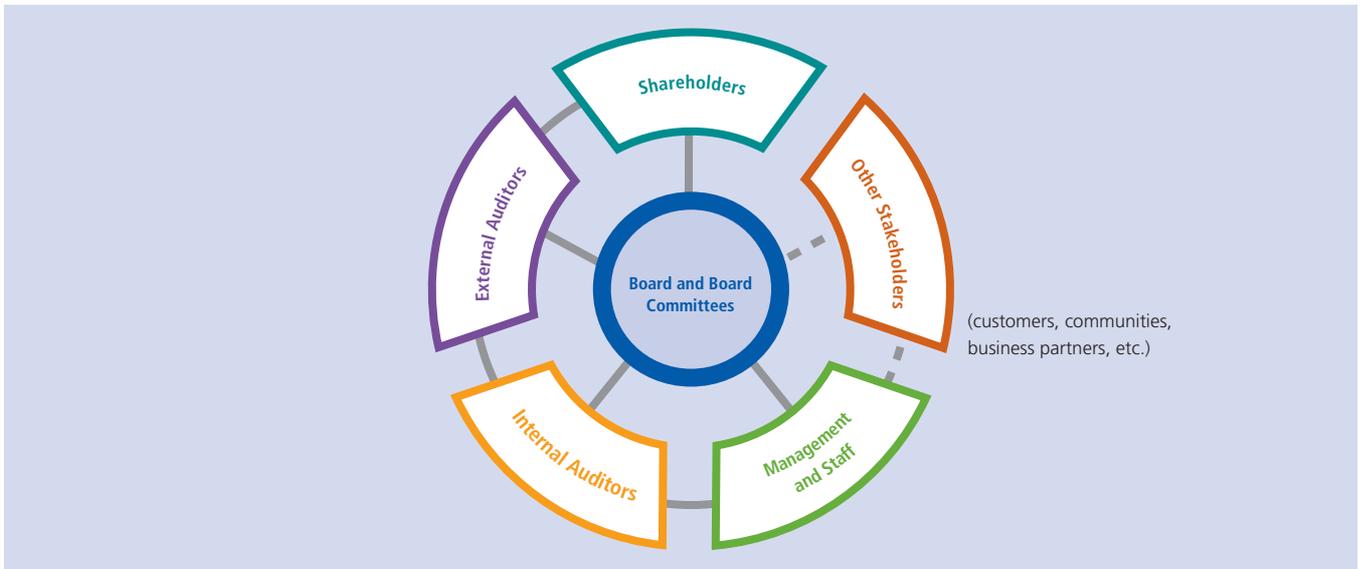


# Corporate Governance Report



## CLP's Corporate Governance Framework

The CLP Corporate Governance Framework identifies the key players involved in ensuring the application of good governance practices and policies within the CLP Group and gives structure to our explanation of those practices and policies.

Through this Corporate Governance Report, the "CLP Code on Corporate Governance" (the CLP Code) which is issued to all shareholders and the Corporate Governance Section on our website, we keep shareholders abreast of all our practices and policies so that they can judge whether these are of a standard which meets their expectations and properly serves their interests. 

## "The CLP Code on Corporate Governance"

The Hong Kong Stock Exchange's Code on Corporate Governance Practices (the Stock Exchange Code) took effect for accounting periods commencing from 1 January 2005 onwards. It 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.

In February 2005, the Board approved the CLP Code with immediate effect. The CLP Code was issued to shareholders with our 2004 Annual Report and has been updated in February 2007. The updated CLP Code is set out on our website. Shareholders may obtain a hard copy from the Company Secretary on request at any time, or by completing and returning the form enclosed with this Annual Report. 

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.

