


Corporate Governance Report

The values we apply to ourselves, towards our stakeholders and in all aspects of our operations are set out comprehensively in CLP's Value Framework. This **Value Framework** is a continuing statement of what CLP wants to be and the values, commitments, policies and Code of Conduct which all of us must respect – no matter where we work or whatever our individual roles may be.

Vision  What do we want to be?

Mission  What benefits will we bring to our stakeholders?

Values  What ideals guide us in our mission?

Commitments  What must we do to uphold our values?

Policies and Codes  What must we do to meet our commitments?

CLP's **Corporate Governance Framework** forms part of the processes we apply to support, promote and monitor the respect of our Value Framework.



CLP's Corporate Governance Framework rests on two important commitments:

- We disclose our corporate governance principles and practices openly and fully; and
- We recognise the need to adapt and improve our principles and practices in light of our experience, regulatory requirements, international developments and investor expectations.

Corporate Governance Report

We use the 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.

Through this Corporate Governance Report, the “CLP Code on Corporate Governance” (the CLP Code) and the Corporate Governance section on our website, we keep shareholders abreast of all our policies and practices 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:

- 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 further updated in February 2009. Shareholders may download a printable copy of the CLP Code from our website, obtain a hard copy from the Company Secretary on request at any time, or complete and return 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 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.




🌐 Directors’ visit to Daya Bay nuclear power station

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

Exceeds	Meets
✓✓	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 published a formal Value Framework in 2003, updated in January 2009, which sets out the business principles and ethics underpinning CLP's activities.
✓✓	CLP acknowledges shareholders' rights as set out in the Organisation for Economic Cooperation and Development's "Principles of Corporate Governance".
✓✓	More than one-third of the CLP Board are Independent Non-executive Directors.
✓✓	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. Three of the four Independent Non-executive Directors have appropriate professional qualifications, accounting and related financial management expertise.
✓✓	We issue an Audit Committee Report which sets out the primary responsibilities of the Audit Committee and the work performed by it during the period under review.
✓✓	CLP publishes its annual performance on environmental issues. Our on-line Sustainability Report provides comprehensive information on CLP's environmental performance. 
✓✓	We announce our financial results within two months after the end of the financial year. We publish our full Annual Report on our website within the following fortnight and send this to shareholders about two weeks after that. 
✓✓	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 on an individual and named basis.
✓✓	We implement an Anti-Fraud Policy which states the Company's commitment to preventing, detecting and reporting fraud.
✓✓	We adopt a Fair Disclosure Policy which sets out the principles for the broad and non-exclusionary distribution of information to the public.
✓✓	We publish a set of Continuous Disclosure Obligation Procedures which formalise the current practices in monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts.
	✓ All Code Provisions of the Stock Exchange Code.
	✓ All Recommended Best Practices of the Stock Exchange Code, except the single one explained on the next page.














CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. Instead CLP issues quarterly statements which set out key financial and business information such as revenue, electricity sales, dividends and progress in major activities. CLP does not issue quarterly financial results. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Quarterly reporting encourages a short-term view of a company's business performance. CLP's activities do not run and should not fall to be disclosed and judged on a three month cycle. Preparation of quarterly reports also costs money, including the opportunity cost of board and management time spent on quarterly reporting. 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, Sustainability Report and its website – all of which far exceed regulatory requirements in the extent of disclosure made.  

Our website includes 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.

In 2009, we made further progress in the evolution of our corporate governance practices, in line with the CLP Code and emerging developments in global corporate governance practices.

Evolution of CLP's Corporate Governance in 2009


-  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 118 to 125) 
-  Published a set of Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for potentially price-sensitive information and communicating such information to our shareholders, the media and analysts 
-  Carried out corporate governance roadshows in U.S. and Canada to encourage feedback from institutional investors and analysts on CLP's corporate governance practices
-  Appointed an additional member to the Audit Committee with appropriate professional qualifications and experience in financial matters
-  Appointed a Director – Risk Management to formalise the current risk management practices into a group-wide framework for risk management
-  Continued to carry out shareholders' identification exercise pursuant to Section 329 of the Securities and Futures Ordinance with summary results published on the CLP website 
-  Continued to roll-out the development programme for Directors, including visits to CLP's businesses in the Chinese mainland and India, and participation in the Shareholders' Visit Programme in Hong Kong
-  Updated CLP's Code for Securities Transactions
-  Shared our expertise and views on corporate governance issues by participating in formal and informal working groups organised by various authorities, as well as by responding to formal Consultation Papers issued by various authorities and publishing our responses on our website 

Shareholders

The Board and Senior Management recognise their responsibilities 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 28 April 2009 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:

- Re-election of Mr. I. D. Boyce, Dr. Y. B. Lee and Messrs. Jason Whittle, Peter T. C. Lee, Peter W. Greenwood, R. Bischof and William Mocatta as Directors of the Company (99.096% to 99.473% in respect of each individual resolution);

- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (82.842%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.997%).

