

# CORPORATE GOVERNANCE REPORT

## CLP's Corporate Governance Framework


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

We use a Corporate Governance Framework to 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 and other stakeholders 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. 

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 September 2013, 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 UK 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. 
- ✓✓ We conduct a regular 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. 
- ✓✓ 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 joint ventures and associates.
- ✓✓ 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, which cover financial and relevant non-financial information.
- ✓✓ 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 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. 

## Evolution of CLP's Corporate Governance in 2013

**In 2013, 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:**

- Enriched the composition of the Board by inviting Dr Rajiv Behari Lall, a renowned Indian investment banker, to join the CLP Holdings Board as an additional Independent Non-executive Director.
- Adopted a Board Diversity Policy which will be periodically reviewed by the Nomination Committee.
- Set a 10% cap on the price discount for any new shares to be issued under the General Mandate to issue shares. Such cap will be submitted to shareholders for their approval at the forthcoming Annual General Meeting (AGM) of the Company.
- Reviewed and updated the Procedure for Gifts & Entertainment.
- Included relevant non-financial information in the personal certification of compliance by the CEO and CFO in the annual General Representation Letter.
- Strengthened the working relationship between the CLP Holdings Audit Committee and the EnergyAustralia Audit & Risk Committee, including an open invitation for both Committee members to attend each other's meetings.
- Enhanced interactions between the CLP Holdings Human Resources & Remuneration Committee and the EnergyAustralia Nomination & Remuneration Committee, including providing forward guidance on EnergyAustralia's remuneration policy.
- Held our first-ever ESG webcast on 11 April 2013 to explain our performance in ESG dimensions and how this contributed to our financial performance. The recording of the [webcast](#) is available on CLP's website. 
- Enhanced our reporting on ESG issues against the ESG Reporting Guide issued by the Hong Kong Stock Exchange.
- Published on the CLP website the [CLP Group Community Investment, Sponsorship and Donation Policy](#). 
- Provided training on the implementation of the Continuous Disclosure Obligation Procedures to CLP's management, subsidiaries and joint ventures.
- Contributed our views on corporate governance issues by responding to formal Consultation Papers issued by the Hong Kong Stock Exchange and the International Integrated Reporting Council.
- Continued to undertake corporate governance roadshows to exchange views with institutional investors and international experts in corporate governance.

## 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 27 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 2013 and has continued to maintain such a float as at 27 February 2014.

Pursuant to the Hong Kong Companies Ordinance and our Articles of Association, a General Meeting of shareholders can be convened by the Board or a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders having a right to vote at that meeting, stating the general nature of the business to be dealt with at the meeting, and deposited at the Company's registered office in Hong Kong at 8 Laguna Verde Avenue, Hung Hom, Kowloon.

The most recent Extraordinary General Meeting (EGM) was convened by the Board and held on 22 January 2014 at the Kowloon Shangri-La, Hong Kong to consider the proposed acquisitions of a further 30% interest in Castle Peak Power Company Limited (CAPCO) and the remaining 51% interest in Hong Kong Pumped Storage Development Company, Limited (PSDC). The items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Approval of the CAPCO Acquisition Agreement and the PSDC Acquisition Agreement and the transactions contemplated therein, and authorisation of Directors of the Company to do such things or acts to give effect to such transactions (99.7588%); and
- Election of Mr Richard Lancaster and Dr Rajiv Lal as Directors of the Company (99.0343% and 99.8758% respectively).


Notwithstanding the approval of the CAPCO Acquisition Agreement and the transactions contemplated therein, completion of the CAPCO Acquisition is subject to China Southern Power Grid obtaining approvals from the relevant regulatory bodies in the PRC. Completion of the PSDC Acquisition is in turn inter-conditional on completion of the CAPCO Acquisition. A further announcement will be made by the Company in relation to the completion of the Acquisitions as and when appropriate.

The procedures for shareholders to put forward proposals at our AGM or any General Meeting 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 the nature of the meeting and the type of resolution. The relevant procedure to propose a person other than a Director of the Company for election as a director is 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 our AGM or any General Meeting](#) are available on our website or on request to the Company Secretary. 

