

## Message from the Company Secretary

CLP, in common with most businesses, is facing a number of strategic challenges created by climate change, a rapidly evolving competitive landscape and changing societal expectations regarding the role of business. In response to these global challenges we have seen a significant increase in interest in environment, social and governance issues, particularly from investors. We welcome this interest. At CLP, we believe that our long-standing commitment to high corporate governance standards and sustainable business practices serves us well in addressing these issues.

CLP has long recognised climate change as a key risk and opportunity for the business. In 2019, the Board and Sustainability Committee devoted considerable attention to the challenge of climate change ranging from general developments in this area to the specific impacts on the power sector and CLP. This culminated in the publication of our updated Climate Vision 2050 in which we have strengthened our climate commitments and provided further details of our transition plans. Under the guidance of the Sustainability Committee, we have also continued work on implementing the recommendations of the Task Force on Climate-related Financial Disclosures.

Following the enhancement of our Board Diversity Policy in early 2019, the gradual refreshment of the Board is underway. We have commenced an external search process to assist us identify potential successors with the objective of ensuring that we continue to have the best Board for the Company in the

years ahead. The refreshment process has also been extended to the membership of the Board Committees. The Board has made a number of new appointments to the Human Resources & Remuneration Committee, Sustainability Committee and Nomination Committee, all effective 1 January 2020, as well as the appointment of a new Chair for the Audit & Risk Committee and Human Resources & Remuneration Committee, effective immediately after the 2020 Annual General Meeting (AGM). Details of these changes can be found on page 122.

In 2019, we continued to take a forward-looking approach in enhancing our corporate governance practices. The external Board Review undertaken this year recognised a number of signature strengths of the Board and identified opportunities to further enhance the Board's contribution. An overriding theme of the review was how the Board could give even greater focus and attention to anticipating and shaping the long-term strategic agenda for CLP to ensure the Company is well placed to meet the challenges ahead.

This is a snapshot of CLP's key corporate governance initiatives in 2019. We will continue to evolve our corporate governance policies and practices to assist, anticipate and manage the challenges ahead.

**David Simmonds**  
Company Secretary

Signature Strengths of the CLP Holdings Board\*



A Board culture which reflects the Chairman's Values – integrity, a commitment to do what is right for shareholders and communities that CLP serves, respectful and cordial...”

“ CLP does an effective job in delegating key work to Board Committees. ”

“ The Board and Committees are run in a highly efficient manner. ”

“ Partnership between Board and Management - highly transparent and collaborative. ”

“ The CLP Board is best-in-class in its corporate governance role... ”

\*as identified by the independent consultant in the 2019 external Board Review

## 1 Board Refresh



- **Board Membership changes in 2019** – under our retirement age guideline in our Board Diversity Policy, Dr Y. B. Lee retired at the 2019 AGM and Ms May Tan and Mr Philip Kadoorie were elected at the AGM as Independent Non-executive Director and Non-executive Director, respectively.
- **Retirements in 2020** – Mr Vernon Moore and Mr Vincent Cheng will be stepping down from the Board at the 2020 AGM, Mr Moore who has reached the age of 72, and as Mr Cheng will turn 72 shortly after the 2020 AGM, they will retire from the CLP Holdings Board.
- **Ongoing refresh and search** – a search for new Non-executive Director will be undertaken with a view to refresh the Board and add value on emerging strategic issues.

## 2 Board Committees Changes



- **Board refresh and focus of the Board Committees** – the Nomination Committee endorsed changes to the composition of the Board Committees following the Committee's review of the Board Committees composition having regard to the retirement of Board Members and the evolving demands of the Board Committees. These changes were subsequently approved by the Board.
- **New appointments** – new appointments were made to the following Board Committees (effective 1 January 2020):  
Human Resources & Remuneration Committee – Mrs Fanny Law and Ms May Tan;  
Nomination Committee – Ms May Tan; and  
Sustainability Committee – Mr Philip Kadoorie.
- **New Committee Chair** – Mr Nicholas C. Allen will become the Chair of the Audit & Risk Committee and the Human Resources & Remuneration Committee at the conclusion of the 2020 AGM as Mr Vernon Moore and Mr Vincent Cheng will retire as a Board Member and the Chair of the respective Committees.

## 3 External Board Review



- **Continuous commitment on Board Review** – in 2018, an internal Board Review was conducted and one of the recommendations was for the external Board Review to expand to the Board Committee level; in 2019, a broadened external Board Review was undertaken.
- **A “Board Progression” approach was adopted** – the external Board Review was not an evaluation or audit of previous year's Board performance but a forward-looking analysis of how the Board could anticipate and shape the future of the Company and add value on key strategic issues. Practicable, actionable recommendations were made to shape CLP's future success.

## 4 Climate Change Governance



- **Climate Vision 2050** – the Board and Sustainability Committee spent considerable time in the consideration of the impact of climate change on CLP and the commitments set out in this publication; the Climate Vision 2050 has made a number of commitments including a pledge not to invest in any additional coal-fired generation capacity, to progressively phase out all remaining coal assets by 2050 and to strengthen the Climate Vision targets at least every five years – the Board and the Sustainability Committee will play an increasingly important role in the oversight of these commitments.
- **Task Force on Climate-related Financial Disclosures (TCFD)** – the Audit & Risk Committee and the Sustainability Committee have provided the governance support and oversight over the preparation of the TCFD; CLP recognises the importance of these voluntary disclosures and the expectations of CLP's stakeholders and has further expanded disclosures in line with the TCFD recommendations.

## The CLP Code: Compliance and more

The [CLP Code on Corporate Governance](#) (CLP Code) is our own unique code on corporate governance (available on our website or from the Company Secretary on request). It is a practical demonstration of our objective to take forward a corporate governance structure which builds on CLP's own standards and experience, whilst respecting the benchmarks set by The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange). [📄](#)

Our Code incorporates and goes beyond the principles of good corporate governance, and the two levels of recommendations in The Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities (the Listing Rules) issued by the Hong Kong Stock Exchange. The only exception to this however, concerns quarterly reporting, details of which are explained on page 114.

Our Code enables us to continue to monitor and develop our practices, ensuring that these are consistent with the practices and standards which our shareholders would expect of us. We have made **further enhancements to our corporate governance practices in 2019** and some of these are highlighted in **"2019 at a Glance"**.

### Areas in which our Code exceeds the Stock Exchange Code

#### Our Board

- The composition of the Board and the Audit & Risk Committee exceed the independence requirements under the Listing Rules.
- We conduct a regular evaluation of the Board and its Committees and a [summary](#) of the conclusions is published on the CLP website. [📄](#)
- We issue a formal letter of appointment for 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 have a set of bespoke CLP Onboarding Guidelines for Directors with the key objective of assisting new Directors in their understanding of CLP's business, governance and Board and Committee dynamics. The [Guidelines](#) are available on the CLP website. [📄](#)
- With the objective of minimising succession risk, the retirement age guideline in our Board Diversity Policy provides that where a Non-executive Director has reached the age of 72 at the time of the relevant AGM, the Director will not be considered for re-election. This applies to all Non-executive Directors other than the Chairman.
- The number of Board meetings exceed the requirements under the Listing Rules. Each year, we hold five Board meetings and in addition, the Chairman holds a separate meeting with the Non-executive Directors only and another meeting with the Independent Non-executive Directors only.

#### Our disclosure

- Our Fair Disclosure Policy sets out the principles for the broad and non-exclusionary distribution of information to the public.
- Our Continuous Disclosure Obligation Procedures guide the organisation in monitoring and disclosing potential inside information.
- The Continuous Disclosure Committee conducts regular assessment of potential inside information.
- Our Risk Management Report sets out CLP's risk management framework and how CLP manages the Group's material risks.
- We disclose our Senior Management's CLP shareholding interests and their confirmation of compliance with the Model Code and CLP Code for Securities Transactions, in addition to similar disclosures by our Directors.
- Our disclosure of financial information on the CLP Group's joint ventures and associates are enhanced in various ways such as the inclusion of off-balance sheet contingent liabilities.
- We issue individual reports for the Audit & Risk Committee, Sustainability Committee, Nomination Committee and Human Resources & Remuneration Committee.

- We announce our financial results within two months after the end of the financial year. We publish our full [Annual Report](#) and our [Sustainability Report](#) on our website within the following fortnight; the Annual Report will also be sent to shareholders about two weeks after that.  

### Our unique policies and practices

- CLP has established its own Corporate Governance Framework, the Value Framework and its own Code for Securities Transactions.
- We have formulated our own Anti-Fraud Policy (updated in June 2019) which stipulates our commitment to preventing, detecting and reporting fraud, bribery and extortion.
- General Representation Letters are issued by our CEO and CFO to the Audit & Risk Committee as verification of compliance.
- Shareholders' visits to CLP's facilities in Hong Kong are held throughout the year with an annual attendance of over 3,000 shareholders and their guests. This gives shareholders the unique opportunity to have a face-to-face engagement with management and to exchange views and feedback with members of our CLP Holdings Board and management.
- At our 2019 AGM, to broaden participation from shareholders unable to attend the physical meeting venue we opened an electronic platform for our shareholders to attend and participate in our AGM. Registered shareholders can view the proceedings in real time through a live broadcast and can pose questions and vote online.
- We conduct a group-wide Business Practice Review for our staff on a periodic basis to foster employees' understanding of our Code of Conduct under CLP's Value Framework. An important aspect of this is ensuring that our employees maintain a good understanding of CLP's culture and values.
- Under our Value Framework, we also have a Responsible Procurement Policy Statement. This sets out our expectations of the suppliers and of their suppliers and subcontractors and we encourage them to follow the same standards of integrity and transparency in doing business with us.
- Our Audit & Risk Committee will regularly examine the audit activity reviews conducted by the Internal Auditors. The Internal Auditors will highlight the significant events and findings which require the Committee's attention and further examination, where appropriate.
- Members of our Audit & Risk Committee will conduct a meeting as between Members only prior to the full Committee meeting attended by management and the auditors. The Committee meetings commenced with this meeting between Members only for the Committee meetings in June and July 2019 and in January and February 2020. This is in addition to the two meetings that the Committee holds with the independent auditor.