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 or 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 financial statements to shareholders within the month following that announcement.
✓✓		We provide enhanced 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) 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.
✓✓		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 which sets out the principles for the broad and non-exclusionary distribution of information to the public.
	✓	All Code Provisions of the Stock Exchange Code.
	✓	All Recommended Best Practices of the Stock Exchange Code, except the single one explained below.
		<p>X Recommended Best Practice – an issuer should announce and publish quarterly financial results. CLP issues quarterly statements which include revenue, interim dividends and progress in major business activities. CLP does not issue quarterly financial results.</p> <p>The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Preparation of quarterly reports costs money – both in terms of internal cost (including the opportunity cost of board and management time spent on quarterly reporting) and the external costs of printing and distribution. CLP's position is set out on our website as an update of the views that we expressed in 2002 and which were accompanied by a standing invitation to shareholders to let us know if their views differed. Up to the date of this Report, we have received no such feedback from shareholders. We would review our position if and when there was a clear demand from shareholders for quarterly reporting. 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. 

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.

Shareholders will find our ongoing corporate governance practices are 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, including the ongoing evolution of those practices.

### Evolution of CLP's Corporate Governance in 2006

- Updated the CLP Code on Corporate Governance
- Established a China Committee of the Board
- Increased the frequency of Audit Committee meetings to four per annum
- Continued to roll-out the development programme for Directors to include visits to review overseas operations
- Adopted the CLP Procurement Values and Principles, a group-wide policy (see "CLP and Our Suppliers" at page 95)
- Introduced Fraud Risk Assessment
- Prepared Anti-Fraud Policy for launch in 2007
- Undertook an independent review on the fees payable to Non-executive Directors and published this on CLP's website (see the Remuneration Report at pages 119 to 120) 
- Contributed to authorship of The Hong Kong Institute of Chartered Secretaries' Report "The Duties and Responsibilities of Independent Non-Executive Directors of Hong Kong Main Board Listed Companies" published in January 2006
- Internal Audit reviewed the processes used to verify information set out in the Annual Report, including non-financial data

## 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 have chosen to be subject to the company law of the jurisdiction in which a major part of 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 25 April 2006 at the Hong Kong Polytechnic University, 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:

- Election of Professor Judy Tsui and Sir Rod Eddington and re-election of Mr. P. C. Tan, Mr. R. J. McAulay, Dr. William K. Fung, Mr. I. D. Boyce, Mr. J. S. Dickson Leach and Dr. Y. B. Lee as Directors of the Company (99.211% to 99.946% in respect of each individual resolution);
- Amendment to Article 67 of the Articles of Association relating to procedures at shareholders' meetings (99.333%) (this was the only change made to the Articles of Association during 2006);
- Levels of remuneration payable to the Chairmen and Members serving on the Social, Environmental & Ethics Committee and China Committee (99.800%); and
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (83.261%).

All resolutions put to shareholders were passed at the 2006 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 2006. 

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. 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 attend the AGM and will take shareholders'

questions. Our policy is 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 2007, being the latest practicable date prior to the issue of this Annual Report; and
- A calendar of important shareholders' dates for 2007.

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](mailto: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 financial statements 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 financial statements for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements 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 at the date of this report, the Board comprises 19 Directors. All Directors (with the exception of the CEO and the CFO) 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 are given on pages 100 and 101 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.

Eight Non-executive Directors (see page 100) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (34.84%) in CLP. In common with all Directors, they are aware of their responsibilities to all Shareholders.

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 Financial Statements of the Annual Report. 

Throughout the year ended 31 December 2006, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP had seven), and that there should be one director with appropriate professional qualifications or accounting or related financial management expertise on the Audit Committee (there are two such directors on CLP's 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.



→ CLP Holdings' Directors' Visit to Woolnorth Bluff Point Wind Farm, Tasmania

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 2006 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 87.2% (2005: 88.4%).

Directors	Meetings <b>Attended/Held</b>									
	Board	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Regulatory Affairs Committee	Social, Environmental & Ethics Committee	China Committee	AGM

### Non-executive Directors

The Hon. Sir Michael Kadoorie	3/5				1/1				3/3	1
Mr. W. E. Mocatta <sup>#</sup>	5/5		9/9	3/3		2/2	1/1		3/3	1
Mr. J. S. Dickson Leach <sup>*</sup>	4/5		0/1							1
Mr. R. J. McAulay	4/5									1
Mr. J. A. H. Leigh	4/5									
Mr. R. Bischof	5/5					2/2				1
Mr. I. D. Boyce	5/5									1
Mr. P. C. Tan	2/5						1/1		0/3	
Mr. Jason Whittle <sup>^</sup>	3/4		7/9				0/1	1/2		N/A