The most recent AGM was held on 30 April 2013 at the Hong Kong Polytechnic University, Kowloon, Hong Kong. The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Election of Mrs Fanny Law and Ms Irene Lee and re-election of The Honourable Sir Michael Kadoorie, Mr Paul Theys, Mr Andrew Brandler and Mr Nicholas Allen as Directors of the Company (97.9597% to 99.6816% in respect of each individual resolution);
- Revised levels of remuneration payable to the Non-executive Directors including Independent Non-executive Directors who serve on the Board and Board Committees of the Company for each of the financial years of 2013, 2014 and 2015, effective 1 May in respect of each year (99.9913%);
- General mandate to Directors to issue additional shares in the Company, not exceeding five per cent of the issued share capital (General Mandate) (81.3604%); and
- General mandate to Directors to purchase shares in the Company, not exceeding ten per cent of the issued share capital (Share Repurchase Mandate) (99.9971%).


All resolutions put to shareholders at the most recent EGM and AGM were passed. The results of the voting by poll of the 2013 AGM and the EGM have been published on CLP's website and the website of the Hong Kong Stock Exchange.

The full proceedings of the 2013 AGM and the EGM can be viewed on the "Corporate Governance" section of the Company's website. [Minutes](#) of the 2013 AGM and the EGM were also published on the Company's website. 

In 2013, in response to a concern raised by institutional investors over 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 executed, CLP discontinued the practice to seek for shareholders' mandate to Directors to aggregate the number of shares repurchased to the total number of shares which can be issued under the General Mandate to issue shares. Our proposal to discontinue this practice has received positive feedback from shareholders, as evidenced by the increase in the percentage of votes cast in favour of the General Mandate at the AGM from 76% in 2012 to 81% in 2013.

Some institutional investors have indicated to us that they would vote against a general mandate to issue shares if no price discount cap is imposed on the mandate. It is worth noting that setting a cap on the price discount of new shares to be issued under the general mandate aligns with international best practice. Accordingly, the Board has proposed a 10% cap (rather than 20% as limited under the Listing Rules) on the price discount for any new shares to be issued under the General Mandates to be sought at future AGMs unless and until there is a material change in circumstances or market condition. This proposal will be submitted to shareholders for their approval at the forthcoming 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 [cosc@clp.com.hk](mailto:cosc@clp.com.hk) or by questions at General Meeting.

## 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 and 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 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 2013, 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.

### Board Composition

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 the Executive Director) are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board includes eight 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 and their biographies are given on pages 110 and 111 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 110) are not considered as independent, due to their association with the Kadoorie Family, who have a substantial interest (35.01%) 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 2013, Mr Paul Theys, a Non-executive Director who was at the time also the Chairman of ExxonMobil (China) Investment Co., Ltd. and ExxonMobil Hong Kong Ltd., declared interests on two occasions and withdrew from the relevant discussions at the Board meetings with regard to the acquisitions of a further 30% interest in CAPCO and the remaining 51% interest in PSDC as well as the fuel mix strategy for the Hong Kong electricity business.

The Company follows guidelines 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.

In addition, identified significant related party transactions are disclosed in Note 32 to the Financial Statements of the Annual Report.