## Compliance with the Stock Exchange Code and the Environmental, Social and Governance (ESG) Reporting Guide

Throughout the year, the Company has met the Code Provisions and applied all the principles in the Stock Exchange Code. CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results.

### Our Considered Reasons for not Issuing Quarterly Financial Results

While CLP does issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major activities, we do not issue quarterly financial results for the following considered reasons:

- they do not bring significant benefits to our shareholders;
- they encourage a short-term view of the Company's business performance;
- CLP's activities do not run and need not be disclosed and judged on a three-month cycle; and
- preparation of quarterly reports is costly, including the opportunity cost of Board and management time spent on quarterly reporting.

Shareholders are invited to let us know if their views differ and we will review our position if there is a clear and justifiable demand from shareholders for quarterly financial reporting.

## CLP's Approach to ESG Reporting

### Governance Structure

- The CLP Board has overall responsibility for CLP's ESG strategy and reporting. This year, we have included in the Directors' Report a statement from the CLP Board on the governance of ESG issues and how CLP approaches and manages our material ESG issues (page 185).
- The governance of sustainability is integrated into our corporate governance structure throughout the Group. Set out below is CLP's Sustainability Governance Structure.



- Our highest governance body is the CLP Board, which plays a critical role in ensuring that our corporate governance best serves the Company's interest in building a sustainable business. Amongst the six Board Committees, the Sustainability Committee has a primary role in overseeing the management of the Group's sustainability issues and is supported by the Sustainability Executive Committee. The Audit & Risk Committee retains oversight and responsibility for short-term business risks and for the assurance of sustainability data.
- Further information about CLP's ESG management approach and strategy and how progress on ESG-related goals and targets are reviewed can be found in this Corporate Governance Report, the Risk Management Report, the Sustainability Committee Report and the Directors' Report of this Annual Report as well as in the [Sustainability Report](#) published at the same time as this Annual Report. 📄

### Reporting Principles & Boundaries

- Materiality – the materiality assessment process has been enhanced in 2018 to prioritise the material topics, which supported the development of a more focused [Sustainability Report](#) and the same key material topics identified last year remain relevant and are maintained in 2019. Fuller details on the materiality assessment is provided in the statement from the CLP Board on ESG in the Directors' Report. 📄
- Quantitative and Consistency – our ESG disclosures follow the Hong Kong Stock Exchange's ESG Reporting Guide (ESG Reporting Guide) and take an integrated approach under the <IR> guidelines published by the International Integrated Reporting Council (IIRC). This year, we advanced our disclosure in accordance with the recommendations by the TCFD. ESG KPIs are provided over a period of five years in the Five-year Summaries to facilitate comparison.
- Boundaries – as our business needs evolve, scenarios may arise where our previously defined reporting scope was not able to fully capture the material impact of our overall portfolio, and to better reflect the material impacts of our portfolio, selected reporting scopes will be adjusted in different aspects and these are explained fully in our [Sustainability Report](#). 📄

### ESG Information Disclosure in the 2019 Annual Report and Sustainability Report

- With the amendments to the ESG Reporting Guide and related Listing Rules that have yet to become effective for our 2019 Annual Report, CLP has adopted these, in particular, the “comply or explain” provisions set out in Part C of the ESG Reporting Guide. Details on how we report on these ESG issues in accordance with this new ESG reporting framework are set out below.
- In line with the Hong Kong Stock Exchange Reporting Principles for this new ESG reporting framework, we regard materiality as fundamental to our ESG reporting. Hence, as explained on page 115, our materiality assessment process enabled management to determine those material ESG topics to CLP.
- The following is a list of CLP’s material ESG topics by reference to the aspects in the ESG Reporting Guide and the corresponding disclosures can be found in the following sections of this Annual Report:

Environmental	
A1. Emissions A3. The Environment and Natural Resources	A4. Climate Change
<ul style="list-style-type: none"> <li>A Snapshot of CLP in 2019 (page 4)</li> <li>Chairman’s Statement (page 14)</li> <li>CEO’s Strategic Review (page 18)</li> <li>Business Performance and Outlook (page 38)</li> <li>Capitals (page 70)</li> <li>Financials (page 204)</li> </ul>	<ul style="list-style-type: none"> <li>A Snapshot of CLP in 2019 (page 4)</li> <li>Chairman’s Statement (page 14)</li> <li>CEO’s Strategic Review (page 18)</li> <li>Business Performance and Outlook (page 38)</li> <li>Capitals (page 70)</li> <li>Governance (page 100)</li> <li>Financials (page 204)</li> </ul>
Social	
B1. Employment B3. Development and Training	B2. Health and Safety
<ul style="list-style-type: none"> <li>A Snapshot of CLP in 2019 (page 4)</li> <li>Capitals (page 70)</li> <li>Financials (page 204)</li> </ul>	<ul style="list-style-type: none"> <li>A Snapshot of CLP in 2019 (page 4)</li> <li>Chairman’s Statement (page 14)</li> <li>CEO’s Strategic Review (page 18)</li> <li>Business Performance and Outlook (page 38)</li> <li>Capitals (page 70)</li> <li>Financials (page 204)</li> </ul>

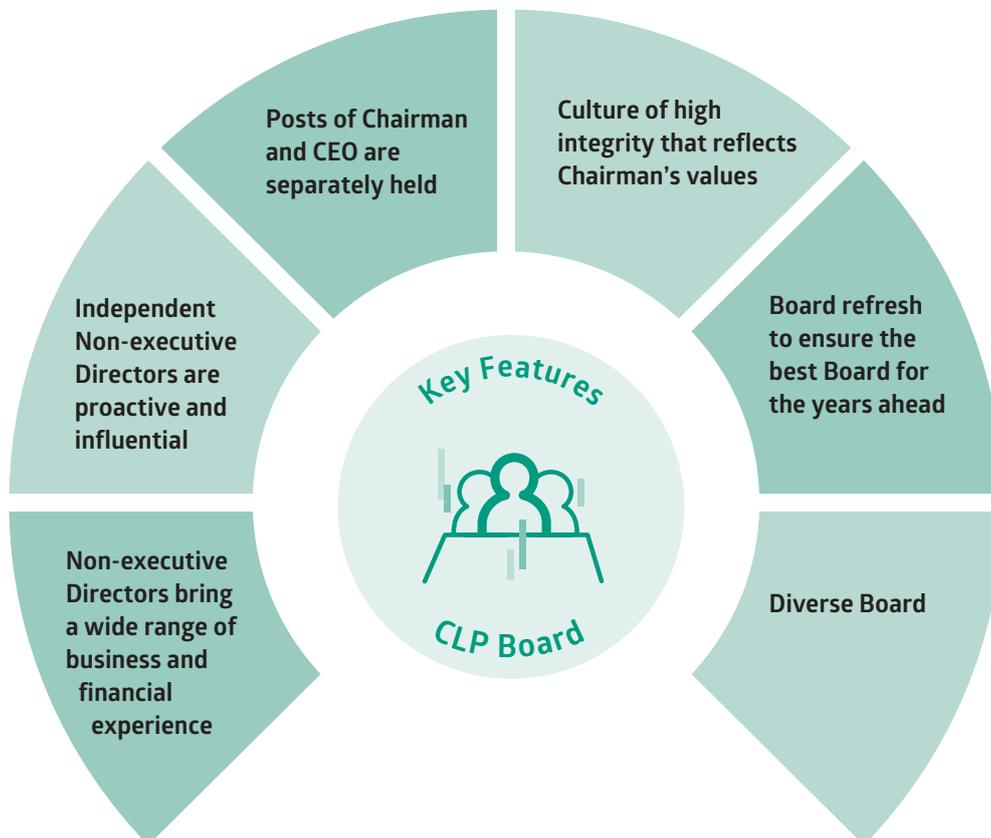
- From our materiality assessment process, there are various aspects that we regard as less material and we have not reported on to the fullest extent as provided in the ESG Reporting Guide. We appreciate that these aspects may be relevant to some of our stakeholders and our discussion on these topics can be found in the following sections of this Annual Report:

Environmental		
A2. Use of Resources		
<ul style="list-style-type: none"> <li>A Snapshot of CLP in 2019 (page 4)</li> </ul>	<ul style="list-style-type: none"> <li>Capitals (page 70)</li> </ul>	<ul style="list-style-type: none"> <li>Financials (page 204)</li> </ul>

