kong financial reporting and accounting standards, the staffing and resources of the Group Internal Audit Department and the Internal Audit Plan for 2006.

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. This Code of Conduct is also set out in full on our website. 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. Non-compliance results in disciplinary action. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprised of the CFO, Director – Group Legal Affairs and Director – Group Human Resources in order to ensure consistency and fairness. 

During 2005, there were 11 breaches of the Code. Sanctions applied in 2005 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.

Senior Management (comprising the three Executive Directors, Group Director – Managing Director Hong Kong, Group Director – Managing Director Asia Pacific and Group Director – Operations, whose biographies are set out on page 97 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 three Executive Directors in the Directors' Report on page 123 of this Annual Report and the

600 shares held by Group Director – Operations, other Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2005. Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2005 they complied with the standard set out in the Model Code and our own Code for Securities Transactions.

Internal Auditors

CLP's Group Internal Audit Department plays a major role in monitoring the internal governance of the CLP Group. The Department is led by the Director – Group Internal Audit and includes 20 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 Director – Group Internal Audit reports directly to the Audit Committee and the CEO and has direct access to the Board through the Chairman of the Audit Committee. The Director – Group Internal Audit has the right to consult the Committee without reference to Management.

During 2005, 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:

	2005 HK\$M	2004 HK\$M
Audit	17	9
Permissible non-audit services		
Due diligence and accounting/tax advisory services relating to business developments	12	2
U.S. compliance review services	7	3
Other advisory services	1	–

The increase in audit fee is largely for the newly acquired MEB in Australia. The majority of the permissible non-audit services were also related to acquisition of the MEB.

The Audit Committee has resolved the re-appointment of PricewaterhouseCoopers for statutory audits for the Financial Year 2006. This resolution has been endorsed by the Board and is subject to final approval and authorisation by the shareholders at the 2006 AGM.

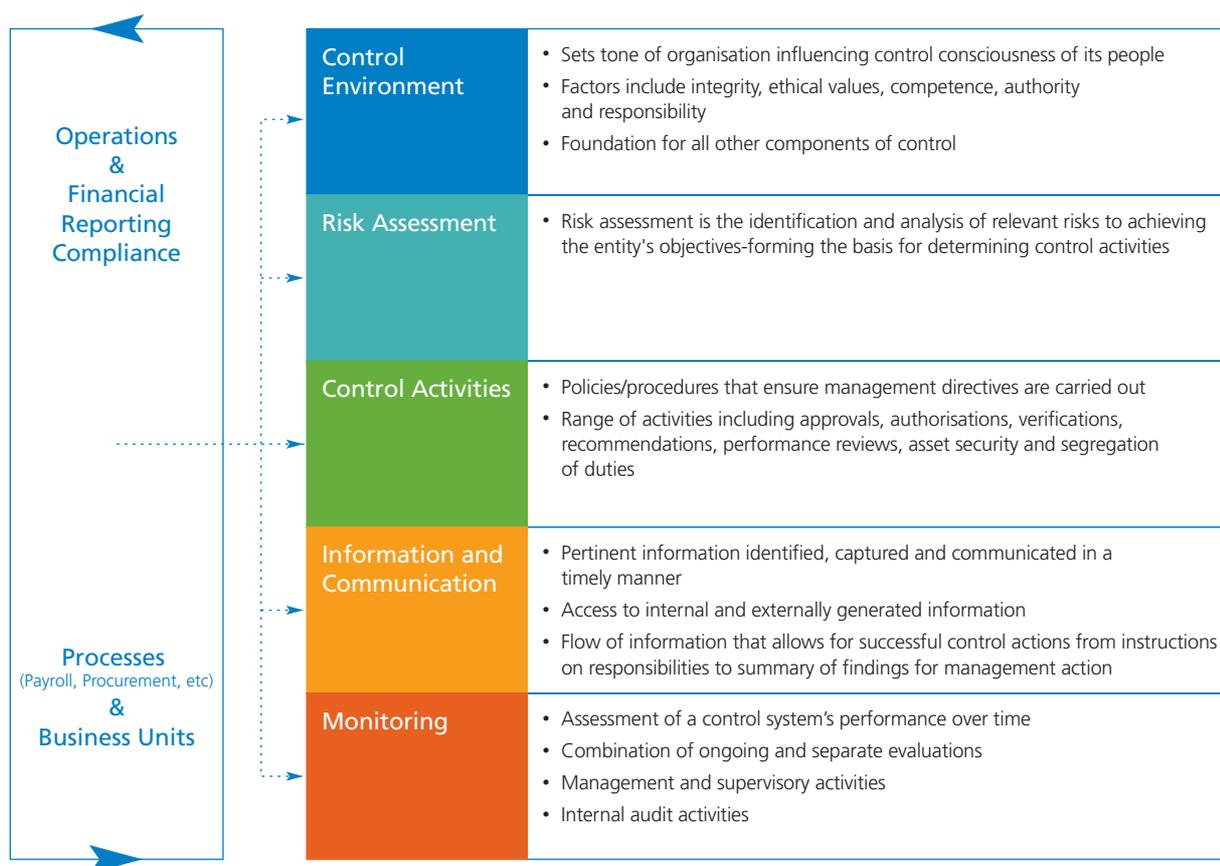
The current lead audit partner of our External Auditors has now served in that capacity since 2001. By virtue of U.S. securities legislation to which the Company is subject, a lead audit partner may not serve for more than five consecutive years, starting from May 2003.