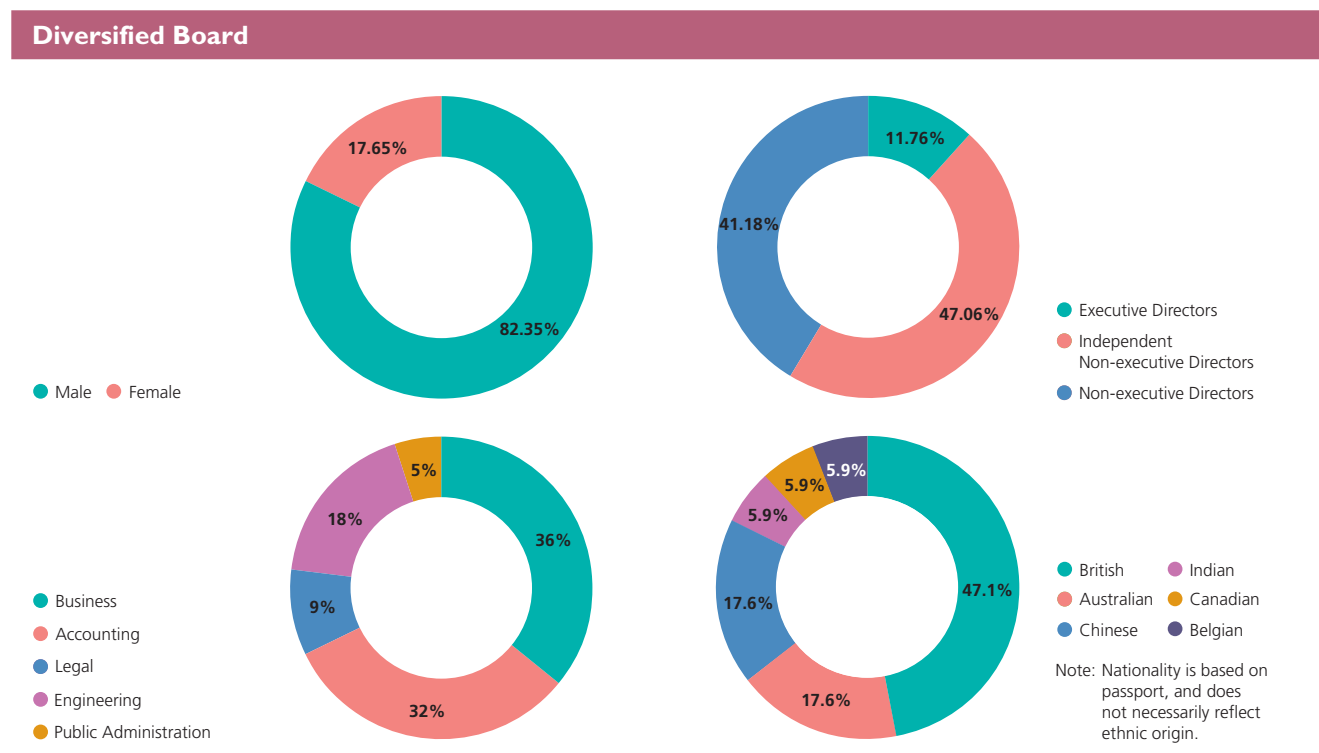
Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-executive Director of his/her independence to the Company. The Company considers all of the Independent Non-executive Directors to be independent.



Mr William Mocatta, Vice Chairman, hosts a shareholders' visit at Good Kitchen, a social enterprise

## Board Diversity Policy

CLP has had a longstanding policy of diversity in board appointments as reflected in the current composition of the Board which is characterised by significant diversity, whether considered in terms of gender, nationality, professional background and experience, as shown in the following illustrations:



The Board formally adopted a Board Diversity Policy in August 2013 which seeks to record, more formally, CLP's policy on board diversity and to recognise the terms of the relevant new code provision of the Stock Exchange Code which came into effect on 1 September 2013. CLP's Value Framework emphasises our respect for people and diversity. This Policy is just one example of the wider application of our Value Framework. We believe that board diversity enhances decision-making capability and a diverse board is more effective in dealing with organisational changes and less likely to suffer from group thinking. We recognise that board diversity is an essential element contributing to the sustainable development of the Company. The objectives of this Policy are, with the support of our shareholders, to have a Board which

- is characterised by a broad range of views arising from different experiences when discussing business;
- facilitates the making of informed and critical decisions; and
- has sustainable development as its core value,

and thus promotes the interests of all our stakeholders, particularly the long-term interests of our shareholders, fairly and effectively.

For the purpose of this Policy, CLP considers the concept of diversity incorporates a number of different aspects, such as professional experiences, business perspectives, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service. The achievement of these objectives is measurable on an objective review by shareholders of the overall composition of the Board, the diversity of background and experience of individual directors and the effectiveness of the Board in promoting shareholders' interests.

Recognising directors are appointed by shareholders, not the Board or the Company, merit and competence to serve the Board and hence shareholders remains the first priority. In order for shareholders to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support, we shall continue to provide sufficient information to shareholders about the size, qualifications, characteristics etc. of each individual Board member and therefore, the Board as a whole.

The [Policy](#) is available on the CLP website. [\[Link\]](#)

The Nomination Committee has been charged with the review of the Board Diversity Policy on a periodic basis. The Nomination Committee believes that the approach of review of the Policy may take the form of an analysis of the Board in the different aspects of diversity as set out above having regard to the sustainable development of the Company, supplemented with shareholders' feedback on the diversity of the Board and its overall effectiveness in promoting shareholders' interests.

### 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 2013 are set out in the following table. The overall attendance rate of Directors at Board meetings was 90.6% (2012: 94.6%).

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

(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, AGM and EGM.

