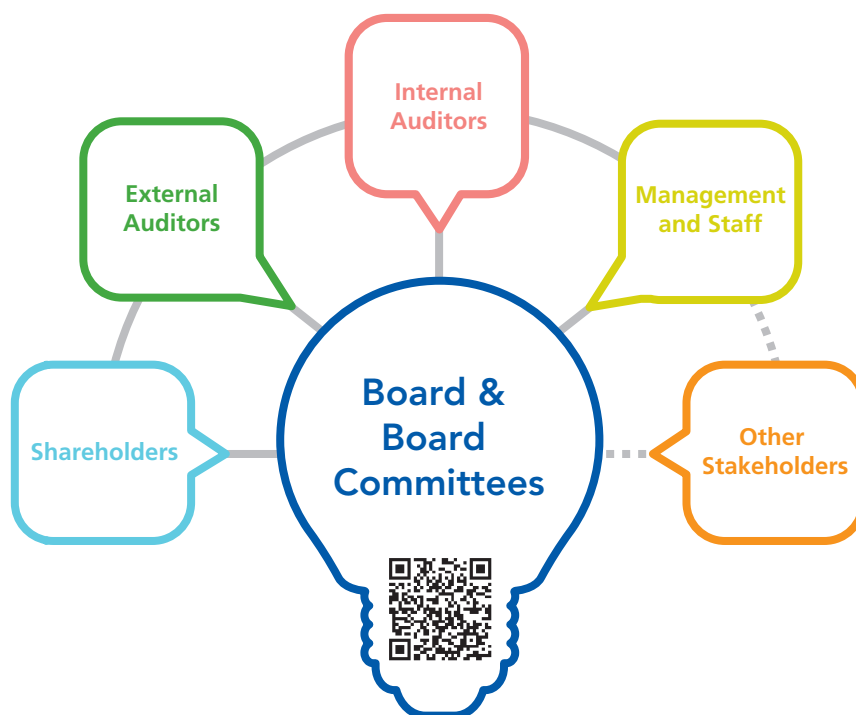


Corporate Governance Report

CLP's Corporate Governance Framework

Good corporate governance enhances the credibility and reputation of the Company, as well as promoting and safeguarding the interests of shareholders and other stakeholders. Corporate governance is not an easy subject to present. We use a Corporate Governance Framework to explain our corporate governance practices in as accessible and straightforward a way as possible. In that Framework we identify all the key participants in good governance, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.



Our 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.

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 Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules), 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.


Our Board adopted the CLP Code in February 2005. The decision to adopt the CLP Code, as opposed to the Stock Exchange Code, reflected our wish to express our corporate governance practices in our own words and to use a structure which corresponded to our existing framework. The CLP Code is updated from time to time, most recently in February 2012, reflecting new requirements effective on 1 April 2012 under the 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. [▶](#)

Corporate Governance Report

The CLP Code incorporates all of the Code Provisions and Recommended Best Practices in the Stock Exchange Code, save for the single exception explained below. It exceeds the requirements of the Stock Exchange Code in many aspects. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and this Corporate Governance Report. The following are the major respects in which the CLP Code exceeds (✓✓) or meets (✓) the Code Provisions and Recommended Best Practices of the Stock Exchange Code.





- ✓✓ 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".
- ✓✓ 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. [🔗](#)
- ✓✓ We publish the terms of reference and membership of all Board Committees on the websites of CLP and Stock Exchange. [🔗](#)
- ✓✓ With the support of an external independent consultant, CLP conducts an evaluation of the performance of the Board as well as all of its Board Committees.
- ✓✓ 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, social and governance issues through this Annual Report and our online Sustainability Report. These in many respects exceed the terms of the Environmental, Social and Governance (ESG) Reporting Guide at Appendix 27 to the Listing Rules. [SR](#)
- ✓✓ 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 (constructed around those areas, objectives and goals which we consider most relevant to CLP's business).
- ✓✓ 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 potential inside 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 now, we have received no such feedback from shareholders. We would review our position if 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 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 2012

In 2012, 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:

- In our online Sustainability Report we have measured our disclosure on economic, social and governance issues against the ESG Reporting Guide issued by the Hong Kong Stock Exchange, even though this only takes effect for financial years ending after 31 December 2012. 
- Undertook an independent review of the fees payable to Non-executive Directors and published this on CLP's website (see the Human Resources & Remuneration Committee Report on pages 125 and 126). 
- Engaged an external independent consultant to evaluate the performance of the Board and Board Committees. The results of the evaluation were uploaded on the CLP website. 
- Moved the governance standards of EnergyAustralia towards those applicable to a listed company in Australia, including the appointment of an independent Chairman and a majority of independent non-executive directors and the establishment of the Audit & Risk Committee and Remuneration & Nomination Committee for EnergyAustralia.
- Discontinued the practice to propose to shareholders to grant a mandate to Directors to aggregate the number of shares repurchased with the total number of shares which can be issued under the general mandate to issue shares.
- Enhanced the effectiveness and security of Board and Board Committees communication by moving to a digital Board paper delivery system. This system is more environmentally friendly (saving more than 24,000 pages of paper in the second half of 2012 alone).
- Formalised the reporting to the Nomination Committee of the training and continuous professional development of Directors, time spent by Directors and the independence of Independent Non-executive Directors.
- Reviewed the effectiveness of the Responsible Procurement Policy Statement after its first 12 months' implementation.
- Enhanced our risk management through the initiatives summarised in the Risk Management Report at page 111.
- Strengthened the General Representation Letter process with the support of a new digital Group Internal Control system.
- Updated the set of Continuous Disclosure Obligation Procedures on the CLP website in light of the new inside information requirements under the Securities and Futures Ordinance and the Listing Rules. 
- Updated CLP's Code of Securities Transactions in light of the new inside information requirements.
- Formalised the reporting to the Human Resources & Remuneration Committee of the training and continuous professional development of Senior Management.
- Continued our two-way communication with institutional and retail investors on our corporate governance.
- Contributed our views on corporate governance issues by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange and the Securities and Futures Commission.

Shareholders

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

Details of the profile of the shareholders in the Company and aggregate shareholding are set out in the “Shareholder Value and Engagement” section on page 17 of this Annual Report.

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 2012 and has continued to maintain such a float as at 25 February 2013.

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 8 Laguna Verde Avenue, Hung Hom, 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 8 May 2012 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. Major items discussed included the amendment to Article 139 of the Company’s Article of Association, which allows the Board to:

- (a) declare a dividend by way of a distribution in specie of securities in any other company which is to be listed on any stock exchange;
- (b) facilitate the procedure for dealing with fractional entitlements that may arise on a distribution in specie;
- (c) allow the Company not to make a distribution in specie to Shareholders in territories where such distribution may be unlawful or inexpedient in the absence of compliance with registration or other formalities and such Shareholders will instead be entitled to receive a cash dividend.

The percentage of votes cast in favour of the resolutions relating to the major items are set out below:

- Amendment to the Articles of Association of the Company (99.8289%);
- Election of Mr. Vincent Cheng and re-election of Mr. William Mocatta, Dr. Y. B. Lee, Mr. Peter W. Greenwood and Mr. Vernon Moore as Directors of the Company (98.4004% to 99.7440% 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 (76.3388%);
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (Share Repurchase Mandate) (99.9964%); and
- General mandate to Directors to aggregate the nominal amount of shares repurchased with the nominal amount of shares which can be issued under the general mandate to issue shares (Aggregation Mandate) (73.7782%).

All resolutions put to shareholders were passed at the 2012 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 also published on the Company's website. [▶](#)

With regard to the Aggregation Mandate, institutional investors have expressed concern about the possibility of increasing the general mandate given to Directors to issue shares from a cap of 5% to, potentially, 15% of the Company's issued shares if the Share Repurchase Mandate were fully exercised. This is evidenced by the increasing percentage of votes cast against the Aggregation Mandate at the AGM – from 20.82% in 2008 to 26.22% in 2012.

The Aggregation Mandate has been sought since the first AGM of CLP Holdings and has never been exercised by the Board. However, in order to address institutional investors' views, the Board has decided to discontinue the practice to propose to shareholders to grant the Aggregation Mandate to Directors when the current Aggregation Mandate expires in the 2013 AGM.

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.

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 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 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.


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 at each period end and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2012, 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. Three of them are women. All Directors (with the exception of the CEO 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. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills. The Board intends to formalise its existing diversity through the introduction in 2013 of a board diversity policy in contemplation of an incoming amendment to the Stock Exchange Code in this respect.