### Independent Non-executive Directors

The Hon. Sir S. Y. Chung <sup>@</sup>	5/5	3/3		3/3	1/1		1/1			1
Dr. William K. Fung	3/5				1/1			2/2		
Mr. V. F. Moore	5/5	4/4	7/9	3/3			1/1			1
Mr. Hansen C. H. Loh	5/5	4/4					1/1			1
Mr. Paul M. L. Kan	5/5									1
Professor Judy Tsui	4/5	3/4						1/2	2/3	1
Sir Rod Eddington <sup>†</sup>	5/5		2/4					1/2		

### Executive Directors

Mr. Andrew Brandler	5/5		9/9				1/1	2/2	3/3	1
Mr. Peter P. W. Tse	5/5		8/9			2/2	0/1		2/3	1
Dr. Y. B. Lee	5/5						1/1		3/3	1

<sup>#</sup> Mr. W. E. Mocatta was appointed the Chairman of the Finance & General Committee and Human Resources & Remuneration Committee with effect from 1 January 2006.

<sup>\*</sup> Mr. J. S. Dickson Leach resigned as a Member of the Human Resources & Remuneration Committee and Regulatory Affairs Committee with effect from 1 January 2006 and the Finance & General Committee with effect from 1 April 2006.

<sup>^</sup> Mr. Jason Whittle was appointed a Non-executive Director of CLP Holdings with effect from 9 May 2006, and Member of the Finance & General Committee and Regulatory Affairs Committee with effect from 1 January 2006.

<sup>@</sup> The Hon. Sir S. Y. Chung resigned as a Member of the Audit Committee with effect from 1 October 2006.

<sup>†</sup> Sir Rod Eddington was appointed an Independent Non-executive Director of CLP Holdings with effect from 1 January 2006, a Member of the Social, Environmental & Ethics Committee with effect from 1 January 2006 and the Finance & General Committee with effect from 1 November 2006.

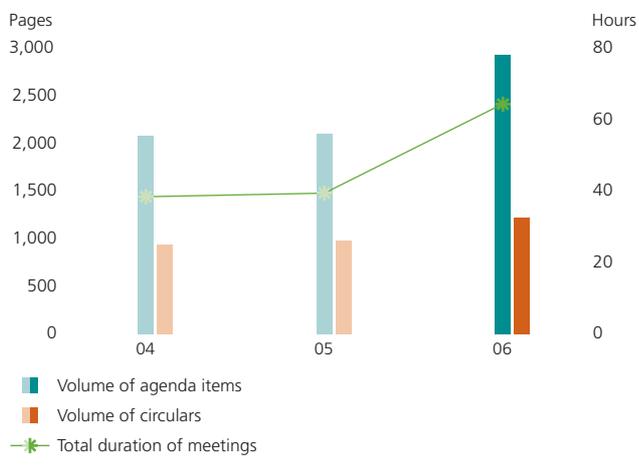
Directors ensure that they can give sufficient time and attention to the affairs of the Company and a confirmation to that effect is included in their letters of appointment. Directors have disclosed to the Company the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. During the year ended 31 December 2006, 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 2007 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 100 to 102 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 part of the Continuous Professional Development Programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to CLP's facilities including one to CLP's overseas businesses in Australia and Tasmania.

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 2006. The increase in workload in 2006 reflects growing demands of regulatory compliance in both Hong Kong and the U.S.

#### Workload of Board and Board Committees



The interests in CLP's securities held by Directors as at 31 December 2006 are disclosed in the Directors' Report on pages 128 to 129 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 2006 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 following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board in 2006 and 2007 up to the date of this Report. The terms of reference and membership of the Committees are disclosed in full on the CLP website. They are also available in writing upon request to the Company Secretary. 