(c) In addition to the annual meeting, review and approval of nomination of Directors' appointment is by circulars to all the members of the Nomination Committee. The Committee has also reviewed by circular the independence of Independent Non-executive Directors, Directors' time commitment and Directors' continuous professional development.

(d) Mr Peter P. W. Tse retired as a Non-executive Director after the conclusion of the 2013 AGM held on 30 April 2013.

(e) In addition to attending Board Committee meetings, Sir Rod Eddington participated in the review and approval of matters dealt with by circulation to the relevant Board Committees. There were two such occasions in the Human Resources & Remuneration Committee and seven such occasions in the Finance & General Committee in 2013.

(f) Dr Rajiv Lall was appointed as an Independent Non-executive Director and a member of the Finance & General Committee with effect from 13 August 2013.


(g) Mr Richard Lancaster was appointed an Executive Director and a member of the Finance & General Committee and the Sustainability Committee with effect from 3 June 2013. He was appointed the CEO to succeed Mr Andrew Brandler and was appointed the Chairman of the Sustainability Committee with effect from 30 September 2013.

(h) After stepping down as the CEO on 30 September 2013, Mr Andrew Brandler remains employed in a limited capacity by the Company until 31 March 2014 in order to be available to provide advice to the new CEO and support a smooth transition.

(i) Mr Peter W. Greenwood retired as an Executive Director and a member of the Finance & General Committee and the Sustainability Committee on 19 May 2013.



## Board Committees

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during 2013 and in 2014 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. 



### Audit Committee

Details of the Audit Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Audit Committee Report at page 144 of this Annual Report.

### Human Resources & Remuneration Committee

Details of the Human Resources & Remuneration Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Human Resources & Remuneration Committee Report at page 150 of this Annual Report.

### Sustainability Committee

Details of the Sustainability Committee, including its membership, terms of reference and work done during the Relevant Period are set out in the Sustainability Committee Report at page 147 of this Annual Report.

## 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, reviewing and monitoring the training and continuous professional development of Directors, and reviewing the Board Diversity Policy. The work performed by the Committee during the Relevant Period included:

- considering the nomination of Dr Rajiv Lall as an Independent Non-executive Director with effect from 13 August 2013;
- reviewing the current Board structure and composition;
- endorsing the approach of review of the Board Diversity Policy and its disclosures;
- assessing the independence of all Independent Non-executive Directors, including Dr Rajiv Lall who retired and was elected by shareholders at the EGM and Sir Rod Eddington who will retire and present himself for re-election by shareholders at the 2014 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; and
- reviewing the training and continuous professional development of Directors.

## Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr V. F. Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms Irene Lee, Dr Rajiv Lall, Mr I. D. Boyce, Mr Richard Lancaster, Mr Andrew Brandler, Mrs Betty Yuen, Mr Richard McIndoe, Mr Mark Takahashi and Mr Geert Peeters.

## 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 2012 and 2013;
- the CAPCO and PSDC Acquisitions;
- SoC Interim Review, 2014-2018 Development Plan and 2014 Tariff Review;
- the CLP Group Business Plan and Budget 2014-2018;
- 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 Group Forecast Earning & Credit Metrics;
- Jhajar – Financing;
- CLP India – Paguthan Power Plant PPA Renegotiation;
- renewable energy projects in the Chinese mainland and India;
- divestment of Boxing Biomass Project;
- updates on EnergyAustralia, including Business Plan, Yallourn Industrial Action and employee consultation on Wallerawang Power Station;
- additional Energy Import from Guangdong Daya Bay Nuclear Power Station;
- transfer of 139-147 Argyle Street; and
- follow-up actions arising from Board Evaluation Report 2012.

## Membership of Provident & Retirement Fund Committee

Mr William Mocatta (Chairman), Mr Mark Takahashi, Mr Geert Peeters 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, made recommendations on the appointments and removals of the Schemes' trustee, administrator and sub custodian, and reviewed follow-up actions arising from Board Evaluation Report 2012.