All resolutions put to shareholders were passed at the 2009 AGM. The results of the voting by poll have been published on CLP's website and the website of the Hong Kong Stock Exchange. 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 2009. 

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 25 February 2010, being the latest practicable date prior to the issue of this Annual Report; and
- a calendar of important shareholders' dates for 2010.

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


- setting the Group's values and standards;
- the strategic direction of the Group;
- the objectives of the Group;
- 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;
- monitoring the performance of management; and
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed.

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 2009, 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, Group Executive Director and Group Executive Director – Strategy) 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 88 and 89 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 88) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (34.87%) 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. In 2009, there was one occasion when a Non-executive Director declared his indirect interests and withdrew from the relevant discussion at the Board meeting. 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 2009, 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 three 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.

Board and Committee Attendance

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 2009 are set out in the following table. The overall attendance rate of Directors at Board Meetings was 92.1% (2008 : 86.8%).

Directors		Meetings Attended/Held							
	Board ^(a)	Audit Committee	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Sustainability Committee	China Committee ^(b)	AGM
Non-executive Directors									
The Hon. Sir Michael Kadoorie	4/6				(c)			1/1	1
Mr. William Mocatta	6/6		9/9	1/1		3/3		1/1	1
Mr. R. J. McAulay	4/6								1
Mr. J. A. H. Leigh	5/6								1
Mr. R. Bischof	6/6					3/3			1
Mr. I. D. Boyce ^(d)	6/6		2/2						1
Mr. Jason Whittle	5/6								1
Dr. Y. B. Lee	6/6							1/1	1
Mr. Paul A. Theys	5/6							0/1	1
Independent Non-executive Directors									
The Hon. Sir S. Y. Chung ^(e)	6/6				(c)				1
Mr. V. F. Moore	6/6	4/4	9/9	1/1					1
Mr. Hansen C. H. Loh	6/6	4/4			(c)				1
Mr. Paul M. L. Kan	5/6								1
Professor Judy Tsui	6/6	3/4					2/2	0/1	1
Sir Rod Eddington	5/6		6/9	0/1					0
Mr. Nicholas C. Allen ^(f)	5/5	3/3	1/1				1/1		N/A
Mr. Peter T. C. Lee ^(g)	4/4			1/1			1/1		1
Ms. Marjorie M. T. Yang ^(h)	N/A							N/A	N/A
Executive Directors									
Mr. Andrew Brandler	5/5		9/9				2/2	1/1	1
Mr. Peter P. W. Tse ⁽ⁱ⁾	5/5		6/9			1/1		1/1	1
Mr. Peter W. Greenwood	5/5		9/9				2/2		1

(a) Included a Board Meeting where the Chairman met with Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors and management present.

(b) The China Committee was abolished on 13 May 2009, and all significant matters relating to China are now considered by the full Board.

(c) Review and approval of nomination of Director's appointment was by circular to all the members of the Nomination Committee which considered such nomination on one occasion in 2009.

(d) Mr. I. D. Boyce was appointed a member of the Finance & General Committee with effect from 27 October 2009.

(e) The Hon. Sir S. Y. Chung resigned as a member of the Human Resources & Remuneration Committee with effect from 1 January 2009.


(f) Mr. Nicholas C. Allen was appointed an Independent Non-executive Director and a member of the Audit Committee on 12 May 2009. He was also appointed a member of the Sustainability Committee, member of the Finance & General Committee and member of the Human Resources & Remuneration Committee with effect from 1 October 2009, 1 November 2009 and 1 February 2010 respectively.

(g) The late Mr. Peter T. C. Lee died on 17 October 2009. At the time of his death he was an Independent Non-executive Director and member of the Human Resources & Remuneration and Sustainability Committees.

(h) Ms. Marjorie M. T. Yang resigned as an Independent Non-executive Director and a member of the China Committee on 20 January 2009 due to her time commitment to her new appointment to the Executive Council of the HKSAR Government.

(i) Mr. Peter P. W. Tse resigned as a member of the Provident & Retirement Fund Committee on 1 June 2009.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2009 and in 2010 up to the date of this Report (the "Relevant Period"). 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. 