Details of all Directors are given on pages 90 and 91 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 90) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (33.38%) 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 2012, there were five 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 2012, 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 2012 are set out in the following table. The overall attendance rate of Directors at Board meetings was 94.6% (2011: 91.7%).

Directors	Meetings Attended / Held							
	Board ^(a)	Audit Committee ^(b)	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee ^(c)	Provident & Retirement Fund Committee	Sustainability Committee	AGM ^(b)
Non-executive Directors								
The Hon. Sir Michael Kadoorie	6 / 7				1 / 1			1
Mr. William Mocatta	7 / 7		8 / 8	2 / 3		2 / 2		1
Mr. R. J. McAulay	6 / 7							1
Mr. J. A. H. Leigh	7 / 7							1
Mr. I. D. Boyce	7 / 7		6 / 8					1
Dr. Y. B. Lee	7 / 7							1
Mr. Paul A. Theys	6 / 7							0
Mr. Peter P. W. Tse ^(d)	6 / 6		4 / 4					1
Independent Non-executive Directors								
Mr. V. F. Moore	7 / 7	5 / 5	6 / 8	3 / 3				1
Professor Judy Tsui	7 / 7	5 / 5					2 / 2	1
Sir Rod Eddington	5 / 7		3 / 8	1 / 3				0
Mr. Nicholas C. Allen	7 / 7	5 / 5	8 / 8	3 / 3	1 / 1		2 / 2	1
Mr. Vincent Cheng ^(e)	7 / 7		7 / 8	3 / 3	1 / 1			1
Mrs. Fanny Law ^(f)	5 / 5	3 / 3					2 / 2	N/A
Ms. Irene Lee ^(g)	2 / 2	1 / 1	2 / 2					N/A
Mr. Hansen C. H. Loh ^(h)	1 / 2	0 / 1			N/A			0
Executive Directors								
Mr. Andrew Brandler	6 / 6		8 / 8				2 / 2	1
Mr. Peter W. Greenwood	6 / 6		7 / 8				2 / 2	1

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

(b) Representatives of the external auditor participated in every Audit Committee meeting and AGM.

(c) Review and approval of nomination of Directors' appointment is by circulars to all the members of the Nomination Committee. In 2012, Directors reviewed by circular the independence of Independent Non-executive Directors who stood for re-election at the 2012 AGM and considered the nominations of Directors for appointment on two separate occasions.

(d) Mr. Peter P. W. Tse retired as an Executive Director and was re-designated as a Non-executive Director with effect from 16 May 2012.

(e) Mr. Vincent Cheng was appointed the Chairman of the Human Resources & Remuneration Committee in place of Mr. William Mocatta with effect from 24 February 2012. Mr. Cheng was also appointed a member of the Nomination Committee with effect from 2 April 2012.

