

# Corporate Governance Report

## CLP's Corporate Governance Framework

Good governance enhances credibility and promotes and safeguards the interests of shareholders and other stakeholders. Maintaining a good, solid and sensible framework of corporate governance has been and remains one of CLP's top priorities.

CLP's Corporate Governance Framework 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.



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), Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the Listing Rules), 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, for guidance only, save that issuers are encouraged to comply or give reasons for deviation.


Amendments to the Stock Exchange Code were announced in October 2011. The revised Appendix 14, Corporate Governance Code and Corporate Governance Report (the revised Stock Exchange Code) will become effective on 1 April 2012.

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 or the revised Stock Exchange Code. In February 2005, the Board approved the CLP Code with immediate effect. The CLP Code was most recently updated in February 2012 to reflect the new requirements under the revised Stock Exchange Code. 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 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 incorporates all of the Code Provisions and Recommended Best Practices in the revised Stock Exchange Code, save for the single exception specified and explained below. It exceeds the requirements of the revised Stock Exchange Code in many aspects. CLP has also applied all of the principles in the revised 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 or meets the Code Provisions and Recommended Best Practices of the Stock Exchange Code as well as the revised 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, most recently updated in January 2012, 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".
✓✓	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. 
✓✓	We publish the terms of reference and membership of all Board Committees on the websites of CLP and Stock Exchange. 
✓✓	The Audit Committee comprises only Independent Non-executive Directors. Three of the five members 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 online 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 Sustainability Committee Report which sets out our sustainability framework.
✓✓	Our Anti-Fraud Policy 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 and the revised Stock Exchange Code.
✓	All Recommended Best Practices of the Stock Exchange Code and the revised 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, online 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 revised 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 Listing Rules.

## Evolution of CLP's Corporate Governance in 2011

**In 2011, 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:**

- Early adopted the revised Stock Exchange Code
- Updated the CLP Code on Corporate Governance in light of the recent changes in the Listing Rules and the revised Stock Exchange Code
- Engaged an external consultant to evaluate the performance of the Board and Board Committees
- Included a separate Sustainability Committee Report in this Annual Report
- Updated the CLP Value Framework
- Published a Responsible Procurement Policy Statement which summarises our expectations of the suppliers whom we select through our procurement process
- Updated and aligned the Code of Conduct across the CLP Group of companies – every single manager and employee attended one of the 384 communication sessions on the Code which were held across the Group
- Developed a Group Risk Management Framework to enhance integration of current risk management practices across the Group
- Formalised the Whistleblowing Policy and Shareholders' Communication Policy; these two Policies are published on the CLP website 
- Appointed two additional Independent Non-executive Directors following the retirement of The Hon. Sir S. Y. Chung as an Independent Non-executive Director
- Contributed our views on corporate governance issues by participating in formal and informal working groups organised by the Hong Kong Stock Exchange, as well as by responding to formal Consultation Paper issued by the Exchange
- 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, Australia and India, attending expert presentations and participation in the Shareholders' Visit Programme in Hong Kong – records of Directors' participation in the development programme are kept by the Company Secretary and disclosed in this Report

## Shareholders

The Board and Senior Management recognise their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The "Shareholder Value" 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.

At the end of 2011, CLP had over 20,000 registered shareholders. The actual number of investors in CLP shares will be much greater, taking into account all those people and organisations that have an indirect interest in our shares through intermediaries such as nominees, investment funds and the Central Clearing and Settlement System (CCASS) of Hong Kong.

Our largest single shareholder is the Kadoorie Family (and interests associated with the Family) who have a combined shareholding of 34.87%. Even so, CLP is not a family-controlled company. The remaining 65.13% of our shares are held by a wide range of institutional investors, including those based in North America, Europe and Asia, as well as a considerable number of retail investors, who are mostly resident in Hong Kong.

### Shareholdings as at 31 December 2011

Size of Registered Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital	Shareholding by Category
500 or below	2,171	10.54	649,276	0.03	<p>30.21% 34.87% 34.92%</p> <ul style="list-style-type: none"> <li>Interests associated with the Kadoorie Family</li> <li>Institutional investors</li> <li>Retail investors</li> </ul>
501 – 1,000	3,666	17.79	2,853,340	0.12	
1,001 – 10,000	9,766	47.40	41,902,734	1.74	
10,001 – 100,000	4,453	21.61	129,850,370	5.39	
100,001 – 500,000	444	2.15	89,684,465	3.73	
Above 500,000	105 <sup>1</sup>	0.51	2,141,203,215	88.99	
<b>Total</b>	<b>20,605</b>	<b>100.00</b>	<b>2,406,143,400<sup>2</sup></b>	<b>100.00</b>	

#### Notes:

- Information on the ten largest registered shareholders in the Company is set out on our website.
- 48.45% of all our issued shares were held through CCASS.