<b>Membership of Nomination Committee</b>
A majority of the members are Independent Non-executive Directors. The current members are The Hon. Sir Michael Kadoorie (Chairman), The Hon. Sir S. Y. Chung and Dr. William K. Fung
<b>Responsibilities and Work Done</b>
<p>This Committee is responsible for identification and recommendation to the Board of possible appointees as Directors, 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. The work performed by the Committee during 2006 and in early 2007 up to the date of this Report included:</p> <ul style="list-style-type: none"> <li>• nomination of Professor Judy Tsui, Sir Rod Eddington and Dr. William K. Fung for election/re-election as Independent Non-executive Directors at the 2006 AGM;</li> <li>• nomination of Mr. Jason Whittle as Non-executive Director; and</li> <li>• nomination of Mr. Peter T. C. Lee as Independent Non-executive Director and Mr. Peter W. Greenwood as Executive Director to take effect from 1 March 2007.</li> </ul> <p>At the 2007 AGM, the three 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.</p>

<b>Membership of Social, Environmental &amp; Ethics Committee</b>
Mr. Andrew Brandler (Chairman), Dr. William K. Fung, Professor Judy Tsui, Sir Rod Eddington, Mr. Jason Whittle and Dr. Gail Kendall
<b>Responsibilities and Work Done</b>
<p>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. At its two meetings during 2006 and subsequent meeting on 14 February 2007, the Committee reviewed:</p> <ul style="list-style-type: none"> <li>• the 2005 and 2006 CLP Group Social and Environmental Reports; </li> <li>• the Group Climate Strategy, including climate risk matrix and targets;</li> <li>• CLP's procurement values and principles;</li> <li>• CLP's investment in community support and development; and</li> <li>• progress on other key environmental issues, including the use of flue gas desulphurisation in the Group's generating plant and the implications and potential of the Clean Development Mechanism (CDM) arising from the Kyoto Protocol.</li> </ul>

<b>Membership of Provident &amp; Retirement Fund Committee</b>
Mr. W. E. Mocatta (Chairman), Mr. R. Bischof, Mr. Peter P. W. Tse and a Trustee
<b>Responsibilities and Work Done</b>
<p>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. The Committee met on two occasions in 2006. 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.</p>

<b>Membership of Finance &amp; General Committee</b>
Mr. W. E. Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. Jason Whittle, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mrs. Betty Yuen and Mr. Richard McIndoe
<b>Responsibilities and Work Done</b>
<p>The Finance &amp; 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 or investments and their funding requirements. The Committee met on nine occasions in 2006. The work performed in 2006 and at the Committee's subsequent meetings on 9 and 21 February 2007 included the review of:</p> <ul style="list-style-type: none"> <li>• the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2005 and 2006;</li> <li>• the CLP Group's banking facilities and funding requirements;</li> <li>• the Group's commitment to the Tallawarra Power Station project in Australia;</li> <li>• the entry into a regional strategic partnership with Mitsubishi Corporation;</li> <li>• the Group's investment in the Jiangbian Hydro project in the Chinese mainland;</li> <li>• the restructuring of the Group's investments in Thailand and Taiwan;</li> <li>• bids for assets or projects in India, Queensland and Asia Pacific;</li> <li>• the CLP Group business plan and budget 2007-2011; and</li> <li>• the CLP Group's foreign exchange translation risk exposure.</li> </ul>



#### Membership of Human Resources & Remuneration Committee

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. The current members are Mr. W. E. Mocatta (Chairman), The Hon. Sir S. Y. Chung and Mr. V. F. Moore

#### Responsibilities and Work Done

This Committee is responsible for the review of major human resources and pay issues, including the approval of the Remuneration Report which is included in this Annual Report. The Committee met on three occasions in 2006. The work performed during 2006 and at the Committee's subsequent meeting on 14 February 2007 included:

- the review of Group Performance for 2005 and 2006 and of Group Targets for 2006 and 2007;
- the approval of the 2005 and 2006 Remuneration Reports;
- Base Pay Review for 2006 and 2007 for Hong Kong payroll staff;
- Pay Review for TRUenergy and the Group's staff in India and Huajji;
- Senior Executive Remuneration, including annual incentive payments for 2005 and Base Pay Increase for 2006;
- Review of the long-term incentive plan for Senior Executive grade staff;
- Review of CEO remuneration;
- Review of fees payable to Non-executive Directors; and
- Review of CLP Centenary Scholarships.