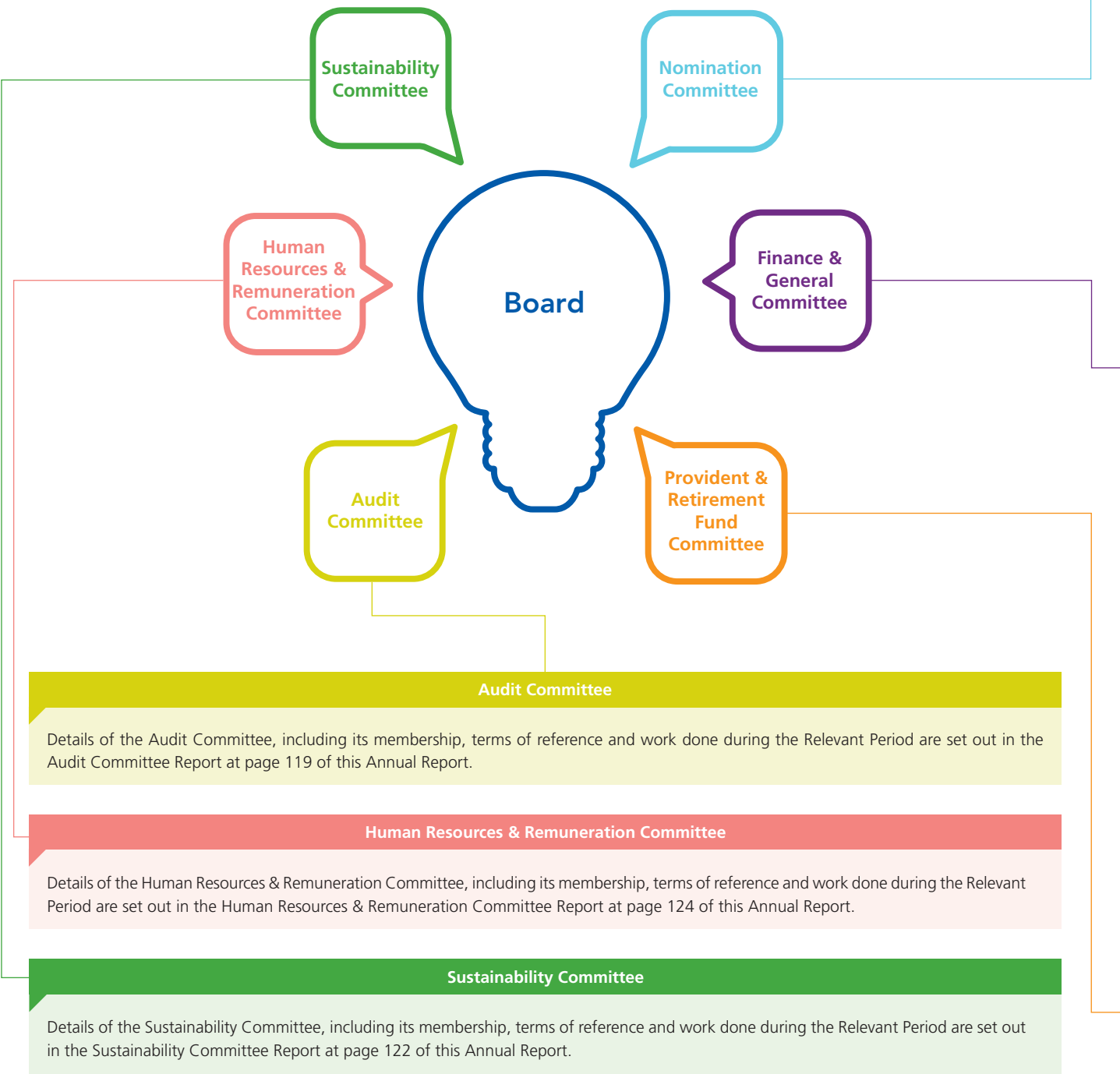
(f) Mrs. Fanny Law resigned as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 20 April 2012 to take up a full-time appointment as the Head of the Fourth-term Chief Executive-elect's Office of the Hong Kong Special Administrative Region under a short-term employment contract. Upon conclusion of this contract on 1 July 2012, Mrs. Law was re-appointed as an Independent Non-executive Director and a member of the Audit Committee and the Sustainability Committee with effect from 1 August 2012.

(g) Ms. Irene Lee was appointed as an Independent Non-executive Director with effect from 15 October 2012.

(h) Mr. Hansen C. H. Loh retired as an Independent Non-executive Director after the conclusion of the 2012 AGM held on 8 May 2012. Mr. Loh also resigned as a member of the Audit Committee and Nomination Committee with effect from 2 April 2012.

Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2012 and in 2013 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 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. Nicholas C. Allen and Mr. Vincent Cheng as members.

Responsibilities and Work Done

This Committee is responsible for the review of Board structure and composition, 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, and reviewing and monitoring the training and continuous professional development of Directors. The work performed by the Committee during the Relevant Period included:

- considering the nomination of Mrs. Fanny Law and Ms. Irene Lee as Independent Non-executive Directors with effect from 1 August 2012 and 15 October 2012 respectively;
- reviewing the current Board structure and composition;
- assessing the independence of all Independent Non-executive Directors, including Mrs. Fanny Law, Ms. Irene Lee and Mr. Nicholas C. Allen who retired and presented themselves for election / re-election by shareholders at the 2013 AGM;
- the review of the contribution required from a Director to perform his/her responsibilities and whether he/she has spent sufficient time performing them;
- reviewing the training and continuous professional development of Directors; and
- reviewing the follow-up actions arising from Board Evaluation Report 2012.