Social	
B4. Labour Standards B5. Supply Chain Management	B7. Anti-corruption
<ul style="list-style-type: none"> <li>▪ Capitals (page 70)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Governance (page 100)</li> <li>▪ Financials (page 204)</li> </ul>
B6. Product Responsibility	B8. Community Investment
<ul style="list-style-type: none"> <li>▪ A Snapshot of CLP in 2019 (page 4)</li> <li>▪ Chairman's Statement (page 14)</li> <li>▪ CEO's Strategic Review (page 18)</li> <li>▪ Business Performance and Outlook (page 38)</li> <li>▪ Financials (page 204)</li> </ul>	<ul style="list-style-type: none"> <li>▪ A Snapshot of CLP in 2019 (page 4)</li> <li>▪ Chairman's Statement (page 14)</li> <li>▪ Business Performance and Outlook (page 38)</li> <li>▪ Capitals (page 70)</li> <li>▪ Financials (page 204)</li> </ul>

- Our [2019 Sustainability Report](#), which is published at the same time, captures in detail our delivery of social and environmental value in a rapidly changing environment and reports all aspects of our activities, prepared in accordance with the Core option of the Global Reporting Initiative's Sustainability Reporting Standards. 
- PricewaterhouseCoopers (PwC) have conducted limited assurance on selected ESG KPIs as set out in the Five-year Summaries on pages 300 and 301 of this Annual Report, in accordance with International Standard on Assurance Engagement 3000 (Revised), Assurance Engagement other than Audits or Reviews of Historical Financial Information, and, in respect of greenhouse gas emissions, International Standard on Assurance Engagement 3410, Assurance Engagement on Greenhouse Gas Statements, issued by the International Auditing and Assurance Standards Board. The [Sustainability Report](#) also includes an independent assurance report from PwC. 

## Our Board



### The Board's Roles and Responsibilities

Our Board plays a critical role in ensuring that our corporate governance best serves the Company's interest in building a sustainable business. Under the leadership of our Chairman, the Board cultivates good governance as the cornerstone of our corporate culture. To achieve this, the Board actively promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner.

Some of the key responsibilities of the Board include:

- setting the Group's values and standards;
- establishing and maintaining the strategic direction and objectives of the Group;
- overseeing the management of CLP's relationships with stakeholders, such as Government, customers, communities and others who have a legitimate interest in the responsible conduct of the Group's business;
- monitoring the performance of management;
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- ensuring the financial statements are prepared to give a true and fair view of the Group.

### How the Board Spent its Time in 2019

The Board recognises that effective oversight and leadership over the affairs of the Company are critical to promoting the success of the Company. This requires the Board to devote its attention to a well balanced mix of business performance monitoring as well as other important focus areas, such as, governance, strategy and engagement.

The following illustrates how the Board spent its time in 2019\*:



\* In determining the estimated time spent by the Board, we considered the number of agenda items related to the four key categories, time spent on discussing the relevant agenda items and the volume of supporting Board papers.

To provide further insights into these, the following is a highlight of the key matters covered under each category during 2019:

Governance and Risk (including compliance, risk management and internal controls)	
Board Committee composition	The Board is committed to refreshing the Board and recognises that this extends to the Board Committee level. The Board considered and reviewed the recommendations from the Nomination Committee on the proposed changes to the composition of the Board Committees. The Board then made several new appointments to the Human Resources & Remuneration Committee, Sustainability Committee and Nomination Committee, and the Board also appointed a new Chair for the Audit & Risk Committee and Human Resources & Remuneration Committee, all effective in 2020. Details of these changes can be found on page 122.

<p>Risk management and internal controls</p>	<p>The Group is operating in an increasingly complex and challenging environment. Against this background, the Board considered a broad range of selected topics from the perspectives of risks and controls for the Group, some of which were requested by Directors. Through the briefings, the Board gained a deeper understanding of these topics and the Board had the opportunity to impress upon management the importance of the relevant issues.</p> <p>The Board considered and analysed the following topics:</p> <ul style="list-style-type: none"> <li>▪ CLP Holdings Crisis Management System – Directors analysed the Board’s involvement in the event of a crisis;</li> <li>▪ Hong Kong political landscape – Directors openly discussed the potentially wide-ranging implications for the Hong Kong business;</li> <li>▪ cyber security – the Board gave their support and endorsement to the new group-wide strategic approach to the governance of cyber security;</li> <li>▪ health and safety – the Board inquired into the D1 CCGT Project safety performance and provided feedback to management and endorsed the progress of the CLP Health, Safety and Environment Improvement Strategy; and</li> <li>▪ super typhoon emergency management – the Board reviewed CLP Power Hong Kong’s capabilities to effectively manage, prepare and respond to a super typhoon such as Mangkhut and delved into the initiatives for further enhancements.</li> </ul>
<p>Audit &amp; Risk Committee activities</p>	<p>The Board delegates the review of financial statements and oversight of risk management and internal control systems to the Audit &amp; Risk Committee. To ensure that these duties are discharged effectively, the Board received the important overview from the Chairman of the Audit &amp; Risk Committee ahead of management’s presentation of the full year and half year financial statements.</p>
<p><b>Leadership and Strategy</b> (including matters relevant to the Group’s values, standards, strategic direction and objectives)</p>	
<p>External Board Review</p>	<p>As part of the external Board Review exercise, each of the Directors participated in an interactive one-on-one session with the consultants who we have partnered on this exercise. The Directors provided candid feedback and shared invaluable insights with the consultants and based on these, the consultants formulated their findings and recommendations. The full Board openly discussed the findings and considered each of the recommendations.</p>
<p>Climate change-related</p>	<p>The Board plays a leading role in the governance of climate change. CLP published the updated Climate Vision 2050 with a clear pledge to decarbonise CLP portfolio over time and the Board took great care in considering the publication, in particular, with respect to position statements, pledges and commitments.</p> <p>In the lead up to this publication, the Board analysed the Group’s strategy with respect to its portfolio in light of the positions and commitments set out in Climate Vision 2050 and Directors also attended a series of expert briefings covering different aspects of climate change.</p>

Digitalisation and innovation	Directors attended an expert briefing on how an established organisation such as CLP should approach digitalisation and innovation. The Directors were joined by members of the Senior Management and from the briefing, there was an open discussion on a number of key themes on this topic. These included determining and communicating the desired outcomes of the digital transformation, investing in people and developing a culture of continuous learning and adapting.
Chairman's sessions	<p>The Chairman has been holding an annual Non-executive Directors only meeting for a number of years. An additional Chairman's meeting with the Independent Non-executive Directors only was also held this year.</p> <p>These sessions are a unique forum for an open agenda discussion on matters of concern to the Group that the Non-executive Directors and Independent Non-executive Directors can raise with the Chairman. The discussions cover a wide range of topics that are pertinent to the Group including on issues of Board and management level leadership and Group strategy.</p>
<b>Performance Monitoring</b> (including consideration of projects and investments)	
Specific matters	<p>The Board actively monitored the latest developments for the Group's key markets and had detailed discussions with management on the challenges and opportunities for the different markets. The Board received and considered the following specific project presentations from management during 2019:</p> <p>Hong Kong – the Lantau Tomorrow Vision Project, Offshore LNG project and update on Hong Kong renewable energy development;</p> <p>Vietnam – status of the development of the Vietnam projects; and</p> <p>India – potential investment opportunities in renewable projects.</p> <p>The above topics are in addition to the specific briefing topics referred to in the "Risk management and internal controls" part.</p>
Regular updates	<p>The CEO's Report is a key regular briefing to the Board. The Board is provided with a comprehensive report on the Group as pre-read. At the Board meeting, the CEO would highlight the key issues on safety and business updates for each of the Group's markets and in addition, issues to look out for would also be brought to the Board's attention.</p> <p>The Board inquired into a broad range of issues and on occasions, the Board requested further detailed briefings to be presented to the Board.</p>
<b>Stakeholder Engagement</b> (including reporting and disclosure)	
CLP Power Hong Kong engagement initiatives	The Board recognised the significance of the recent developments in Hong Kong and Directors provided insightful contributions to management. The Board and management had an open exchange of views in the context of CLP Power Hong Kong's business engagement efforts and initiatives.
Public engagement	The Board received progress updates on the Hong Kong long-term decarbonisation public engagement. Directors provided feedback and recommendations to management on this process.
Annual Reports and Interim Report	The Board reviewed and approved the 2018 and 2019 Annual Reports and the 2019 Interim Report.
Quarterly statements	The Board acknowledged the publication of quarterly statements is one of the key channels to communicate and engage stakeholders to demonstrate our transparency in disclosure.

### Attendance at our Board meetings and the interaction between Senior Management and our Directors

The partnership between our Board and Senior Management is highly transparent and collaborative. Our Board meetings are typically attended by the following members of our Senior Management:

- Group Director & Vice Chairman – CLP Power Hong Kong – Mrs Betty Yuen;
- Managing Director – CLP Power Hong Kong – Mr Chiang Tung Keung;
- Managing Director – China – Mr Chan Siu Hung;
- Managing Director – India – Mr Rajiv Mishra;
- Managing Director – EnergyAustralia – Ms Catherine Tanna or in her absence, Mr Alastair McKeown, Chief Financial Officer – EnergyAustralia;
- Chief Operating Officer – Mr David Smales, who was appointed in October 2019 following the retirement of Mr Derek Parkin in September 2019;
- Group General Counsel & Chief Administrative Officer – Mr David Simmonds; and
- Chief Human Resources Officer – Ms Eileen Burnett-Kant, who was appointed in September 2019.