## 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 2013, no current Director held directorships in more than six 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 2014 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 110 of this Annual Report and on CLP's website. [🔗](#)

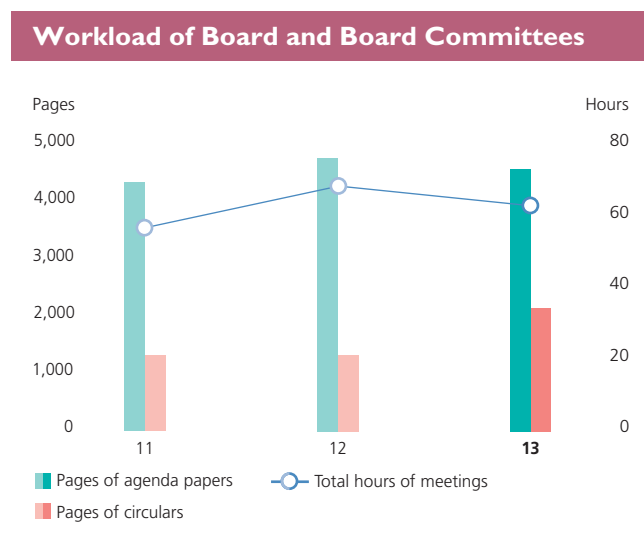
As part of the continuous professional development programme, Directors participated in the Shareholders' Visit Programme, various briefings and visits to local management and CLP's facilities, as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the Directors. 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 2013				
	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	✓	✓	✓	✓
Professor Judy Tsui	✓	✓	✓	✓
Sir Rod Eddington	✓	✓		
Mr Nicholas C. Allen	✓	✓	✓	✓
Mr Vincent Cheng	✓	✓	✓	
Mrs Fanny Law	✓	✓	✓	✓
Ms Irene Lee	✓	✓	✓	
Dr Rajiv Lall <sup>(a)</sup>	✓	✓		✓
<b>Executive Directors</b>				
Mr Richard Lancaster	✓	✓	✓	✓
Mr Andrew Brandler	✓	✓	✓	✓
<b>Company Secretary</b>				
Mrs April Chan <sup>(b)</sup>	✓	✓	✓	✓

(a) An induction was conducted for Dr Rajiv Lall who was newly appointed to the Board in August 2013.

(b) During 2013, Mrs April Chan served as the 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.

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 2013.



### Directors' Interests

The interests in CLP's securities held by Directors as at 31 December 2013 are disclosed in the Directors' Report of this Annual Report at page 160. 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 statutory and 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 2013 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. In assessing potential candidates for the Board, the Nomination Committee considers the diversity perspectives, as set out on page 120. Notwithstanding the diversity perspectives, all appointments to the Board are based on merit, having regard to the ability of candidates to complement and expand the skills, knowledge and experience of the Board as a whole.

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 first general meeting following their 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 UK 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 2013 are set out in the Human Resources & Remuneration Committee Report at page 150 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 Richard Lancaster 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. A copy of [Spencer Stuart's conclusions](#) has been published on the CLP website. During 2013, management has put forward the various recommendations of Spencer Stuart's Report to the

relevant Board Committees or the Board itself for review and implementation as appropriate. Directors agreed that performance evaluation of the Board as a whole and its Board Committees for 2013 would be conducted internally in the form of a questionnaire, with a focus on the review of the implementation of the recommendations of the Spencer Stuart's Report in 2012. A summary of the findings will be disclosed in the next published report. Board performance will be evaluated on an ongoing basis with an independent evaluation every three years. [🔗](#)

### Company Secretary

The post of Company Secretary is held by Mrs April Chan who was named 2013 Asian Company Secretary of the Year by Corporate Governance Asia. 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.

To facilitate the sharing of information, coordination of resources and activities at Group level and serve as a consultation point for decisions which are material for the CLP Group, a Group Executive Committee comprising the most senior executives (as listed on page 113) and the Company Secretary is in place under the chairmanship of 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 2013, there were 14 cases of whistleblowing.

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, Group General Counsel & Chief Administrative Officer and Director – Group Human Resources, in order to ensure the consistency and fairness of treatment. During 2013, there were 12 breaches of the Code. Sanctions applied ranged from reprimands to dismissal. No breaches of the Code were material to the Group's financial statements or overall operations. One case involved a senior manager of a subsidiary. 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 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 2013 they complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.

Save for the interests disclosed by Mr Richard Lancaster and Mr Andrew Brandler in the Directors’ Report at page 160 of this Annual Report, the interest in 10,600 shares disclosed by the Group Director – Operations, the interest in 600 shares each respectively disclosed by the Managing Director – CLP Power Hong Kong, the Managing Director – China and the Director – Group Human Resources, the other members of the Senior Management did not have any interests in CLP Holdings’ securities as at 31 December 2013.