#### Membership of Regulatory Affairs Committee

Mr. Andrew Brandler (Chairman), 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, Mr. David C. L. Tong and Mr. Jason Whittle

#### Responsibilities and Work Done

This Committee reviews and advises upon matters in respect of the present or future regulation of CLP's Hong Kong electricity business. The Committee met on one occasion in 2006 and reviewed matters related to the Scheme of Control and the LNG project, including an LNG receiving terminal and long-term gas supply arrangements. In light of the importance of such matters and the ongoing review by Government of the post-2008 Regulatory Regime for that business, the full Board itself paid particular attention to these matters throughout 2006.

#### Membership of China Committee

The Hon. Sir. Michael Kadoorie (Chairman), Mr. Andrew Brandler (Vice Chairman), 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. Shen Zhongmin and Mr. Stefan Robertsson

#### Responsibilities and Work Done

This Committee oversees CLP's strategy and standing in the Chinese mainland. The Committee met three times during 2006 and reviewed matters including:

- the overall business environment and opportunities for CLP in the Chinese mainland;
- power market development in the Mainland; and
- the progress of CLP's joint venture interests.

## Membership of Audit Committee

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. The current members are Mr. V. F. Moore (Chairman), Mr. Hansen C. H. Loh, and Professor Judy Tsui

## Responsibilities and Work Done

The Committee's 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 was the practice of the Audit Committee to meet three times each year. In light of the heavy agenda for each of the three Committee meetings, the frequency of the Audit Committee meetings has been raised to four per annum so that full attention can be given to the increasing range of matters submitted to the Audit Committee. 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.

During the four meetings in 2006, the Audit Committee 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 Committee included reviews of:

- the Directors' Report and Financial Statements for the year ended 31 December 2005 and the annual results announcement, with a recommendation to the Board for approval;
- the CLP Group Interim Financial Statements for the six months ended 30 June 2006 and the interim results announcement, with a recommendation to the Board for approval;
- the Company's compliance with the Code on Corporate Governance Practices, Listing Rules, Companies Ordinance and Securities and Futures Ordinance throughout the financial year ended 31 December 2005. No breaches were identified\*;
- compliance by the Company with the Stock Exchange Code throughout the six months ended 30 June 2006. CLP complies with all the Code Provisions, with one deviation from Recommended Best Practices, which is explained on page 104 of this Report;
- actions taken by Management regarding legal cases in which CLP Holdings or any member of the CLP Group was a named defendant\*;
- a General Representation Letter signed jointly by the CEO and the CFO regarding compliance with internal control systems, disciplines and procedures for the year ended 31 December 2005\*;
- the report and management letter submitted by External Auditors, which summarised matters arising from their audit on the CLP Group for the year ended 31 December 2005, 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 2005 for approval by the Board\*;
- the audit strategy submitted by External Auditors for the year ended 31 December 2006 with a recommendation to the Board for their reappointment for the financial year 2006, subject to final approval by shareholders;
- pre-approval of the proposed engagement of PricewaterhouseCoopers in respect of tax services;
- 21 reports on the CLP Group's affairs submitted by Group Internal Audit during 2005. Of these, one 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 2006 with areas of emphasis identified;
- Code of Conduct issues identified in 2006;
- internal controls and risk management at TRUenergy, including its energy trading activities;
- the evaluation of the Audit Committee's effectiveness;
- CLP Holdings Anti-Fraud Policy; and
- staffing and succession plans for key finance and accounting positions within the CLP Group.

At its meeting on 21 February 2007, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2006 and the annual results announcement with a recommendation to the Board for approval. The Committee was advised that four out of 22 reports on the Group's affairs submitted by Group Internal Audit during 2006 carried an unsatisfactory audit opinion, and the issues arising from these audits are being addressed. The Committee reviewed changes in accounting policies arising from revised financial reporting standards, the staffing and resources of the Group Internal Audit Department and the Internal Audit Plan for 2007.