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. SER

Internal Control

The Company has had in place for many years an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework as illustrated below:



Under our framework, Management is primarily responsible for the design, implementation, and maintenance of internal controls, while the Board of Directors and its audit committee oversee the actions of Management and monitor the effectiveness of the controls that have been put in place.

Control Standards, Checks and Balances

The Company's expectations regarding duty and integrity are clearly spelled out in formal policy manuals, which include the Company's Code of Conduct and Management Control Standards Manual. Overseas subsidiaries are required to implement similar controls.

Our Management Control Standards form the backbone of all our major policies and procedures. These standards set out the basic control standards required for the formulation and administration of Group policies and for the planning, organising, and functioning of business entities. The standards cover those required for administrative and operating activities such as delegation of authority, personnel administration, planning, budgeting performance monitoring, contracting, computer systems and facilities, safeguarding information and derivative instruments. They also cover those standards established to ensure the integrity and objectivity of accounting and financial records and that the objectives of authorisation, accounting and safeguarding of assets are met.

In CLP, our internal control system covers every activity and transaction of our Group. Our system is based on clear stewardship responsibilities, authorities and accountability. We emphasise to our employees that everyone, no matter where he or she stands in the corporate hierarchy, is an important part of our internal control system and we expect them to contribute to that system.

Built into our system are checks and balances such that no one party can "monopolise" a transaction, activity or process to conceal irregularities. As an integral part of our internal control system, well defined policies and procedures are properly documented and communicated.

In addition to setting out guidelines, principles and values, we recognise that an environment where employees feel free to bring problems to management is also necessary to make our internal control system successful. Our Code of Conduct makes it clear that all reports to Management will be handled confidentially to the extent possible under the circumstances and, most importantly, that everyone in Senior Management will fully support those who in good faith report potential or actual breaches of the Code of Conduct.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not

absolute assurance. No system of control can totally eliminate the possibility of human error or deliberate attempts to defraud the Company. Recognising this, we maintain an effective Internal Audit function, whose main features include:

- Fully empowered auditors with access to all data and every operation of the Group
- Adequately resourced and well qualified and capable staff
- Risk-based auditing, concentrating on areas with significant risks or where significant changes have been made

Control Processes

As foreign private issuers, both CLP Holdings Limited and CLP Power Hong Kong Limited have to comply with the U.S. Sarbanes-Oxley Act. Given the compliance workload, cost and potential liability arising from this Act, CLP, in common with many foreign issuers, has carefully considered the possibility of deregistering its securities under the U.S. Securities Exchange Act.

Unless and until CLP can deregister its securities, Management will have to prepare annually a report on the issuer's system of internal control over financial reporting and provide its opinion as to whether or not such controls are effective starting with the fiscal year ending on or after 15 July 2006 as required under Section 404 of the Sarbanes-Oxley Act. The steps CLP has taken to explore the possibility of deregistration are set out in the "CLP and our Shareholders" section on page 77 of the Annual Report.

Since early 2004 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, both at the entity level and also the various processes/transactions levels. We have documented those processes which are critical to the Group's performance.

As part of this process, key risks have been identified, along with the controls required to mitigate those risks. Starting in 2005, all key controls are now tested at least annually by the Internal and External Auditors. Based on the results of those tests, process owners are able to certify to Senior Management that their internal controls are working as intended or that necessary corrections have been made where control weaknesses have been found. Internal Auditors also certify to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and internal control over financial reporting, and to report to the Audit Committee and the Group's external auditors any significant changes, deficiencies and material weaknesses in, and fraud related to, such controls.

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.

In order to ensure that the risk management framework for the newly acquired MEB in Australia is adequate and effective, a Risk Management Committee of TRUenergy was recently established to review and consider risk related issues affecting, or potentially affecting, the TRUenergy business such as policies relating to energy trading, derivatives and credit risk management.

Control Effectiveness

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Group Internal Audit and Management conduct reviews of the effectiveness of the Company's system of internal control, including those of its subsidiaries. The Audit Committee reviews the findings and opinion of Group Internal Audit and Management on the effectiveness of the Company's system of internal control twice each year, and reports annually to the Board on such reviews.

In respect of the year ended 31 December 2005, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

Price-Sensitive Information

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.

Social and Environmental Reporting

The CLP Group's Social and Environmental Report 2005, 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 2005. 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:

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 below are available free of charge upon request to the Company Secretary.



Corporate Governance – Continuing Evolution

We have sponsored and participated in research on the duties and responsibilities of independent non-executive directors in Hong Kong, which led to the publication of a report titled "The Duties and Responsibilities of Independent Non-executive Directors of Hong Kong Listed Companies" in 2003 by the Hong Kong Institute of Chartered Secretaries and an update of the Report in 2006.

We will continue to review and, where appropriate, improve on our corporate governance practices, as we have done in 2005, in light of experience, regulatory changes, international trends and developments and the views of our shareholders. We will make an active, constructive and informed contribution to debates on the future shape of corporate governance in Hong Kong.

By Order of the Board

April Chan

Company Secretary
Hong Kong, 28 February 2006