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 150 of this Annual Report.

We have a formal procedure in place for reporting the training and continuous professional development of Senior Management. Whilst we recognise that the majority of personal development comes from on-the-job experience, we also encourage members of Senior Management to supplement this through a variety of training activities. These include selective nominations to formal executive development programmes at leading business schools, attendance at executive briefings on matters of topical interest, and access to on-line learning and information sources. We also make selective use of systematic and independent executive assessment processes in order to help identify individual development needs and provide inputs to our succession planning decisions.

#### Participation in Training and Continuous Professional Development of Senior Management in 2013

	Attending formal executive development/training programme	Attending expert briefings/ seminars/ workshops/ conferences relevant to the business or their duties	Participating as speakers at events	Access to web based learning resources
<b>Senior Management</b>				
Mr Richard Lancaster		✓	✓	✓
Mrs Betty Yuen		✓		✓
Mr Mark Takahashi		✓	✓	✓
Mr Peter Littlewood		✓	✓	✓
Mr Richard McIndoe		✓	✓	✓
Mr Rajiv Mishra	✓		✓	✓
Mr Paul Poon <sup>(1)</sup>	✓	✓	✓	✓
Mr S. H. Chan <sup>(2)</sup>		✓	✓	✓
Ms Quince Chong <sup>(2)</sup>	✓	✓	✓	✓
Mr David Simmonds <sup>(2)</sup>	✓	✓	✓	✓
Mr Roy Massey <sup>(3)</sup>		✓		✓

Notes:

(1) Mr Paul Poon was appointed as a member of Senior Management on 30 September 2013.

(2) Mr S. H. Chan, Ms Quince Chong and Mr David Simmonds were appointed as members of Senior Management on 19 November 2013.

(3) Mr Roy Massey was appointed as a member of Senior Management on 9 December 2013.

## Internal Auditors

CLP's Group Internal Audit (GIA) 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 25 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 2013, GIA issued reports to Senior Management covering various operational and financial units of the Group, including joint venture activities outside Hong Kong. GIA 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 GIA 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:

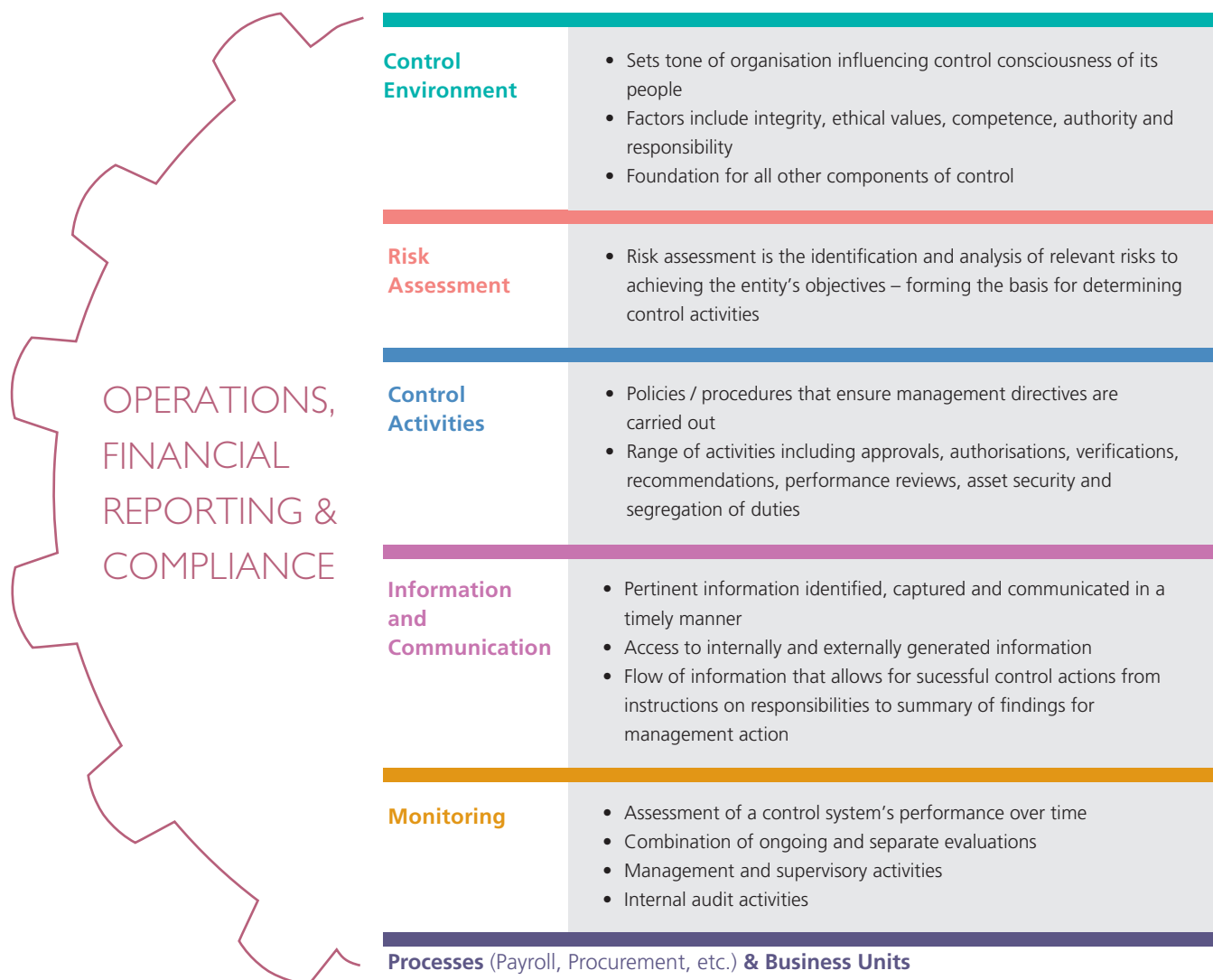
	2013 HK\$M	2012 HK\$M
<b>Audit</b>	<b>34</b>	<b>39</b>
<b>Permissible non-audit services</b>		
Due diligence and accounting/tax advisory services relating to business developments	7	14
Other services	5	6
<b>Total</b>	<b>46</b>	<b>59</b>