From publicly available information and as far as our Directors are aware, CLP Holdings has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2011 and has continued to maintain such a float as at 27 February 2012.


Pursuant 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 (including election of a person other than a Director of the Company as a director) are available on our website or on request to the Company Secretary.




The most recent shareholders' meeting was the AGM held on 12 May 2011 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:

- Endorsement of the practice to pay four interim dividends each year as decided by the Board of Directors, instead of three interim dividends and a final dividend (97.6375%);
- Re-election of Mr. J. A. H. Leigh, Professor Judy Tsui, Sir Rod Eddington, Mr. R. J. McAulay and Mr. I. D. Boyce as Directors of the Company (96.1713% to 98.3890% 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 (82.0588%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (99.9823%).

All resolutions put to shareholders were passed at the 2011 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 2011. 

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 all Board Committees attend the AGM and will take shareholders' questions. A representative (usually the engagement partner) of the external auditor also attends the AGM and will take questions from shareholders relating to their audit of the Company's Financial Statements. Our policy is to involve shareholders in the Company's affairs and to communicate with them about our activities and prospects face-to-face at the AGM and during visits to CLP.

We have collected and answered the most frequently asked questions by shareholders regarding their rights as CLP shareholders and the ways in which they can best exercise and enjoy those rights in a "Shareholders' Guide". This Guide and its updates are available on the CLP website. 

Enquiries may be put to the Board by contacting either the Company Secretary through our shareholders' hotline (852) 2678 8228, e-mail at [cosc@clp.com.hk](mailto:cosc@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 Board discharges the following responsibilities through delegation to the Nomination Committee, Audit Committee and Human Resources & Remuneration Committee:


- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review the contribution required from Directors and whether they are spending sufficient time performing their responsibilities to the Company;
- (c) to review and monitor the training and continuous professional development of Directors and Senior Management;
- (d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (e) to develop, review and monitor the Code of Conduct applicable to employees; and
- (f) to review the Company's compliance with the CLP Code on Corporate Governance and disclosure in the Corporate Governance Report.

The Board is provided with CLP Group Monthly Management Reports which contain year-to-date financials with summaries of key events, outlook, safety and environmental matters of the Group. The Management Report gives a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail.

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 2011, 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 17 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 82 and 83 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. Six Non-executive Directors (see page 82) 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 2011, there were three occasions 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 2011, the Board exceeded the minimum requirements of the Listing Rules as to the appointment of at least three Independent Non-executive Directors (CLP has 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 Board meets in person at least five times per annum 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 2011 are set out in the following table. The overall attendance rate of Directors at Board meetings was 91.7% (2010: 85.7%).

Directors	Meetings Attended / Held							
	Board <sup>(a)</sup>	Audit Committee <sup>(b)</sup>	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Provident & Retirement Fund Committee	Sustainability Committee	AGM
<b>Non-executive Directors</b>								
The Hon. Sir Michael Kadoorie	5 / 7				(c)			1
Mr. William Mocatta	6 / 7		7 / 7	1 / 1		2 / 2		1
Mr. R. J. McAulay	7 / 7							1
Mr. J. A. H. Leigh	4 / 7							1
Mr. I. D. Boyce	7 / 7		7 / 7					1
Dr. Y. B. Lee	7 / 7							1
Mr. Paul A. Theys	6 / 7							1
<b>Independent Non-executive Directors</b>								
The Hon. Sir S. Y. Chung <sup>(d)</sup>	2 / 2				(c)			0
Mr. V. F. Moore	7 / 7	6 / 6	6 / 7	1 / 1				0
Mr. Hansen C. H. Loh	7 / 7	6 / 6			(c)			1
Professor Judy Tsui	6 / 7	6 / 6					2 / 2	1
Sir Rod Eddington	6 / 7		5 / 7	0 / 1				0
Mr. Nicholas C. Allen <sup>(e)</sup>	7 / 7	6 / 6	7 / 7	1 / 1	(c)		2 / 2	1
Mr. Vincent Cheng <sup>(f)</sup>	2 / 2		1 / 1	N/A				N/A
Mrs. Fanny Law <sup>(g)</sup>	2 / 2	2 / 2					1 / 1	N/A
<b>Executive Directors</b>								
Mr. Andrew Brandler	6 / 6		7 / 7				2 / 2	1
Mr. Peter P. W. Tse	6 / 6		6 / 7					1
Mr. Peter W. Greenwood	6 / 6		5 / 7				2 / 2	1

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

(b) Representatives of the external auditor participated in every Audit Committee meeting held throughout the year.