Membership of Nomination Committee

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 Mr. Hansen Loh.

Responsibilities and Work Done

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, succession planning for Directors and assessing the independence of the Independent Non-executive Directors. The work performed by the Committee during the Relevant Period included

- nomination of Mr. Peter T. C. Lee for re-election as Independent Non-executive Director at the 2009 AGM; and
- nomination of Mr. Nicholas C. Allen as Independent Non-executive Director with effect from 12 May 2009.

At the 2010 AGM, Mr. Nicholas C. Allen, who was appointed by the Board, will retire and present himself for election. Six other 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 Sustainability Committee

Mr. Andrew Brandler (Chairman), Professor Judy Tsui, Mr. Nicholas C. Allen, Mr. Peter Greenwood, Mr. Giuseppe Jacobelli and Dr. Jeanne Ng.

Responsibilities and Work Done

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. During the Relevant Period, the Committee reviewed

- the progress of our Climate Vision 2050;
- CLP's position paper, entitled "Beyond Copenhagen – Powering Asia Responsibly";
- CLP's position on The Copenhagen Accord;
- the 2008 and 2009 CLP Group Sustainability Reports; 
- the status of CLP Group social and environmental goals;
- corporate citizenship initiatives in the region; and
- the stakeholder engagement plan to support business sustainability – Powering Asia Responsibly.

Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), Mr. R. Bischof, Mr. Mark Takahashi and a Trustee.

Responsibilities and Work Done

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. During the Relevant Period, the Committee 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. The Committee also reviewed the investment of available funds outside the portfolios of the investment managers.

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. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington and Mr. Nicholas C. Allen.

Responsibilities and Work Done

This Committee considers major human resources and pay issues, including the approval of the Remuneration Report which is included in this Annual Report. During the Relevant Period, the Committee approved the 2008 and 2009 Remuneration Reports, and reviewed

- the Group performance for 2008 and 2009 and Group targets for 2009 and 2010;
- base pay review for 2009 and 2010 for Hong Kong payroll staff;
- annual pay review for TRUenergy and CLP India;
- Non-executive Directors' fees;
- CEO's remuneration;
- the Senior Executive Remuneration, including annual incentive payments for 2008 and 2009 and annual pay review for 2009 and 2010; and
- the Long-term Incentive Plan for Senior Executives.



Membership of Finance & General Committee

Mr. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. I. D. Boyce, Mr. Nicholas C. Allen, Mr. Andrew Brandler, Mr. Peter P. W. Tse, Mr. Peter Greenwood, Mrs. Betty Yuen, Mr. Richard McIndoe and Mr. Mark Takahashi.

Responsibilities and Work Done

This 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 work performed by the Committee during the Relevant Period included the review of

- the Company's interim and annual results and the amounts of dividends payable to shareholders for the financial years ended 31 December 2008 and 2009;
- the progress of the Jhajar Project in India;
- bids for transmission projects in India;
- the extension of the joint venture term of Guangdong Nuclear Power Joint Venture Co., Ltd. and the nuclear power supply arrangement to Hong Kong;
- the Group's investments in renewable projects in China and Australia;
- China wind energy business plan;
- the potential impact of the proposed Carbon Pollution Reduction Scheme on the Group's investment in Australia;
- CLP's investment opportunities in Thailand and The Philippines;
- CLP's foreign exchange translation risk exposure;
- the Group's capital allocation and firepower;
- the CLP Group business plan and budget 2010-2014;
- the Company Management Authority Manual;
- the investment authorisations exercised by CEO;
- the Company's funding requirements, undertakings, guarantees and indemnities;
- the cost of capital study; and
- the Code of Conduct and Gifts & Entertainment Policy.

Membership of China Committee

The Hon. Sir Michael Kadoorie (Chairman), Mr. Andrew Brandler (Vice Chairman), Professor Judy Tsui, Mr. William Mocatta, Mr. Paul A. Theys, Dr. Y. B. Lee, Mr. David C. L. Tong, Mr. Peter P. W. Tse, Mrs. Betty Yuen, Dr. Ko Yu Ming and Mr. Stefan Robertsson.

Responsibilities and Work Done

This Committee oversees CLP's strategy and standing in the Chinese mainland. During the Relevant Period, the Committee reviewed matters including

- the business environment for CLP in the Mainland;
- Clean Development Mechanism for renewable projects; and
- the Group's investment opportunities in nuclear power projects in the Mainland.