Our Board meetings are generally followed by or preceded by a luncheon hosted by the Chairman. This is typically attended by the Directors and members of the Senior Management who join the Board meetings and provides a good opportunity for Directors and Senior Management to interact with each other in an informal setting and to discuss a wide range of issues including those concerning the Group.

### Board Committees

The Board discharges some of its responsibilities through delegation, with appropriate oversight, to the respective Board Committees. The following section sets out and refers to the responsibilities and the work that each Board Committee undertook during 2019 and in 2020 up to the date of this Report (the Period).

#### Audit & Risk Committee

Full committee report on the work carried out is on page 152 and a notable focus for 2019 includes the [EnergyAustralia impairment assessment and review into various key risk factors](#)

#### Sustainability Committee

Full committee report on the work carried out is on page 160 and a notable focus for 2019 includes the [climate change-related developments](#)

#### Nomination Committee

Full committee report on the work carried out is on page 165 and a notable focus for 2019 includes the [external Board Review](#)

#### Human Resources & Remuneration Committee

Full committee report on the work carried out is on page 168 and a notable focus for 2019 includes the [executive remuneration governance and disclosure](#)

#### Finance & General Committee

See page 123

#### Provident & Retirement Fund Committee

See page 123

### Board Committees Refresh

The Board, with the support of the Nomination Committee, undertook a comprehensive review of the composition of the Board Committees. The review was approached with regard to the following factors: (a) the refresh of the Board composition; (b) the composition of the Committees has been stable in the past couple of years other than through Directors stepping off the Board; (c) the demands on the Committees evolving as regulation and business needs change over time; and (d) the impending retirement of Directors at the coming 2020 AGM.

The Nomination Committee recommended to the Board and the Board appointed new Members and Chairman in the manner set out below.

The following Directors joined the respective Committees with effect from 1 January 2020:

- Human Resources & Remuneration Committee – Mrs Fanny Law and Ms May Tan;
- Nomination Committee – Ms May Tan; and
- Sustainability Committee – Mr Philip Kadoorie.

In addition, Mr Nicholas C. Allen was appointed as the Chair of the Audit & Risk Committee and the Human Resources & Remuneration Committee. This appointment will take effect from the conclusion of the 2020 AGM as the current Chairs of the Audit & Risk Committee and Human Resources & Remuneration Committee, Mr Vernon Moore and Mr Vincent Cheng, respectively, will be retiring as Directors of the Company at the 2020 AGM.

Under the CLP corporate governance eco-system, the Board Committees play an important role on different aspects of corporate governance and these include:

- (a) developing and reviewing the Company's policies and practices on corporate governance (Audit & Risk Committee);
- (b) considering the nomination of qualified individuals for Director appointments and succession planning for Directors as well as reviewing the confirmations required from Directors as to whether they are spending sufficient time performing their responsibilities to the Company (Nomination Committee);
- (c) reviewing and monitoring the training and continuous professional development of Directors (Nomination Committee) and Senior Management (Human Resources & Remuneration Committee);
- (d) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements (Audit & Risk Committee);
- (e) reviewing and monitoring the Code of Conduct applicable to employees (Audit & Risk Committee);
- (f) reviewing the Company's compliance with the CLP Code and disclosure in the Corporate Governance Report (Audit & Risk Committee); and
- (g) overseeing the Company's ESG strategy and reporting (Sustainability Committee and Audit & Risk Committee).

Full details of the Committees' work are disclosed in the relevant sections for each of the Board Committees.

[Terms of reference and membership of all Board Committees](#) are disclosed in full on the websites of CLP and the Hong Kong Stock Exchange. They are also available upon request from the Company Secretary. [📄](#)

### Membership of Finance & General Committee

Mr William Mocatta (Chairman), Mr Vernon Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Ms May Siew Boi Tan, Mr Andrew Brandler, Mr Richard Lancaster, Mr Geert Peeters and Mrs Betty Yuen.

### Responsibilities and Work Done

This Committee reviews the financial operations of the Company which 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. In addition, the Committee reviews the implementation of the Company's strategy approved by the Board and the performance and business environment of the Company; and the Committee will also identify any matters that should be referred to the Board for review and further consideration.

The work performed by the Committee during the Period included the review and the consideration of the following matters:

- the Company's interim and annual results and the dividends payable to shareholders for the financial years ended 31 December 2018 and 2019;
- the CLP Group Business Plan and Budget 2020-2024;
- the 2020 tariff strategy for the Hong Kong business;
- potential investment in specific projects in China;
- the investment strategy of CLP India and the potential investment in specific projects in India;
- the progress and strategy of the Vietnam projects;
- the business update on the Group's SmartCharge joint venture;
- the business and strategic plan for CLPe Solutions;
- the CLP Group funding requirements and cost of capital study; and
- CLP's foreign exchange translation risk and counterparty exposures.

The nature of the work of the Committee includes the consideration of transactional items which may arise from time to time and require the review and approval by the Committee via circulation of papers on a time sensitive basis.

### Membership of Provident & Retirement Fund Committee

Mr William Mocatta (Chairman), 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.

During the Period, the Committee monitored the performance of the overall portfolio, the investment managers and operational efficiency. Education and communication are arranged for schemes members for better retirement planning.

## Directors' Attendance and Development

Our Directors attend to the affairs of the Group through their participation at the AGM, Board and Board Committee meetings and perusal of Board papers.

In 2019, seven Board meetings were held and the overall attendance rate of Directors at Board meetings was 94.51% (2018: 96.30%). Details of Directors' attendance at the AGM, Board and Board Committee meetings and development programmes in the year 2019 are set out in the following table.

	Board <sup>1</sup>	Audit & Risk Committee <sup>2</sup>	Finance & General Committee	Human Resources & Remuneration Committee	Nomination Committee	Sustainability Committee	Provident & Retirement Fund Committee	AGM <sup>2,3</sup>	Directors Development Programme*
<b>Non-executive Directors</b>									
The Hon Sir Michael Kadoorie	6/7 <sup>(C)</sup>				2/2			1	A, B, C
Mr William Mocatta	6/6 <sup>(VC)</sup>		6/6 <sup>(C)</sup>	3/3			2/2 <sup>(C)</sup>	1	A, B, C
Mr J. A. H. Leigh	6/6							1	A, C
Mr Andrew Brandler	6/6		4/6			3/3		1	A, B, C
Mr Philip Kadoorie	6/6							1	A, B
Dr Y. B. Lee <sup>5</sup>	1/1							1	N/A
<b>Independent Non-executive Directors</b>									
Mr Vernon Moore	7/7	6/6 <sup>(C)</sup>	5/6	2/3				1	A, B, C
Sir Rod Eddington	7/7		6/6					1	A, B
Mr Nicholas C. Allen	7/7	5/6	5/6	2/3	2/2 <sup>(C)</sup>	3/3		1	A, B, C
Mr Vincent Cheng	7/7		6/6	2/3 <sup>(C)</sup>	2/2			1	A, B
Mrs Fanny Law	7/7	6/6				3/3		1	A, B, C
Mrs Zia Mody <sup>6</sup>	5/7			2/3				0	A
Ms May Siew Boi Tan	7/7	6/6	4/6			3/3		1	A, B, C
<b>Executive Directors</b>									
Mr Richard Lancaster	5/5		6/6			3/3 <sup>(C)</sup>		1	A, B, C
Mr Geert Peeters <sup>7</sup>	3/5		4/6				1/2	0	A, B, C

Notes:

- 1 Included (a) an annual meeting where the Chairman met Independent and other Non-executive Directors in the absence of the Executive Directors and management; and (b) an annual meeting where the Chairman met with the Independent Non-executive Directors only.
- 2 Representatives of the independent auditor participated in every Audit & Risk Committee meeting and the AGM.
- 3 Independent Non-executive Directors were available to take shareholders' questions specifically addressed to them during the AGM (of which there were none).
- 4 Chairmen of the Board and Board Committees and the Vice Chairman of the Board are indicated by (C) and (VC) respectively.
- 5 Dr Y. B. Lee retired as a Non-executive Director with effect from the conclusion of the 2019 AGM held on 6 May 2019.
- 6 Mrs Zia Mody was unable to attend the 2019 AGM due to overseas commitments.
- 7 Mr Geert Peeters took a period of sick leave between April and September in 2019.

### \* Directors Development Programme

All Directors participate, at the Company's expense, in continuous professional development and training, with appropriate emphasis to develop and refresh their knowledge on industry-related updates. Our Directors Development Programme includes:

- A** – reading regulatory and industry-related updates, with one of the focus in 2019 being ESG Governance and Reporting;
- B** – meeting with local management and stakeholders, including hosting shareholders' visits (2019 Shareholders' Visit Programme) and visiting CLP's facilities and special projects with CLP's involvement, with further details as set out in the section of "Visits" on page 125; and
- C** – attending expert briefings/seminars/conferences relevant to the business or director's duties. In 2019, our Directors attended a series of briefings on climate change. In addition, they have access to Chatham House (a leading independent policy institute based in London) publications and the opportunity to attend Chatham House events on topics relevant to our business.

### **Onboarding for new Directors**

The Company has in place a set of Onboarding Guidelines with the key objective of assisting new Directors in their understanding of CLP's business, governance and Board and Committee dynamics. This sets out a structured onboarding process that would serve as a roadmap for new Directors to gain a better understanding of CLP and our business environment.