(c) Review and approval of nomination of Directors' appointment is by circular to all the members of the Nomination Committee. In 2011, Directors reviewed by circular the independence of Independent Non-executive Directors who stood for re-election at the 2011 AGM and considered the nominations of Directors for appointment on two separate occasions.


(d) The Hon. Sir S. Y. Chung retired as an Independent Non-executive Director and a member of the Nomination Committee after the conclusion of the 2011 AGM held on 12 May 2011.

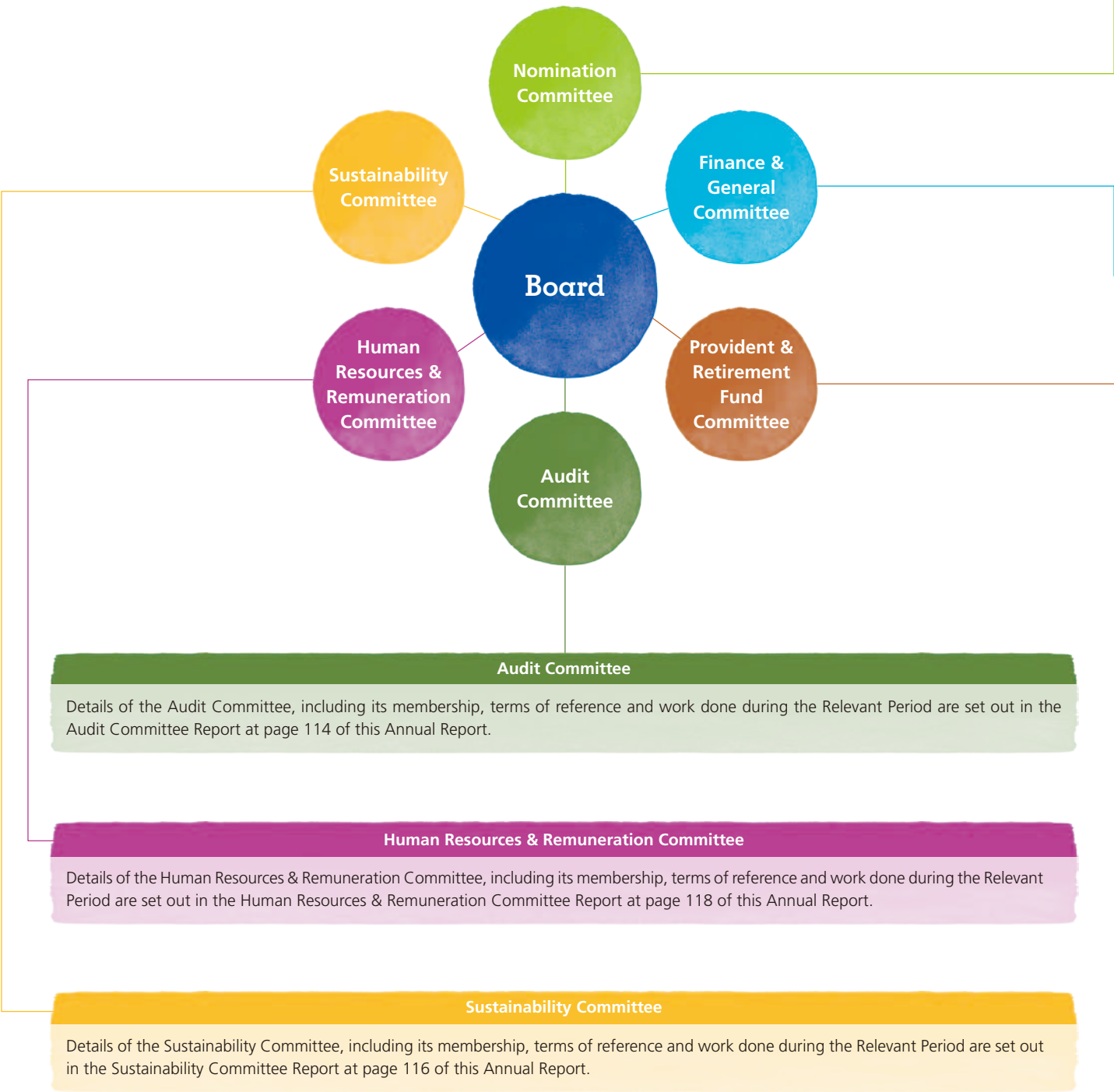
(e) Mr. Nicholas C. Allen was appointed a member of the Nomination Committee with effect from 13 May 2011.