Other work performed by the Committee at that meeting included that marked "\*" in the above list, save that in each case the work related to the year ended 31 December 2006.

The Committee also carried out other work pertaining to 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 (which was redeemed in April 2006). This work included:

- approval of the Form 20-F of the Company for the financial year ended 31 December 2005 for filing with the U.S. Securities and Exchange Commission; and
- reviews of the status of compliance by the CLP Group with the Sarbanes-Oxley Act, including Section 404 of that Act.

## 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 2006, there were eight breaches of the Code. Sanctions applied in 2006 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 nine managers, whose biographies are set out on page 102 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 Executive Directors in the Directors' Report on pages 128 to 129 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 2006.

Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2006 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 21 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 2006, 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:

	2006 HK\$M	2005 HK\$M
<b>Audit</b>	<b>30*</b>	17
<b>Permissible non-audit services</b>		
Due diligence and accounting/tax advisory services relating to business developments	1	12
U.S. compliance review services	1	7
Other advisory services	1	1
<b>Total</b>	<b>33</b>	37

\* Includes compliance review fees for Sarbanes-Oxley Act Section 404, categorised as "Permissible non-audit services" prior to 2006.

The Audit Committee has resolved the re-appointment of PricewaterhouseCoopers for statutory audits for the Financial Year 2007. This resolution has been endorsed by the Board and is subject to final approval and authorisation by the shareholders at the 2007 AGM.

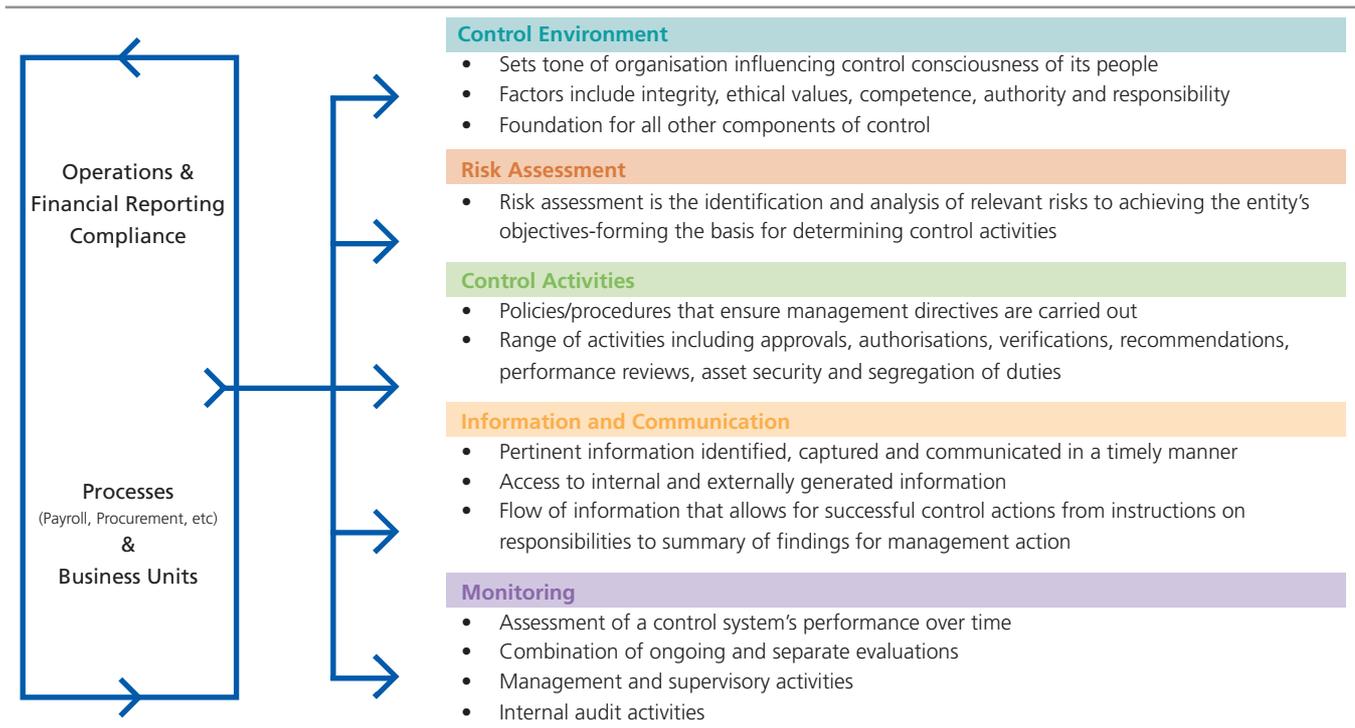
By virtue of U.S. securities legislation to which the Company is subject, a lead audit partner may not serve for more than five consecutive years, starting from May 2003. The current lead audit partner of our External Auditors has now served in that capacity since 2001. He will retire after the year ended 31 December 2006. To maintain External Auditors' independence, he will be replaced by a partner who has not had any previous involvement in the CLP Group audit.

### Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our Social and Environmental Report explain how we discharge our responsibilities to employees, customers, the environment and the communities in which we operate. <ER

### 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. They 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

Upon the redemption of its "Yankee" bonds on 17 April 2006, the compliance obligations of CLP Power Hong Kong Limited with the U.S. Sarbanes-Oxley Act were suspended. However, as a foreign private issuer, CLP Holdings Limited has to comply with the U.S. Sarbanes-Oxley Act. Starting with the financial year ending on or after 15 July 2006 as required under Section 404 of the Sarbanes-Oxley Act, Management has 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.



- (Left) A CLP Ambassador hosting our shareholders at the 2006 AGM
- (Right) Peter Tse, our Chief Financial Officer, with the Best Annual Report Award from the Hong Kong Management Association

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. The steps CLP has taken to explore the possibility of deregistration are set out in the "CLP and our Shareholders" section on page 76 of the Annual Report. It is a long-standing commitment of CLP to maintain a strong and effective system of internal control, whether or not CLP is subject to the reporting requirements under the U.S. Securities Exchange Act.

Starting in 2004, Management and employees, assisted by external consultants with particular experience in the design and implementation of internal control systems, evaluated our control environment, conducted risk assessments of businesses and processes, both at the entity level and the various processes/transactions levels. We have documented those processes which are critical to the Group's performance.

Within this exercise, key risks have been identified, along with the controls required to mitigate those risks. All key controls are now tested at least annually by our Internal 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 certify to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. As part of the compliance with the Sarbanes-Oxley Act, the External Auditors also test these key controls.

The CEO and CFO have a personal obligation to maintain the effectiveness of the disclosure controls and internal controls 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 MEB in Australia is adequate and effective, a Risk Management Committee of TRUenergy reviews and considers risk related issues affecting, or potentially affecting, the TRUenergy business such as policies relating to energy trading, derivatives and credit risk management.

In keeping with best practices, CLP Holdings has developed and implemented an anti-fraud policy that states the Company's commitment to preventing, detecting and reporting fraud. The policy clearly defines the roles and responsibilities of directors, officers, employees and auditors in developing and carrying out specific programmes to eliminate fraud.

Starting with the financial year 2006, individual managers are required to make annual representations related to the prevention, identification and detection of fraud in their respective areas. A checklist providing examples of fraud schemes and potential fraud risks has been developed to assist each business unit to conduct fraud risk assessment and to identify appropriate anti-fraud controls.

### **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 2006, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The effectiveness of the Audit Committee itself is reviewed annually through a formal process which involves the Company Secretary preparing an evaluation of its effectiveness. This is examined by both the Internal and External Auditors before being submitted to the Board for endorsement.

## 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 financial statements 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 2006 Social and Environmental Report, 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 2006. Our annual Social and Environmental Reports, complemented by our online Sustainability Report, aim to 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 constructive and critical feedback. 