Our Onboarding Programme for the newly appointed Directors is individually designed with the specific Director in mind having regard to the Director's unique background, skills, experience and perspective. Components of our Onboarding Programme include:

- an introduction session;
- face-to-face and one-on-one meetings with the Chairman of the Board, Chairmen of the Board Committees and the Senior Management who work closely with the Board and Board Committees;
- access to information that provides a broad overview of the CLP Group;
- invitation to attend Board Committee meetings to assist with the understanding of the work carried out by various Board Committees; and
- visits to the major facilities of CLP and / or special projects with CLP's involvement.

Mr Philip Kadoorie continued with his bespoke Onboarding Programme by attending one-on-one meetings with Chairmen of Board Committees and the Senior Management and visiting various CLP facilities. Those visits provided a good opportunity to exchange and interact with the frontline management in understanding the different aspects of the Group's developments.

### **Visits**

The Chairman of the Board, The Hon Sir Michael Kadoorie along with Mr Philip Kadoorie held a number of engagement sessions with the younger generation of the Hong Kong based staff. These sessions were in an open dialogue forum and there was an interactive exchange of views on a range of issues. The Chairman and Mr Kadoorie greatly valued the candid discussions with colleagues from different background and profession and from these dialogues, they developed a deeper understanding of the next generation, their culture and their aspirations.

The Vice Chairman of the Board, Mr William Mocatta along with Mr Philip Kadoorie visited the Hong Kong-Zhuhai-Macao Bridge Substation in May 2019. The officiating of the substation civil completion marked an important milestone for CLP's support to the development of Hong Kong boundary crossing facilities and the Tuen Mun-Chek Lap Kok Link Tunnel. Mr Mocatta also visited CLP Power Learning Institute Shatin Campus to experience the latest learning solutions and digital learning technologies.

In 2019, Mr Richard Lancaster, as a member of the Innovation Governance Committee, paid a visit to the Smart Energy Connect team at the CLP Innovation Hub in Hong Kong Science Park. The visit provided insights into three areas of potential growth for the business: Decarbonisation, Decentralisation and Digitalisation.

In addition, Mr Andrew Brandler, Mr Nicholas C. Allen, Mrs Fanny Law, Ms May Tan, along with Mr Richard Lancaster as members of the Sustainability Committee visited the CLP Innovation Hub for a comprehensive briefing and showcase of the Innovation Team's initiatives, ventures and Smart Energy Connect platform.

Sir Rod Eddington visited the Black Point Power Station and exchanged views with the senior management at the operational level on the major projects of CLP Power Hong Kong. He also visited the CLP Power landfill gas power generation project in West New Territories (WENT) as well as SmartHub@CLP in Hong Kong.

Mr Vernon Moore, Mr Nicholas C. Allen and Ms May Tan visited the Yangjiang nuclear plant and met with the senior local management team of the power plant. They were briefed on a number of aspects of the plant including safety, power sales market for nuclear generation, emergency drill and the ongoing construction of unit 6.

Mr Nicholas C. Allen, Mrs Fanny Law and Ms May Tan, all of whom are Independent Non-executive Directors, attended a three-day visit to EnergyAustralia. Such offsite visits enable Directors to obtain first-hand information of the local operations.

### **Monthly Management Reports**

The Board is regularly kept up-to-date on key events, outlook, safety and environmental matters of the Group through the CLP Group Monthly Management Reports. The Management Report gives a balanced and updated assessment of the Company's performance, position and prospects in sufficient detail and includes year-to-date financials as well.

### Directors' Time and Directorship Commitments

With the growing complexity of the business of the CLP Group and heightened regulatory and compliance requirements, our Directors, Non-executive Directors in particular, are well aware that they are expected to have a sufficient time commitment to the Board. Directors have given certain confirmations and made disclosures about their other commitments.

- **Sufficient time and attention** – Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year.
- **Other offices and commitments** – Directors disclose to the Company twice a year the number, identity and nature of offices held in Hong Kong or overseas listed public companies and organisations and other significant commitments, together with an indication of the time involved.
- **Other directorships** – None of our Directors, individually, held directorships in more than six public companies (including the Company) as at 31 December 2019.

Our Executive Directors do not hold directorship in other public companies; however, they are encouraged to participate in professional, public and community organisations.

In respect of those Directors who stand for re-election at the 2020 AGM, all their directorships and board committees membership held in listed public companies in the past three years are set out in the Notice of AGM. [Other details of the Directors' biographies](#) are set out under "Board of Directors" on pages 102 to 107 of this Annual Report and on CLP's website. 

## Board Evaluation – External Board Review

CLP is committed to undertake a performance evaluation of the Board on an ongoing basis. This year, the evaluation took the form of an external Board Review and we partnered with Korn Ferry for this exercise.



### Selection process – Korn Ferry

A rigorous selection process was put in place for the appointment to ensure that the consultant would be independent and most suited for the exercise. A tender selection process was conducted by our procurement team and a panel including the Chair of the Nomination Committee, our CEO and our Company Secretary was formed to assess the candidates. From a shortlist of three internationally leading consultants, Korn Ferry was appointed as our independent partner to conduct this year's external Board Review.



### Approach to the external Board Review exercise

Building from the Board's experience with prior externally facilitated reviews, this year's exercise was designed to be forward-looking. As illustrated in the below diagram, Korn Ferry adopted a board progression framework which focused on two critical roles of the Board; and the impact of the Board was reviewed against the six dimensions set out below. Taking on the feedback from the last internal Board survey, this year's exercise was expanded to cover the role of the Board Committees.

#### 2 Critical Roles



#### 6 Dimensions





### Review process

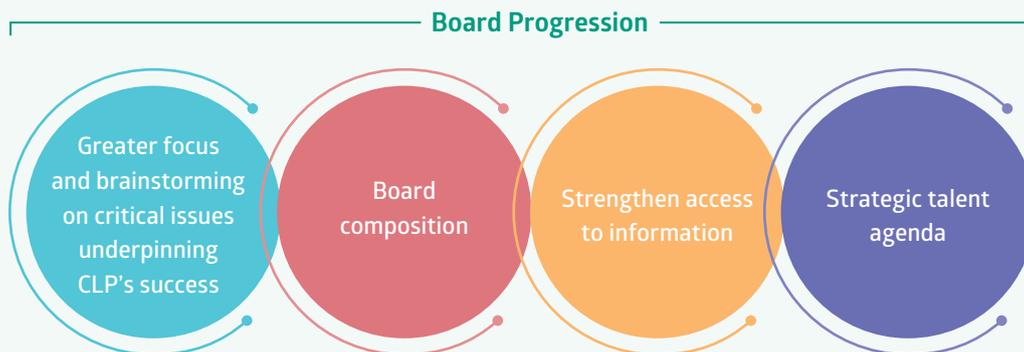
The dedicated one-on-one dialogue between Korn Ferry and each of our Directors and Senior Management was a fundamental part of the review exercise. In preparation for this, Korn Ferry was provided with access to past Board papers and Board evaluation findings and the Nomination Committee Chair, our CEO and Company Secretary held meetings with Korn Ferry to discuss the preparation for the one-on-one sessions with the Directors. For the one-on-one sessions, Directors and Senior Management who participated in this exercise were provided with a questionnaire in advance to guide the discussions.

Based on the insights and feedback, Korn Ferry formulated their findings and recommendations. These were discussed with the Company Secretary in the first instance and subsequently, a set of interim findings and recommendations were then formally presented to the Nomination Committee where the Committee Members shared their observations with Korn Ferry on their recommendations. This was an important process to ensure that the final recommendations would be practical and actionable by the Board and at the same time, without affecting the independence or the integrity of the final findings and recommendations. Korn Ferry's final report with the findings and recommendations were then presented to the Board. After deliberating on the issues covered, the Board received and adopted the report. Korn Ferry's [summary report of the external Board Review](#) can be found on CLP's website. [📄](#)



### The findings and recommendations

The signature strengths of our Board identified by Korn Ferry are highlighted in the "2019 at a Glance" section of this Report. In addition, the 2019 Board Review identified the following opportunities for the Board to enhance its contribution:



The Board has accepted the recommendations and will adopt a number of initiatives to implement these. They include the format for the Board Strategy review session that will be held later in 2020 and strengthening the Sustainability Committee's role on overseeing the impact on the Group's strategy of longer-term emerging sustainability issues. Access to Board Committee papers will be granted on a Director request basis, a Non-executive Director search will be undertaken with a focus on candidates who can add value on emerging strategic issues and a preliminary plan to review the approach to the strategic talent agenda was underway.