The China Committee was abolished with effect from 13 May 2009. Significant matters relating to China are now considered by the full Board.

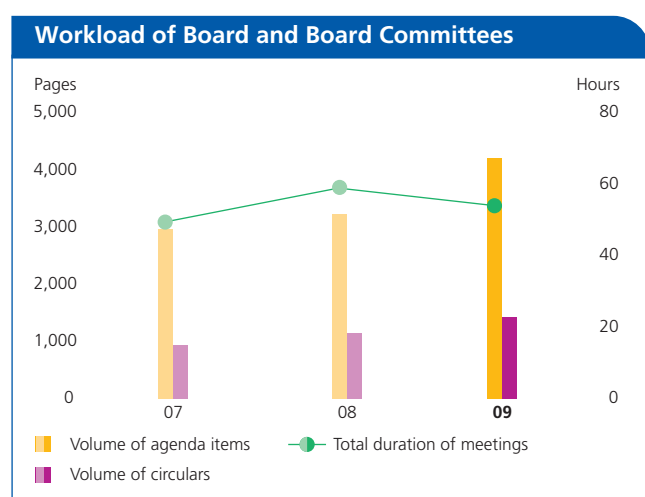
Audit Committee

Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 116 of this Annual Report.

Directors' Commitments

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 Hong Kong or overseas listed 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 2009, no current Director held directorships in more than four 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 2010 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 under "Board of Directors" at page 88 of this Annual Report and on CLP's website. 

As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to CLP's facilities. 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 2009.



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2009 are disclosed in the Directors' Report of this Annual Report at page 126. 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 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 2009 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". Non-executive Directors are paid fees for their services on Board and Board Committees, based on a formal independent review undertaken no less frequently than every three years. A review was undertaken at the beginning of 2010. The remuneration policy and fees paid to each Non-executive Director in 2009 and the proposed fees payable to Non-executive Directors for 2010-2013 are set out in the Remuneration Report at page 118 of this Annual Report.


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.

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. This year, a company wide Business Practices Review was conducted. This is an exercise conducted once every four years to ensure the principles of the Code of Conduct are clearly understood throughout the entire organisation. Attendance at briefings is compulsory for all CLP full-time and contract employees. 6,850 staff attended. 

Non-compliance with the Code results in disciplinary action. Disciplinary measures are decided by the relevant line management and reviewed by a Code of Conduct Committee comprised of the Group Executive Director, Director – Group Legal Affairs and Director – Group Human Resources in order to ensure consistency and fairness.

During 2009, there were eight breaches of the Code. Sanctions applied in 2009 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.

We have voluntarily extended the ambit of the CLP Code for Securities Transactions to cover Senior Management

(comprising the 13 managers, whose biographies are set out on page 90 of this Annual Report) and other "Specified Individuals" such as senior managers in the CLP Group. With respect to this voluntary extension of the CLP Securities Code to Senior Management, a member of the Senior Management who is not a Director of the Company advised the Company in July 2009 that his spouse had purchased 2,000 shares in CLP Holdings in June 2009. As soon as he himself became aware of this purchase, he brought the matter to the attention of the Company and updated the Company with the details of his interests in CLP Holdings' securities. The other members of the Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2009 they complied with the required standard set out in the Model Code and CLP Securities Code.

Save for the interests disclosed by the three Executive Directors in the Directors' Report at page 126 of this Annual Report, the interests in 2,600 shares disclosed by the Group Director – Operations, the interests in 600 shares respectively disclosed by the Group Director – Managing Director Hong Kong and Managing Director – China, and the interests in 22,500 shares disclosed by the Group Director – Carbon Ventures, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2009.

Members of Senior Management are paid remuneration in line with market practice and with regard to their performance. The principles and details of remuneration paid to individual members of Senior Management are set out in the Remuneration Report at page 118 of this Annual Report.

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 23 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.

Corporate Governance Report

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 2009, the Group Internal Audit department issued reports to Senior Management covering various operational and financial units of the Group, including 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 approved 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, they 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 (even though CLP is no longer subject to that Act). 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:

	2009 HK\$M	2008 HK\$M
Audit	27	25
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	7	9
Other services	3	4
Total	37	38


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 Sustainability Report explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate. 