(f) Mr. Vincent Cheng was appointed an Independent Non-executive Director on 17 August 2011. He was also appointed a member of the Finance & General Committee and the Human Resources & Remuneration Committee on 1 September 2011.

(g) Mrs. Fanny Law was appointed an Independent Non-executive Director on 17 August 2011. She was also appointed a member of the Audit Committee and the Sustainability Committee on 1 September 2011.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2011 and in 2012 up to the date of this Report (the “Relevant Period”). The terms of reference and membership of all Board Committees are disclosed in full on the websites of CLP and Stock Exchange. They are also available in writing upon request to the Company Secretary. The terms of reference of the Audit Committee, Human Resources & Remuneration Committee and Nomination Committee have been amended to reflect changes arising from the revised Stock Exchange Code. 



#### Membership of Nomination Committee

A majority of the members are Independent Non-executive Directors. This Committee is chaired by the Chairman of the Board, The Hon. Sir Michael Kadoorie, with Mr. Hansen Loh and Mr. Nicholas C. Allen as members.

#### 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, assessing the independence of the Independent Non-executive Directors and, as delegated by the Board, reviewing whether Directors are spending sufficient time performing their responsibilities. The work performed by the Committee during the Relevant Period included:

- nomination of Professor Judy Tsui and Sir Rod Eddington for re-election as Independent Non-executive Directors at the 2011 AGM; and
- nomination of Mrs. Fanny Law and Mr. Vincent Cheng as Independent Non-executive Directors with effect from 17 August 2011.

At the 2012 AGM, three Independent Non-executive Directors namely; Mrs. Fanny Law, Mr. Vincent Cheng and Mr. Vernon Moore will retire and present themselves for election/re-election by shareholders. The independence of Mrs. Law, Mr. Cheng and Mr. Moore has been reviewed by the Nomination Committee.

#### 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. Vincent Cheng, 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 2010 and 2011;
- the CLP Group business plan and budget 2012-2016 and capital allocation reviews;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirement, undertakings, guarantees and indemnities;
- sale of CLP's stake in EGCO;
- the split of Australian assets in Roaring 40s;
- the co-investment opportunity with Santos in Eastern Star Gas;
- bids for wind power projects in India;
- CLP Group's interest in development projects in China, India and Thailand; and
- the implications of carbon policy in Australia and the provision of Yallourn asset impairment.

#### Membership of Provident & Retirement Fund Committee

Mr. William Mocatta (Chairman), 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 CLP Group Top-Up 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.



## Directors' Commitments

The Company has received confirmation from each Director that he/she has given sufficient time and attention to the affairs of the Company for the year. 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 2011, 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. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the 2012 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 82 of this Annual Report and on CLP's website. [🌐](#)

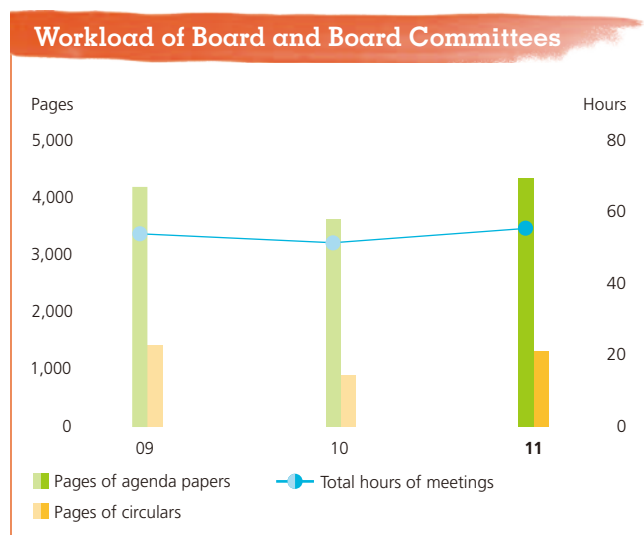
As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to local management and CLP's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the Directors. This is in addition to Directors' attendance at meetings and review of papers and circulars sent by Management. The participation by individual Directors and the Company Secretary in the programme in 2011 is recorded in the table below.