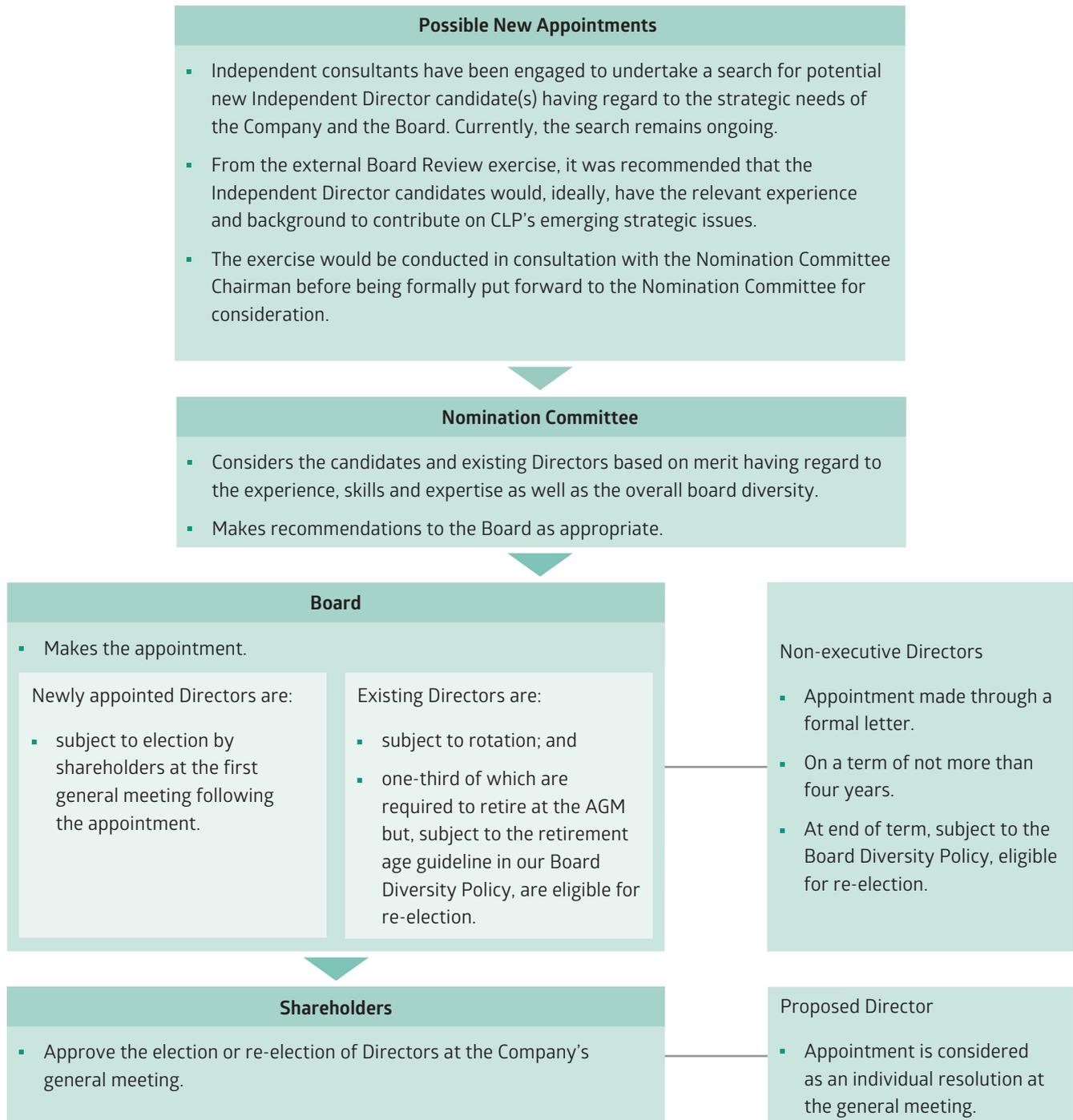
Looking ahead, in light of the pace of change in the external environment, the Board recognised that there should be a greater focus and dialogue on anticipating and shaping the future. With the recommendations gained from the 2019 Board Review, our Board will continue with the progression journey and drive the implementation.

### Nomination and Appointment of Directors

For the appointment of new Directors, CLP assesses the needs and follows a formal, considered and transparent procedure. CLP's Nomination Policy is disclosed in the Nomination Committee Report on page 165.

#### CLP's process for appointing a Director

The diagram below presents the approach used by CLP to appoint our Directors. Recently, the process has been fine-tuned with the use of search consultants for Non-executive Directors and this is highlighted below.



# Why Board Diversity is Important to CLP

We recognise that Board diversity is an essential element contributing to the sustainable development of CLP.

The CLP Board Diversity Policy was adopted by the Board in 2013 and incorporated Code Provisions of the Stock Exchange Code. Our revised Policy was approved by the Board in February 2019. Among the changes introduced are the retirement age guideline (at age 72) for our Non-executive Directors (other than the Chairman) designed with the specific needs of CLP in mind, and the CLP Group Diversity and Inclusion Policy for Senior Management and Staff.

Our concept of diversity incorporates a number of different aspects, such as independence, professional experiences, business perspectives, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service.

Our Board Diversity Policy also recognises that board diversity can be achieved without increasing the size of the Board and that a reduction in board size due to retirements without replacement can also be a way to further diversity.

The [CLP Board Diversity Policy](#) is available on the CLP website.

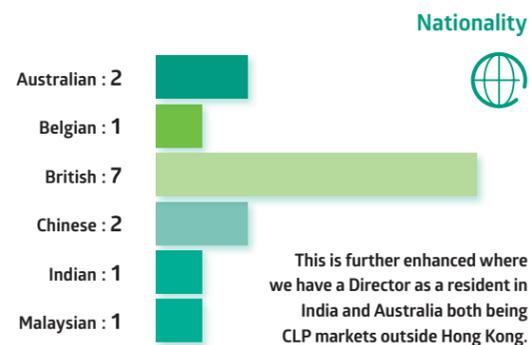
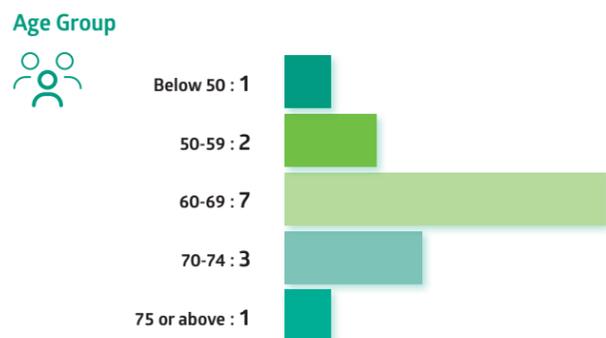
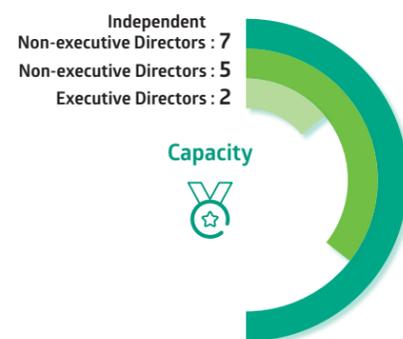
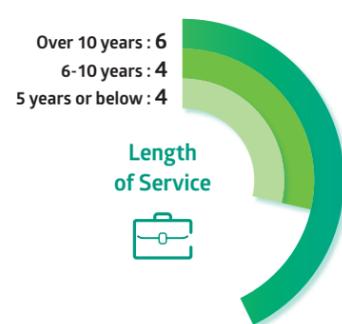
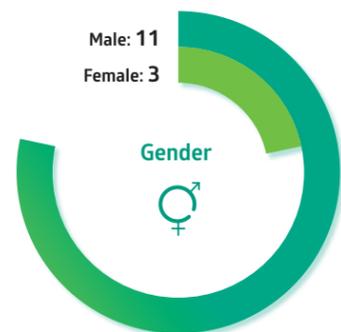
## The Values in Board Diversity

- Enhances decision-making capacity
- Improves effectiveness in dealing with organisational changes
- Reduces likelihood of group thinking
- Contributes to sustainable development

## How is this Relevant to our Shareholders

- The Nomination Committee reviews the Board Diversity Policy periodically
- Shareholders approve the election and re-election of Directors
- Directors and the Board are responsible for promoting the shareholders' interests
- Shareholders need to be satisfied with the level of board diversity
- We are committed to providing shareholders with sufficient information to assess our board diversity

## Board Composition & Diversity



## Board Expertise

To ensure the Board continues to possess a balance of skills appropriate for the requirements of the business of the Group, an analysis of the skill set mix was considered by the Nomination Committee.

The table below highlights the breakdown of the skill set mix of our Directors and demonstrates the broad and diverse mix of experience and background relevant to CLP that the Directors bring to the Board and its Committees.

Expertise	Relevance to CLP	No. of Directors (Full Board of 14)
<b>CLP market experience</b> (Hong Kong / Mainland China / India / SEA & Taiwan / Australia)	Facilitates the review of CLP's business and financial operations and investments in the respective region	14
<b>Related industry experience</b> (Infrastructure / Power / Property / Retail)	Facilitates the review of CLP's business operations and investment opportunities in the related industries	14
<b>Technology</b>	Provides insights into the technological developments and the governance of cyber risks	4
<b>Global market experience</b>	Provides insights into the global economic trends and opportunities that CLP can explore	14
<b>Other industries</b>	Brings in other expertise that are applicable across different industries	11
<b>Other listed board roles</b>	Brings in good practices as a board and / or board committee member of listed companies	13
<b>Board / board committees leadership</b>	Board and governance leadership experience are regarded as a strategic asset to the Board and Board Committees	8
<b>Risk &amp; compliance</b>	Risk and compliance are key governance responsibilities of the Board	12
<b>Company executive</b>	Provides insights into executive leadership and the management of CLP's business and operations	8
<b>Public administration</b>	Brings in experience in the areas of governance and stakeholder engagement	1
<b>Professional</b>	Brings in oversight, advisory and operational experience in the respective field of profession	10
<ul style="list-style-type: none"> <li>Engineering</li> </ul>		3
<ul style="list-style-type: none"> <li>Legal</li> </ul>		2
<ul style="list-style-type: none"> <li>Accounting</li> </ul>		6

Note: Multiple professional background and experience may apply to a Director.