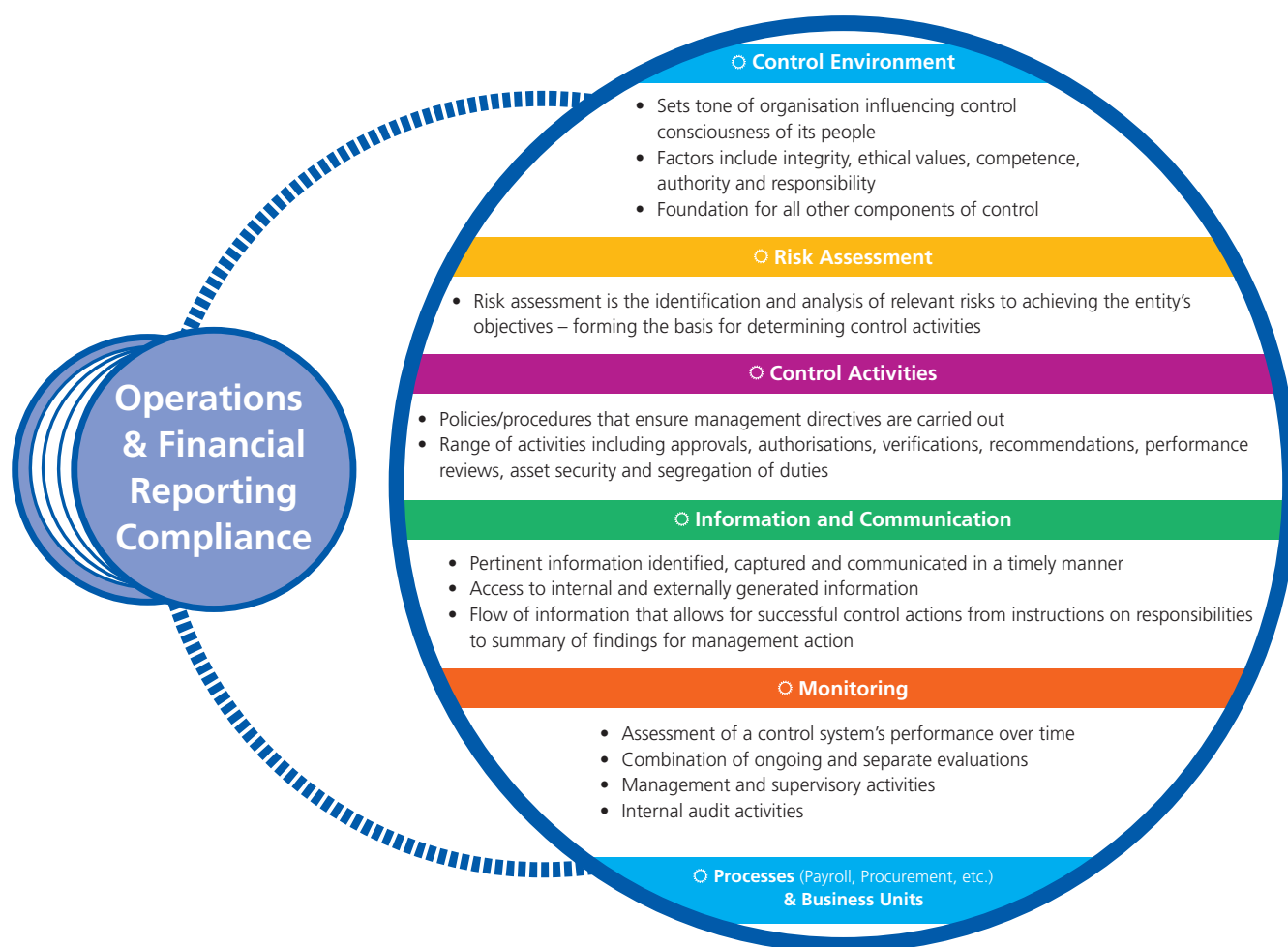
 Directors...



 ... and Shareholders turn out in force at our AGM

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 spelt 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

- independence from operational management;
- fully empowered auditors with access to all data and every operation of the Group;
- adequate resources and well qualified and capable staff; and
- 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 with the U.S. Sarbanes-Oxley Act were suspended. As a foreign private issuer, CLP Holdings remained subject to the Sarbanes-Oxley Act until 29 January 2008, whereupon CLP’s deregistration from the U.S. Securities and Exchange Act reporting system took effect.

CLP’s action to deregister and to no longer be subject to the Sarbanes-Oxley Act does not imply any weakening in our internal control disciplines or in our commitment to timely, honest and accurate financial reporting to our shareholders. Our aim is to maintain compliance with the substance of the Sarbanes-Oxley Act’s requirements without being bound by the form.