Participation in Continuous Professional Development Programme in 2011				
	Reading Regulatory Updates	Paying Visits to local management & CLP's facilities	Hosting Shareholders' Visits	Attending expert briefings / seminars / conferences relevant to the business or Directors' duties
<b>Non-executive Directors</b>				
The Hon. Sir Michael Kadoorie	✓	✓		✓
Mr. William Mocatta	✓	✓		✓
Mr. R. J. McAulay	✓	✓		✓
Mr. J. A. H. Leigh	✓	✓		✓
Mr. I. D. Boyce	✓	✓	✓	✓
Dr. Y. B. Lee	✓	✓		✓
Mr. Paul A. Theys	✓			
<b>Independent Non-executive Directors</b>				
Mr. V. F. Moore	✓	✓	✓	✓
Mr. Hansen C. H. Loh	✓			✓
Professor Judy Tsui	✓	✓	✓	✓
Sir Rod Eddington	✓	✓		
Mr. Nicholas C. Allen	✓	✓	✓	✓
Mr. Vincent Cheng <sup>(a)</sup>	✓			✓
Mrs. Fanny Law <sup>(a)</sup>	✓	✓	✓	✓
<b>Executive Directors</b>				
Mr. Andrew Brandler	✓	✓	✓	✓
Mr. Peter P. W. Tse	✓	✓		✓
Mr. Peter W. Greenwood	✓	✓	✓	✓
<b>Company Secretary</b>				
Mrs. April Chan <sup>(b)</sup>	✓	✓	✓	✓

(a) An induction was conducted for Mr. Vincent Cheng and Mrs. Fanny Law who were newly appointed to the Board in August 2011.

(b) During 2011, Mrs. Chan served as the President of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and exceeded the 15 hours of professional training requirement of the Listing Rules.

To further indicate the attention given by our Board to the oversight of CLP's affairs, the following chart summarises the duration of those meetings and the volume of papers reviewed by Directors during 2011.



### Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2011 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 2011 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 2011 are set out in the Human Resources & Remuneration Committee 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.

### Board Evaluation

The Board has decided to undertake a performance evaluation of the CLP Holdings Board and Board Committees, including the Audit Committee. An independent consulting firm specialising in this area has been engaged to undertake the evaluation exercise. The results of the evaluation are expected to be disclosed in the 2012 Interim Report.


### Company Secretary

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. She advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and CEO, all Directors may call upon her for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including to assist the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

### Management and Staff

The task of CLP's management and staff is the successful implementation of 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 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, which has been aligned across the CLP Group, is 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 or in certain functions are required to sign annual statements confirming compliance with the Code. 

We have formalised the procedures for reporting actual or potential violations of the Code and other suspected irregularities into a Whistleblowing Policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconducts, malpractices or irregularities in any matters related to the Company.

Non-compliance with the Code of Conduct results in disciplinary action. Disciplinary measures are decided by the relevant line management. These measures are then subject to review and endorsement by a Code of Conduct Committee, which comprises the Group Executive Director, Director – Group Legal Affairs and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2011, there were six breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code involved senior managers or were 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 senior manager or any other employee.

We have voluntarily extended the CLP Code for Securities Transactions to cover Senior Management (comprising the nine managers, whose biographies are set out on page 84) and other "Specified Individuals" such as senior managers in the CLP Group. All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2011 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interests disclosed by the three Executive Directors in the Directors' Report at page 126 of this Annual Report, the interest in 10,600 shares disclosed by the Group Director – Operations and the interest in 600 shares disclosed by the Group Director – Managing Director Hong Kong, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2011.

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 Human Resources & Remuneration Committee 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 24 other staff with professional qualifications (including for example, from the Hong Kong Institute of Certified Public Accountants). 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 2011, 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 regularly by management and by the Audit Committee until corrective measures have been implemented.