**CLP is currently the leader and role model of Corporate Governance among the top companies in Hong Kong. What are the key success factors to setting good corporate governance, and how will it support future growth?**



**Mr. Lee Boon Lee**  
Chief Operating Officer –  
SAP North Asia,  
SAP Hong Kong Co. Limited

I never say that CLP has good corporate governance – this is not a judgment we can or should make of ourselves. Our task is to be open and honest about our governance principles and practices, so that shareholders and stakeholders, including suppliers such as yourself, can make their own judgment.

That said, I would like to highlight two factors which have been particularly important to CLP in our efforts to improve our corporate governance in recent years. The first is the unwavering support of our Chairman, our Board and our senior management – setting the right tone at the top has been a critical precondition to moving forward with corporate governance initiatives. This links in with the second key factor – recognising that corporate governance is, above all, a matter of culture and ensuring that this cultural commitment is communicated to and shared by everyone within the Company. Rules and procedures can help implement and enforce that culture, but can never be an end in themselves.

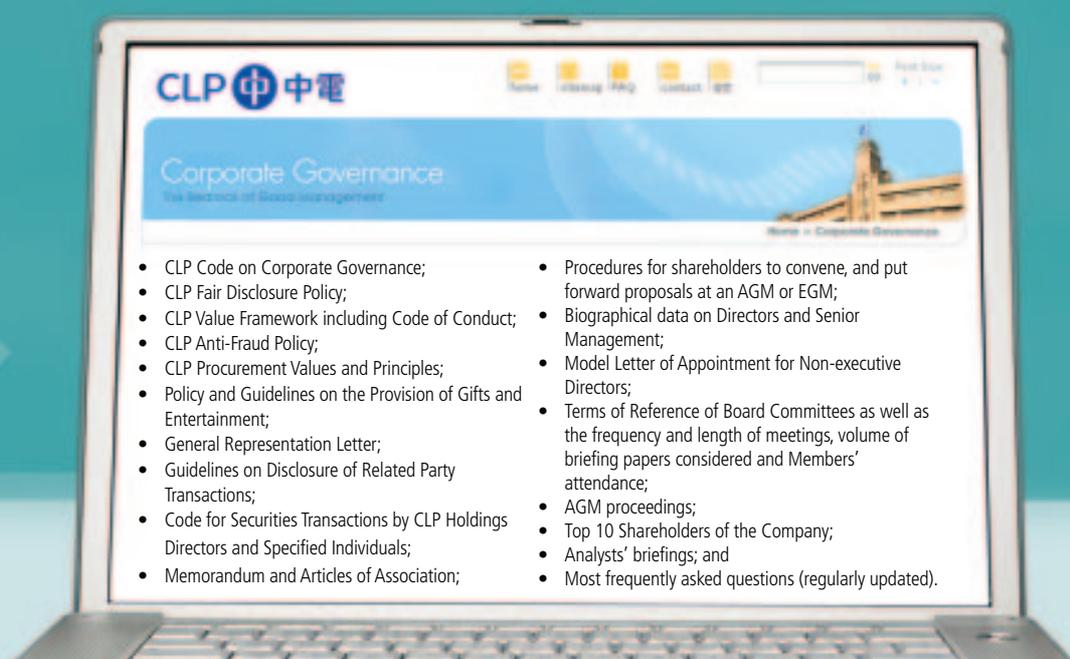
My own definition of corporate governance is that it is the means of ensuring that decisions within the Company are taken at the right time, by the right people, possessing the right information and acting free of any improper interest or influence. Through this contribution to an honest and effective decision-making process, corporate governance can support future corporate growth. We are reflecting on whether it might be possible to measure the costs and benefits to CLP of its corporate governance practices in an objective way. This is not easy, but if we can do this we will report further next year.



**Peter P. W. Tse**  
Group Executive Director &  
Chief Financial Officer

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

## Corporate Governance – Continuing Evolution

We are an active contributor to the ongoing debate on the future shape of corporate governance in Hong Kong. For example, we have participated in research on the duties and responsibilities of independent non-executive directors in Hong Kong, and contributed authorship to 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 in light of evolving experience, regulatory requirements and international developments. Corporate Governance is an evolving process. Good corporate governance is a journey, rather than a final destination.

By Order of the Board



**April Chan**

Company Secretary

Hong Kong, 28 February 2007