## Assessment Results of Diversity

The Board is characterised by its strong independence and diversity.



The percentage of Directors having served on the Board for over 10 years has reduced to 42% from 47%



The percentage of Directors aged 70 or above is on a downward trend



The Board is reasonably diverse in terms of nationality, with resident Directors in countries where CLP has major business and operations



Gender diversity (female representation) maintained at a high level amongst Hong Kong listed companies



Representation of Executive Directors in the Board remained at a relatively low level



Representation of Independent Non-executive Directors maintained at a high level

## Disclosure of Conflict of Interest and Independence of Directors

### Conflicts

Directors are requested to declare their and their connected entities' direct or indirect interests, if any, in proposals or transactions to be considered by the Board at Board meetings and withdraw from the meetings as appropriate. In 2019, none of the Directors were required to withdraw from meeting in these circumstances.

The Company follows guidelines at each financial reporting period to obtain confirmations from Directors in respect of any transactions of the Company or its subsidiaries which are related to Directors or their connected entities.

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

### Independence

As required under the Listing Rules, the Company received written confirmations from all of the Independent Non-executive Directors regarding the independence of each of them and their immediate family members.

Among the Independent Non-executive Directors of the Company, three of them hold cross-directorships with other Directors:

- both Mr Vincent Cheng and The Hon Sir Michael Kadoorie serve on the boards of the Company and CK Hutchison Holdings Ltd.; and
- both Mr Nicholas C. Allen and Ms May Tan serve on the boards of the Company and Link Asset Management Ltd.

Given that each of Mr Vincent Cheng, Mr Nicholas C. Allen and Ms May Tan plays a non-executive role and holds less than 1% of the number of issued shares in each of the relevant companies, the Company considers that such cross-directorship would not undermine their independence with respect to their directorships at CLP Holdings.

### Our view on independence

The Company is of the view that a Director's independence is a question of fact and this is formally recognised in the Board Diversity Policy. The Board is committed to assessing this on an ongoing basis with regard to all relevant factors concerned. Some of these factors include: the ability to continually provide constructive challenge for management and other Directors and to express one's own views independent of management or other fellow Directors and the gravitas inside and outside the boardroom context. The Company has seen these attributes and behaviour having been demonstrated by our Independent Non-executive Directors as circumstances require.

Taking into account all of the circumstances described in this section, the Company considers all of the Independent Non-executive Directors to be independent.

Details of all [Directors](#) and their biographies including, if any, relationship between the members are disclosed on pages 102 to 107 and on our website. [📄](#)

### Directors' Shareholding Interests

Directors' interests in CLP's securities as at 31 December 2019 are disclosed in the Directors' Report on page 184. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2019 they have complied with the required standard set out in the Model Code and our own Code for Securities Transactions. CLP's own Code for Securities Transactions is largely based on the Model Code set out in Appendix 10 of the Listing Rules and is on terms no less exacting than those in the Model Code.

## Management and Staff

CLP recognises the importance of diversity not just at the Board level but throughout the CLP Group. Our respect for people and diversity are embedded in CLP's Value Framework and our Board Diversity Policy has also incorporated the CLP Group Diversity and Inclusion Policy for Senior Management and Staff.

One of the key tasks of CLP's management and staff is the successful implementation of strategy and direction as determined by the Board under the leadership of our Chairman. This includes promoting and "living" the good corporate culture set by our Board over the years. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board, CLP's shareholders and other stakeholders, and these have been documented in our Code of Conduct.

### Role of Management and Staff in Promoting Good Corporate Governance Practices

The positions of Chairman and CEO are separate, our CEO has the overall responsibility for carrying out the strategy and direction set by the Board and for managing the Group's business. The delegation of authority by the Board to the Committees, Senior Management and management are prescribed in the form of a "Company Management Authority Manual".

Management and staff adhere to various Group policies that reflect the values and corporate culture of CLP.



Our Management and Staff are subject to CLP Securities Dealing Restrictions.

- We appreciate that some of our staff may in their day-to-day work have access to potentially inside information.
- Our Senior Management and selected members of staff, "Specified Individuals", are subject to securities dealing restrictions in our CLP Code for Securities Transactions.
- Securities Transactions: All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2019 they have complied with the required standard set out in the Model Code and CLP Code for Securities Transactions.
- Shareholding in CLP shares: Save for the interest disclosed by the CEO in the Directors' Report on page 200 and the interest in 600 shares disclosed by the Managing Director – China, the other members of the Senior Management did not have any interests in CLP Holdings' securities as at 31 December 2019.

## Senior Management Training and Development

We have a formal procedure in place for reporting the training and continuous professional development of Senior Management. Members of Senior Management have access to a variety of training activities. These include access to online learning and information sources, formal executive development programmes at leading business schools and attendance at executive briefings on matters of topical interest provided through our strategic partnerships with organisations such as Chatham House, École Polytechnique Fédérale de Lausanne, IMD and LUX Research. We also make selective use of systematic and independent executive assessment and coaching processes to assist with identifying individual development needs and provide input to our succession planning decisions.

Participation in Training and Continuous Professional Development of Senior Management in 2019				
Senior Management	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
Mr Richard Lancaster		○	○	○
Mr Geert Peeters		○	○	○
Mr David Smales <sup>1</sup>		○		○
Mr David Simmonds <sup>2</sup>	○	○	○	○
Ms Quince Chong		○	○	○
Ms Eileen Burnett-Kant <sup>3</sup>		○		○
Mrs Betty Yuen		○	○	○
Mr Chiang Tung Keung	○	○	○	○
Mr Chan Siu Hung		○	○	○
Mr Rajiv Mishra				○
Ms Catherine Tanna		○	○	○

Notes:

- 1 Mr David Smales joined CLP and was appointed a member of Senior Management on 1 October 2019.
- 2 During 2019, Mr David Simmonds, the Company Secretary, served as the Vice President, the Vice-Chairman of the Membership Committee, the Chairman of the Company Secretaries Panel, a member of the Technical Consultation Panel and leads the Competition Law Interest Group of The Hong Kong Institute of Chartered Secretaries. He was also a frequent speaker at seminars and has fulfilled the relevant professional training requirements under the Listing Rules.
- 3 Ms Eileen Burnett-Kant joined CLP and was appointed a member of Senior Management on 3 September 2019.

### Shareholders

Shareholders are one of our key stakeholders and from a corporate governance perspective, the importance of the key elements of the relationship can be illustrated as follows:

#### Shareholders' Rights

- Shareholders have a set of rights including to receive declared dividends and to vote and attend general meetings.
- Shareholders also have [the right to convene general meetings and to put forward proposals](#) – details of which can be found in our explanatory notes to the 2020 Notice of AGM and on our website or on request. [🔗](#)
- Shareholders can make enquiries with the Board through the Company Secretary via our shareholders' hotline (852) 2678 8228, email at [cosec@clp.com.hk](mailto:cosec@clp.com.hk) or by posing questions at our general meetings.

#### Our Responsibilities to Shareholders

- The Board and Senior Management recognise their responsibilities to represent the interests of our shareholders as a whole.
- Our goal is to create long-term sustainable value for shareholders; for further details, please refer to the "Shareholder Value" section of this Annual Report.

#### Other key shareholder information:

- by type and aggregate shareholding – see page 23
- year-end CLP shares public float – see page 23
- coming important dates – see page 27

#### Our AGM – an important event for our shareholders

- is attended by our Directors, Senior Management and our independent auditor;
- includes a keynote address by our Chairman;
- since 2004, allows resolutions to be voted on by poll (instead of show of hands), the results of which are announced on the same day;
- since 2019, is broadcast live online for our shareholders, providing them with the option of attending or joining our AGM online in addition to the traditional physical attendance at our AGM;
- introduces electronic voting system in 2019 for enhancing efficiency in vote counting process;
- provides an opportunity for our shareholders to raise questions in a dedicated interactive Q&A session; and
- minutes including the Q&A session are published after the meeting.

At our 2019 AGM held on 6 May 2019 at the Grand Ballroom, Level 2, Kerry Hotel, Hong Kong, 38 Hung Luen Road, Hung Hom Bay, Kowloon, Hong Kong, this was well supported by our shareholders with:

- an attendance of about 1,900 shareholders participating in person or online; and
- a high level of votes approving the following major items:
  - the election and re-election of Directors ranging from about 96% to over 99%;
  - the revised levels of remuneration payable to the Non-executive Directors (over 99%); and
  - the general mandate to issue new shares of up to 5% of shares in issue only, at a price not being at a discount of more than 10% to a benchmarked price and to repurchase shares of not more than 10% shares in issue (over 99%).