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 and 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. Key controls are tested annually by our management and internal auditors. Based on the results of those tests, process owners are able to represent 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 report to Senior Management that controls have been working properly or that changes have been made to ensure the integrity of financial statements. 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 of TRUenergy 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.

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 a fraud risk assessment and to identify appropriate anti-fraud controls.

To further strengthen the monitoring of the Group's overall risk management approach and strategy, a Director – Risk Management has been appointed and tasked with formalising the group-wide framework for risk management. The way we manage risk is set out in the Risk Management Report at page 107.

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 2009, 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" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Hong Kong Stock Exchange in 2002 and 2008 respectively;
- 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

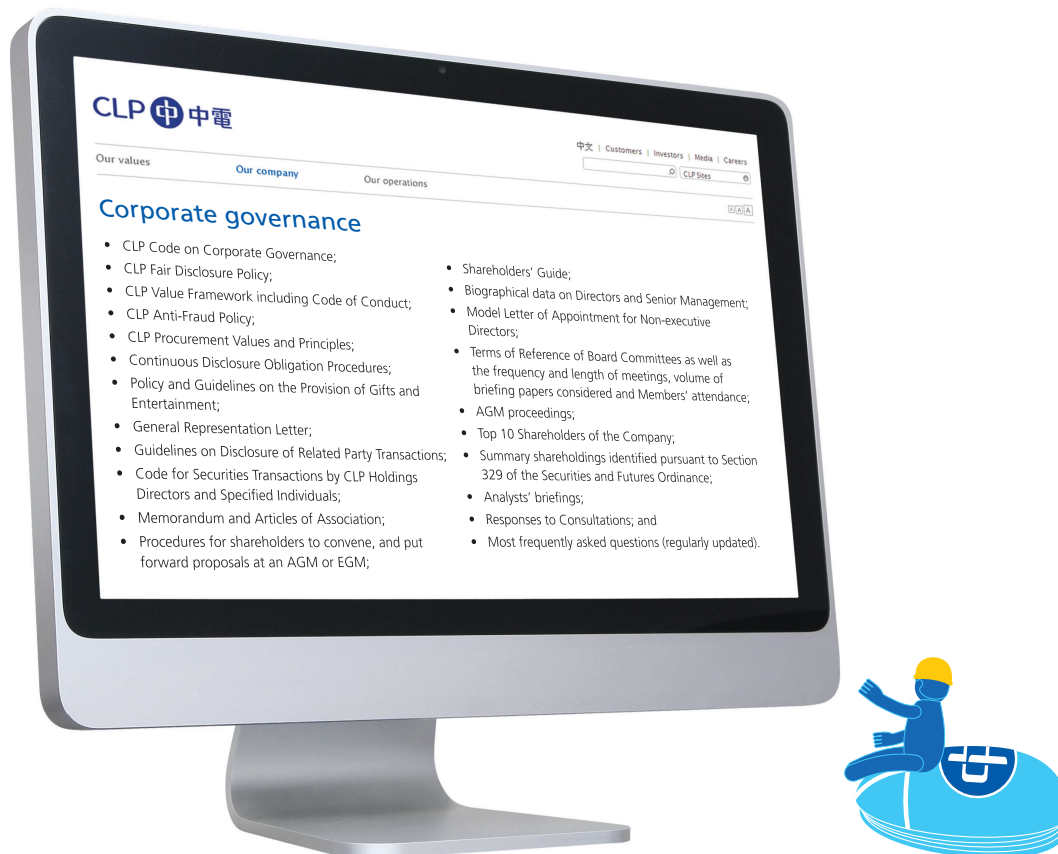
CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders informed of the performance and operations of the Group.

Social and Environmental Reporting

The CLP Group's 2009 Sustainability Report, published at the same time as this Annual Report, gives a detailed description of our delivery of social and environmental value in 2009. Our annual Sustainability Reports, complemented by an online version, 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.  


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 and constructive contributor to the ongoing debate on the future shape of corporate governance in Hong Kong. 2009 was a busy year for proposed governance and regulatory reforms. During the year we responded to Consultation Papers issued by the Hong Kong Exchanges and Clearing Limited on matters as varied, complex and, occasionally, controversial as connected transaction rules, disclosure requirements of circulars and listing documents, right issues, open offers and many others. Our responses are on our website, so that our shareholders can judge whether we are properly reflecting their views and respecting their interests. 

We will continue to review and, where appropriate, improve on our corporate governance practices in order to protect and enhance the interests of our shareholders.

By Order of the Board

April Chan

Company Secretary

Hong Kong, 25 February 2010