Membership of Finance & General Committee

Mr. William Mocatta (Chairman), Mr. V. F. Moore, Sir Rod Eddington, Mr. Nicholas C. Allen, Mr. Vincent Cheng, Mr. I. D. Boyce, Ms. Irene Lee, Mr. Andrew Brandler, 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 and business performance. 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 2011 and 2012;
- the CLP Group business plan and budget 2013-2017 and capital allocation reviews;
- placement of 5% of the issued share capital in December 2012;
- CLP Group cost of capital study;
- CLP's foreign exchange translation risk and counterparty exposures;
- the Company's funding requirement, undertakings, guarantees and indemnities;
- CLP's interest in development projects in China and India;
- CLP India Wind Business Review, including bids for wind power projects in India;
- China Wind Portfolio Performance;
- development of Fangchenggang Stage II;
- the impact of the Australia Yallourn mine flooding;
- status of discussions with ExxonMobil on their potential divestment in CAPCO;
- CLP Power's USD Hedging for Fuel Payments; and
- follow-up actions arising from Board Evaluation Report 2012.

Membership of Provident & Retirement Fund Committee

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

Responsibilities and Work Done

This Committee advises the Trustee on investment policy and objectives for the Group's retirement funds, namely the CLP Group Provident Fund Scheme and CLP Group Top-Up Scheme (the Schemes). During the Relevant Period, the Committee reviewed the position of the funds, monitored the performance of the investment managers and made recommendations on the appointments of the Schemes' officers.

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 2012, no current Director held directorships in more than five 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 2013 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 90 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.

Participation in Directors' Continuous Professional Development Programme in 2012				
	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
Non-executive Directors				
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	✓			
Mr. Peter P. W. Tse	✓	✓	✓	✓
Independent Non-executive Directors				
Mr. V. F. Moore	✓	✓	✓	✓
Professor Judy Tsui	✓	✓		✓
Sir Rod Eddington	✓	✓		
Mr. Nicholas C. Allen	✓	✓	✓	✓
Mr. Vincent Cheng	✓			✓
Mrs. Fanny Law ^(a)	✓	✓		✓
Ms. Irene Lee ^(b)	✓			✓
Executive Directors				
Mr. Andrew Brandler	✓	✓	✓	✓
Mr. Peter W. Greenwood	✓	✓	✓	✓
Company Secretary				
Mrs. April Chan ^(c)	✓	✓	✓	✓

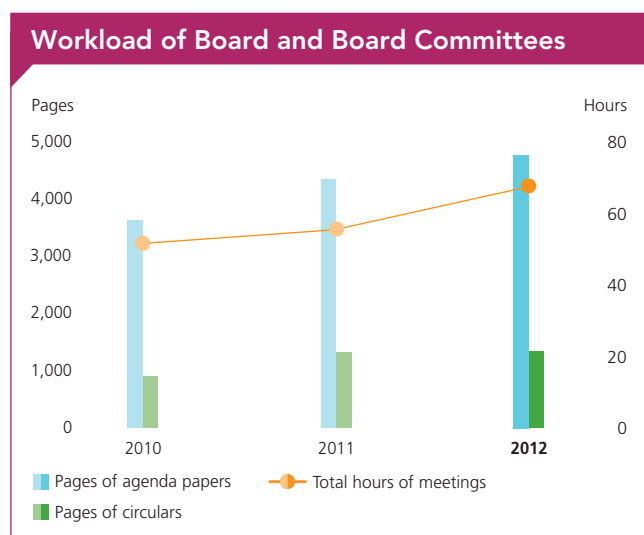
(a) A refresher induction was conducted for Mrs. Fanny Law who was re-appointed to the Board in August 2012 after her resignation in April 2012.

(b) An induction was conducted for Ms. Irene Lee who was newly appointed to the Board in October 2012.

(c) During 2012, Mrs. April Chan served as the Immediate Past President on the Council of The Hong Kong Institute of Chartered Secretaries and of Corporate Secretaries International Association and has exceeded the 15 hours of professional training requirement of the Listing Rules.

We have formal procedures for implementing and documenting the provision to Senior Management of training and continuous professional development.

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 submitted to Directors for review during 2012.



Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2012 are disclosed in the Directors' Report of this Annual Report at page 134. 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. The Code has recently been updated to reflect the inside information provisions under the Securities and Futures Ordinance and the Listing Rules. 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 2012 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 2013. The remuneration policy and fees paid to each Non-executive Director in 2012 are set out in the Human Resources & Remuneration Committee Report at page 124 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

Towards the end of 2011, the Board engaged an independent consulting firm, Spencer Stuart & Associates (HK) Ltd., to evaluate the performance of the CLP Holdings Board and Board Committees. The evaluation process was carried out through formal interviews with each Director. The evaluation covered the following areas: Board dynamics; organisation of the Board; roles and duties as Directors; Board composition; Board committees, Board involvement and engagement, communication with shareholders and stakeholders; and overall Board effectiveness. Spencer Stuart's findings, as summarised in their report to CLP, were that "CLP's corporate governance policies and processes are strong. They satisfy and/or exceed current Hong Kong Stock Exchange

Governance Code and Listing Rule requirements. Any exceptions to the Code are relatively minor, are recognised by the Company and are capable of being suitably explained.” A copy of Spencer Stuart’s conclusions has been published on the CLP website. The Board considered the full report from Spencer Stuart at its meeting on 15 October 2012 and agreed that this should be a reference for further improvements in Board effectiveness. For example, each Board Committee has examined the recommendations in the report which relate to their specific terms of reference with a view to considering effective adoption. Board performance will be evaluated on an ongoing basis with an independent evaluation every three years. 

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 assisting 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 periodically. 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. During 2012, there were 8 cases of whistleblowing. None of these involved Directors or Senior Management or was material to the Group’s financial statements or overall operations.

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 Director & Chief Financial Officer, Director – Group Legal Affairs and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2012, there were 14 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 eight managers, whose biographies are set out on page 92) 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 2012 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 two Executive Directors in the Directors' Report at page 134 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 2012.

Members of Senior Management are paid in line with market practice and with regard to their performance. The principles and details of the remuneration of individual members of Senior Management are set out in the Human Resources & Remuneration Committee Report at page 124 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 22 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 2012, 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:

	2012 HK\$M	2011 HK\$M
Audit	39	42
Permissible non-audit services		
Due diligence and accounting / tax advisory services relating to business developments	14	2
Other services	6	4
Total	59	48

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. Similar controls are implemented at our subsidiaries.

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 fullest 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. Whenever internal control disciplines fall short of those envisaged by Sarbanes-Oxley these will be remedied.

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 tests 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 October 2012, a new digital Group Internal Control System was introduced for managers to complete their representation letters. This has enhanced the promptness and thoroughness in completion of the General Representation Letter process with a view to bringing material issues, if any, to the CEO and CFO’s attention in a timely manner.

Corporate Governance Report

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 111. 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 five times a year, and reports annually to the Board on such reviews. In respect of the year ended 31 December 2012, 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.

Inside Information


With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately it is the subject of a decision;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Hong Kong Stock Exchange in 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 inside 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 also published Continuous Disclosure Obligation Procedures which formalised the current practices for monitoring developments in our businesses for inside information and communicating such information to our shareholders, the media and analysts. These Procedures were updated in December 2012 in light of the inside information provisions under the Securities and Futures Ordinance and the Listing Rules. These are on the CLP website. [▶](#)


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 2012 online Sustainability Report, published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2012 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. 

A detailed account of CLP's different channels of communication with our Shareholders is set out in the "Shareholder Value and Engagement" section at page 17 of our Annual Report. The Board has delegated to the Audit Committee the responsibility to review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.

Reporting via Internet

The CLP website is a major channel for providing 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 and Disclosure

We contribute to the ongoing debate about corporate governance in Hong Kong through frequent and active participation in seminars and workshops. We also make a point of responding to every public consultation by the regulatory authorities on proposed reforms. For example in 2012 we submitted our views on issues as diverse as amendments to the Companies Ordinance, board diversity, trading halts, inside information disclosure, ESG reporting guide and regulation of sponsors. We always post our submissions on our website so that shareholders can judge whether we have properly reflected their views and their interests. [▶](#)

Our own corporate governance practices evolve, not only in line with local requirements, but through our own experience and by reference to international developments. Through this Corporate Governance Report, the CLP Code and the Corporate Governance section of our website, we offer a full view of our practices and policies and how these are evolving. Our objective is that, at all times, our corporate governance meets our shareholders' expectations and serves their interests. [▶](#)

By Order of the Board



April Chan

Company Secretary

Hong Kong, 25 February 2013



Board engagement – Mr. William Mocatta, Vice Chairman and Mr. R. J. McAulay, Non-executive Director, visiting Castle Peak Power Station