## External Auditor


The Group's external auditor is PricewaterhouseCoopers (PwC). PwC has written to the Audit Committee confirming that they are independent with respect to the Company and that there is no relationship between PwC and the Company which may reasonably be thought to bear on their independence. In order to maintain their independence, PwC will not be employed for non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules 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 auditor, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, the external auditor (which for these purposes includes any entity under common control,

ownership or management with the external auditor 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:

	2011 HK\$M	2010 HK\$M
<b>Audit</b>	<b>42</b>	<b>32</b>
<b>Permissible non-audit services</b>		
Due diligence and accounting / tax advisory services relating to business developments	2	6
Other services	4	4
<b>Total</b>	<b>48</b>	<b>42</b>

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

## 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 (which includes qualified accountants) 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 and Whistleblowing Policy make 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 and any possible improprieties in any matters related to the Company.

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 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. High-risk 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 auditor also test the key controls to the extent that they will be relied on for the audit.



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 auditor 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 Group Risk Management framework has been developed to improve communication of identified risks within Management, measure the impact of the identified risks and facilitate implementation of coordinated mitigation measures. The way we manage risk is set out in the Risk Management Report at page 103. The Audit Committee oversees the development and implementation of the Group Risk Management framework.

## Control Effectiveness


The Board is responsible for the Company's internal control system and for reviewing its effectiveness. Group Internal Audit and Management conduct reviews of the effectiveness of the Company's internal control system, 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 internal control system four times a year, and reports annually to the Board on such reviews. In respect of the year ended 31 December 2011, 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 the internal and external auditors before endorsement by the Board. In future this will form part of the Board evaluation process.

## 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.


The Company has published 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. These are on the CLP website. 

## 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.

### Integrated 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.

CLP's 2011 online Sustainability Report, published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2011 and contributes to integrated reporting about all aspects of our activities. The Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PwC. We welcome feedback on both the Annual and Sustainability Reports. 

### Ongoing Dialogue with Shareholders


We are aware that to maintain the trust and confidence of our shareholders we must do our best to ensure that our shareholders are properly informed of the performance of CLP, that there is clarity about CLP's future direction and confidence about the stewardship of CLP's assets on behalf of its shareholders. The Board has established a Shareholders' Communication Policy to ensure effective ongoing dialogue with Shareholders. It has also delegated to the Audit Committee the responsibility to review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.

This Annual Report itself is one of our major channels of communication to our shareholders. There are many others. Some of those we used in 2011 are listed below.

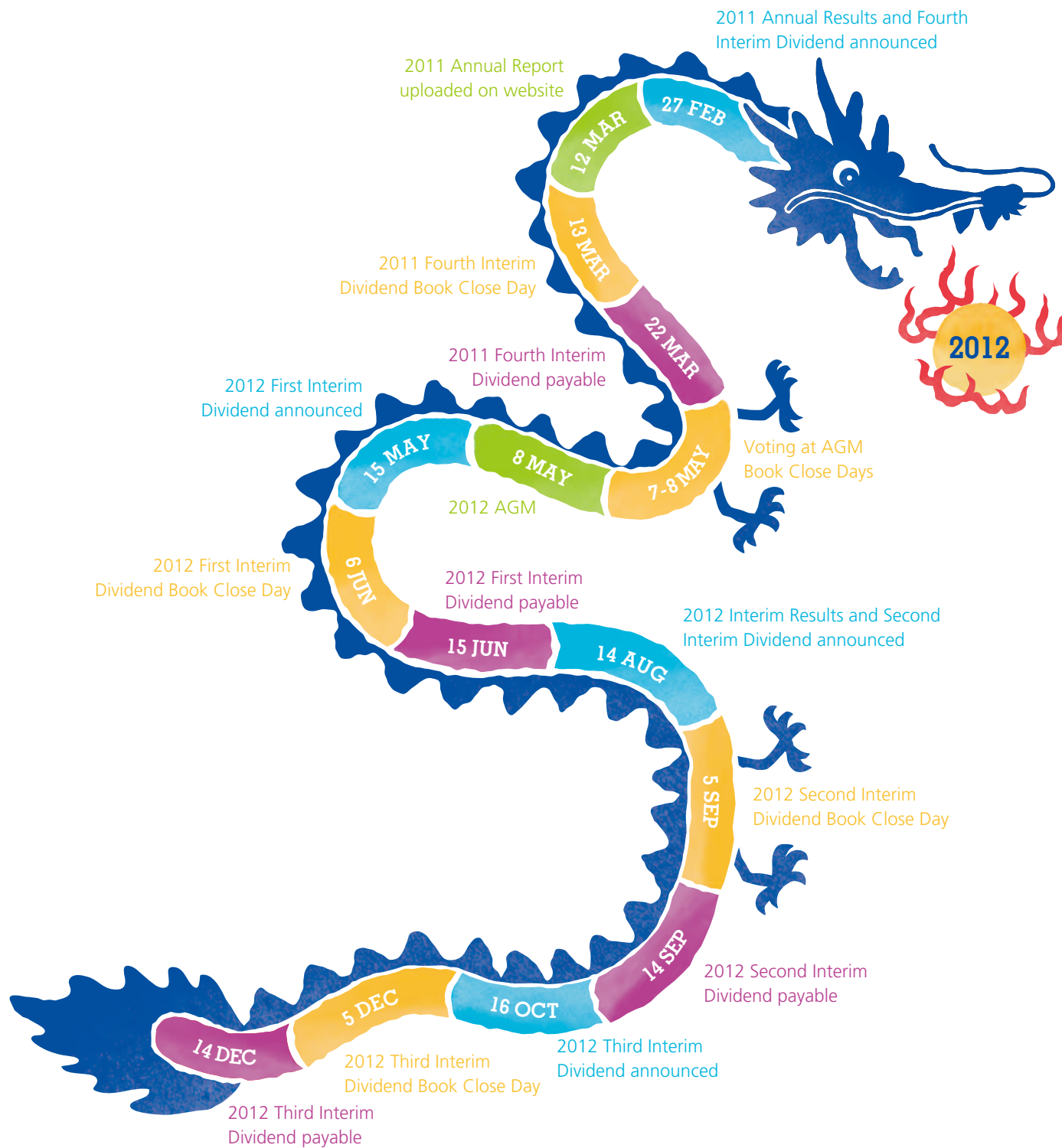
#### Providing information to our shareholders through means such as