## 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. 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. The Audit Committee has reviewed the effectiveness of the implementation of the Whistleblowing Policy in 2013 and found no significant areas of concern.

No matter how well an internal control system is designed and maintained, it can only provide reasonable, but not absolute, assurance. No system of control can totally eliminate the possibility of human error or deliberate attempts to defraud the Company. Recognising this, we maintain an effective Internal Audit function, whose main features include:

- independence from operational management;
- fully empowered auditors with access to all data and every operation of the Group;
- adequate resources and well qualified and capable staff; and
- risk-based auditing, concentrating on areas with significant risks or where significant changes have been made.

### Control Processes

Upon the redemption of its “Yankee” bonds on 17 April 2006, the compliance obligations of CLP Power Hong Kong with the US 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 US 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, which cover financial and relevant non-financial information. 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.

The digital Group Internal Control System, which was introduced in 2012 for managers to complete their representation letters, 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.

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 135. The Audit Committee oversees the development and implementation of the Group Risk Management framework.



⚙ Sir Rod Eddington, Independent Non-executive Director, thanks staff during a visit to Castle Peak Power Station



### Control Effectiveness

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. GIA 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 GIA and management on the effectiveness of the Company's internal control system five times a year, and reports regularly to the Board on such reviews.

In June 2013 GIA undertook and completed a Post Implementation Review of EnergyAustralia's new billing and customer management system – Customer First (C1). A significant number of control issues in C1 were identified. The issues were reviewed by the CLP Holdings Audit Committee as well as the EnergyAustralia Audit & Risk Committee and are being actively addressed by management, including performing alternate substantive procedures to obtain an appropriate level of assurance over revenue related data, balances and transactions for 2013. Save for the control issues identified in C1 and Customer Operations, no other significant areas of concern that might affect shareholders were identified during the twelve months ended 31 December 2013. In respect of the year ended 31 December 2013, the Board considered the internal control system effective and adequate.


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 are on the CLP website. Training on the implementation of the Procedures has been provided to CLP's management, subsidiaries and joint ventures. 