- Our Annual Report, online Sustainability Report and Quarterly Statements - all of which provide information far in excess of legal and regulatory requirements. 
- Our AGM, attended by Directors and Senior Managers. In the past 5 years, the attendance of shareholders at our AGMs has averaged about 850 (815 in 2011). This is an unusually high number for a Hong Kong company, including by comparison with other companies with a much higher number of registered shareholders.
- During the year, Management attended over 230 investor meetings, including participation in 11 investor conferences, and 13 non-deal roadshows to the North America, Europe and Asia.
- Analysts briefings on the Company's interim and annual results, as well as overseas business. These are on our website. 
- The CLP website, which includes information on the Company's corporate governance principles and practices, updates on the Group's affairs and other information for shareholders. 

#### Encouraging feedback from our shareholders through means such as


- Face to face dialogue, including the "Shareholders' Corner" at our AGM.
- Feedback forms sent out with our Annual Report to obtain shareholders' views on the Report and on additional information that they would like to receive in the following year's Annual Report, together with questions that they would like to have answered in the "Frequently Asked Questions" section of our website. We consider the feedback received and post answers on the website. We also send direct replies to shareholders in response to the specific questions that they raise. 
- Comments, queries and reports from market analysts.
- Shareholders' hotline and e-mail contacts.
- Shareholder correspondence - our aim is to provide a substantive reply within seven days to written shareholder queries. If those queries raise a matter of more general interest to shareholders, we will take this into account and seek to address this in subsequent corporate communications to all our shareholders.
- Shareholders' visits to our facilities. Our Shareholders' Visit Programme initiated in 2003 has been a notable success. Between November 2011 and May 2012 we expect to welcome about 3,000 shareholders and their guests, during 70 tours to our facilities at Castle Peak Power Station, Eco Home and Smart Grid Centre. On these occasions, we seek views on the performance of CLP. About 60 CLP colleagues, including Directors, have volunteered to participate as lunch hosts of the programme.

Important dates for shareholders in 2012 are set out below.




Any changes to these dates will be published on our website. 


### 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 make an active contribution to the ongoing debate on the future shape of corporate governance in Hong Kong. 2011 was a busy year for proposed governance and regulatory reforms. During the year we responded to the Consultation Paper issued by the Hong Kong Exchanges and Clearing Limited on the review of The Code on Corporate Governance Practices and Associated Listing Rules. Our response is 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 light of evolving experience, regulatory requirements and international developments.

By Order of the Board

**April Chan**

Company Secretary

Hong Kong, 27 February 2012