### Integrated Reporting

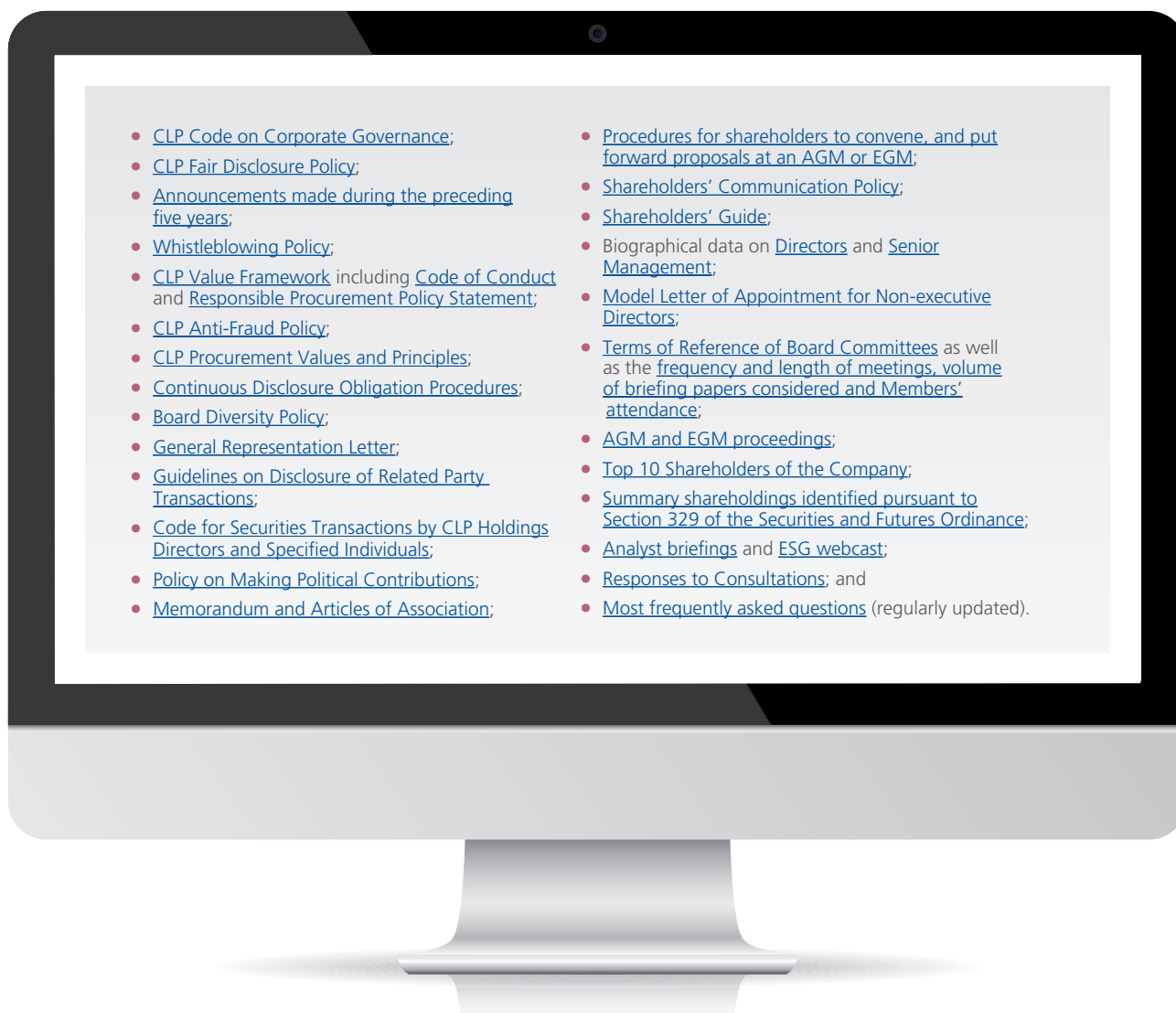
CLP aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible, and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep shareholders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


CLP's 2013 [online Sustainability Report](#), published at the same time as this Annual Report, describes in detail our delivery of social and environmental value in 2013 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 24 of our Annual Report. Pursuant to the authority delegated from the Board, the Audit Committee has reviewed the implementation of the Shareholders' Communication Policy in 2013 and considered the communication with Shareholders effective.

## 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 website information](#) listed above are available free of charge upon request to the Company Secretary. 

Corporate Governance



## 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 2013 we submitted our views on issues relating to connected transaction rules and definitions of connected persons and associate of the Listing Rules and the integrated reporting framework of the International Integrated Reporting Council. 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. 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 2014



 Party Secretary of Guangxi Zhuang Autonomous Region Peng Qinghua meets Mrs Fanny Law, Independent Non-executive Director