## Communication with Shareholders

At CLP, the importance of an effective dialogue with shareholders and investors has been recognised with the implementation by the Board of a [Shareholders' Communication Policy](#), which is published on our website. This Policy forms the basis for extensive and ongoing engagement with our shareholders and the investment community. [📄](#)

### Multiple channels of communication and engagement

Our approach to shareholders communication and engagement:

Channels	2019 Highlights
<b>Annual General Meeting</b> (Led by Chairman and attended by CLP Holdings Board, Senior Management and management team)	<ul style="list-style-type: none"> <li>Chairman keynote speech</li> <li><b>A hybrid AGM – a first for Hong Kong listed company</b></li> <li>Average attendance in the past five years: <b>over 1,700 shareholders</b></li> <li><b>about 1,900 shareholders</b> attended in 2019</li> <li>High voting approval rate on resolutions considered</li> </ul>
<b>2019 Investor Meetings</b> (Led by CEO, CFO and Director – Investor Relations)	<ul style="list-style-type: none"> <li>Over <b>200 investor meetings</b></li> <li><b>Non-deal roadshows</b> in Asia, Europe and North America</li> <li><b>One of our Independent Non-executive Directors joined an investor meeting as requested by the investor shareholder organisation</b></li> </ul>
<b>2019 Shareholders' Visits</b> (Hosted by representatives of CLP Holdings Board, Senior Management and management team)	<ul style="list-style-type: none"> <li><b>86 tours</b></li> <li><b>3,077 shareholders</b> and guests</li> <li>6 Family Day Tours</li> <li>6 Saturday Half-day Tours</li> <li>7 Saturday Tours</li> <li>71 Board and management lunch hosts</li> </ul>
<b>2019 Analyst Briefings</b> (Led by CEO, CFO and Director – Investor Relations and attended by investment community)	<ul style="list-style-type: none"> <li>Covering the Company's <b>interim and annual results</b></li> <li><b>A dedicated analyst briefing call</b> was conducted immediately following the release of a CLP Holdings profit warning announcement</li> </ul>
<b>Reports and Announcements</b>	<ul style="list-style-type: none"> <li>Annual Reports, Interim Reports and <a href="#">Sustainability Reports</a> </li> <li>Quarterly statements</li> <li>Announcements and media releases</li> </ul>
<b>CLP Website</b> 	<ul style="list-style-type: none"> <li><a href="#">AGM videos and minutes</a></li> <li><a href="#">Policies and codes</a></li> <li>Updates of <a href="#">recent financial information and latest investor information</a></li> <li><a href="#">Analyst briefings materials</a></li> </ul>

These channels allow us to receive feedback from our shareholders and investment community. In addition, we have the shareholders' hotline as well as dedicated investor relations and company secretary email accounts for taking enquiries and for receiving information requests from shareholders.

### *Reviewing and enhancing shareholders communication*

The Audit & Risk Committee is responsible for regularly reviewing the effectiveness of the Shareholders' Communication Policy. The most recent review was undertaken in October 2019 and the effectiveness of the Policy was confirmed.

We strive to further enhance the effectiveness of our communication with our shareholders, by undertaking a number of key measures in this area:

- Conducting our 2019 AGM as a hybrid AGM

To encourage shareholders' participation at our AGM, we have provided shareholders with the option of attending or joining our AGM online. Our registered shareholders attended our 2019 AGM online with the right to vote and submit questions online. Our non-registered shareholders joined our 2019 AGM online as observers and were invited to submit questions online.

- Broadening our Shareholders' Visit Programme

The theme of our 2020 programme is "Building a Utility of the Future". To cater for a larger number of younger visitors, we will continue with the "Family Day Tour" during the summer holidays and "Saturday Half Day Tour". Meanwhile, we launched a "Shareholder Referral Scheme" in late 2019 to broaden the shareholder visitor base so that more of our stakeholders can participate in this unique and meaningful programme catered specifically for our shareholders.

- Strengthening our engagement with institutional investors

We communicate with institutional investors on CLP's performance and corporate governance practices on an ongoing basis:

- a series of meetings were held where our CEO and/or CFO met with equity analysts and institutional investors;
- investor briefings for our 2018 Annual Results and 2019 Interim Results were well attended in person and through the webcast;
- engagement with proxy advisors and institutional investors were conducted after the publication of our 2018 Annual Report and before the 2019 AGM;
- a call with an institutional investor was conducted with the attendance and participation by one of our Independent Non-executive Directors;
- an analysts call was conducted immediately following the release of a CLP Holdings profit warning announcement on 20 June 2019; and
- in Hong Kong, we also conducted meetings with private banking client advisors to improve their ability to reach out to high net worth investors.

- Engaging with targeted stakeholders on ESG directly

## Group Internal Audit

CLP's Group Internal Audit (GIA) department plays a major role in monitoring the internal governance of the CLP Group. The head of the department, Senior Director – GIA, leads a well-resourced department of 28 highly qualified professional staff. For detailed tasks of the department, please see the [CLP Code](#) on the CLP website. 

The Senior Director – GIA is a member of the Group Executive Committee, who reports directly to the Audit & Risk Committee and the CEO and has direct access to the Board through the Chairman of the Audit & Risk Committee. The Senior Director – GIA has the right to consult the Audit & Risk Committee without reference to management.

## Independent Auditor

The Group engages PwC (Certified Public Accountants and Registered Public Interest Entity (PIE) Auditor) as our external independent auditor and we regard their independence as a fundamental governance principle.

How the Group ensures the independence of the external auditor:

- The lead audit partner of PwC is subject to rotation every seven years (as per The Independent Federation of Accountants rules on independence of external auditors).
- As part of the rotation, the current lead audit partner was first appointed for the 2014 financial year-end audit and he did not have any involvement in CLP Group for 10 years prior to the appointment in 2014.
- PwC is required to give an annual confirmation on their independence.
- The Audit & Risk Committee will assess PwC's independence in considering their re-appointment.

In addition, PwC will not be engaged to perform non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been pre-approved by the Audit & Risk Committee or its delegates. There must be clear efficiencies and value-added benefits to CLP from the work being undertaken by PwC, with no adverse effect on the independence of their audit work, or the perception of such independence.

During the year, PwC provided the following audit and permissible audit related and non-audit services to the Group:

	2019 HK\$M	2018 HK\$M
<b>Audit</b>	<b>39</b>	39
<b>Permissible audit related and non-audit services</b>		
Audit related services (including Sustainability Report assurance, Continuing Connected Transactions limited assurance, limited assurance over EnergyAustralia's regulatory reviews and reporting, assurance and agreed-upon procedures related to debt offerings, audits of CLP's provident funds and auditor's attestation)	7	8
Non-audit services (including tax advisory and other services)	2	1
<b>Total</b>	<b>48</b>	48

(For these purposes, **permissible audit related and non-audit services** include any entity under common control, ownership or management with PwC 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.)

The fees of PwC and other non-principal external auditor are shown in Note 5 to the Financial Statements.

For the year ended 31 December 2019, the fees for permissible audit related and non-audit services accounted for 15% and 4% of the total fees respectively.

## Other Stakeholders

Good governance requires due regard to the impact of business decisions (including environmental impact), both on shareholders and on other key stakeholders. This Annual Report and our [Sustainability Report](#), available on the CLP website, explain how we discharge our responsibilities to employees, customers, lenders, the environment and the communities in which we operate.  

## Risk Management and Internal Control Systems

Effective risk management and internal control systems help the organisation anticipate its risk exposure, put controls in place to counter threats, and effectively pursue the set objectives. They are therefore an essential part of an organisation’s operation and governance processes. This section explains (and contains cross references) the key features of our risk management and internal control systems.

### Risk Management Framework

CLP’s overall risk management framework is overseen by, and is the responsibility of, the Board, through its Audit & Risk Committee, and comprises four key elements.

Risk Management Philosophy	Risk Governance Structure	Risk Management Process	Risk Appetite
<p>CLP recognises that risk management is the responsibility of everyone within CLP and thus it is integrated into the business and decision-making process.</p>	<p>Clear roles and responsibilities are assigned to multiple layers within the organisation. This structure facilitates risk identification and escalation.</p>	<p>Through an integrated top-down and bottom-up risk review process, which enables risks identification and prioritisation throughout the Group, management maintains an open and effective communication channel to enable the timely escalation of material risk and adequate supervision of risk mitigation.</p>	<p>The nature and extent of the risks that the Group is willing to undertake in pursuit of its strategic and business objectives.</p>

The way we manage risk is set out in the Risk Management Report on page 141.

### Internal Control Framework

CLP structure of internal control is based on the internationally recognised COSO (Committee of Sponsoring Organizations of the Treadway Commission) 2013 integrated framework. Our internal control systems are designed to manage rather than eliminate the risk of failure in achieving our strategic and business objectives, and can only provide reasonable, but not absolute, assurance against material loss or misstatement. CLP Corporate Governance Structure is consistent with our Risk Governance Structure – see page 142.

The **Board of Directors**, through the **Audit & Risk Committee’s** review, is responsible for the Group’s risk management and internal control systems and for reviewing their effectiveness. The reviews cover management’s assessment on the key business operations, changes in material risks, internal controls, audit and compliance issues.

**GIA** provides independent assurance to the Board on the adequacy and effectiveness of internal controls for CLP. They adopt a risk-based approach, concentrating on areas

with significant risks or where significant changes have been made. GIA is equipped with well qualified and capable staff with access to all the data and operations of the Group.

The **CEO** and the **Group Executive Committee** have primary accountability to the Board in ensuring that robust risk management and internal control systems are established and functioning effectively. Such responsibility is discharged by exercising structured and continuous monitoring and oversight across the Group.

**Group Functions** establish relevant group-wide policies and procedures, oversee the risk and control activities of Business Units relevant to their respective functions.

**Control Owners** (Business Units, Functional Units and individuals) are primarily responsible for the design, implementation, and maintenance of risk management and internal control systems within his/her own area of responsibility. These systems are supported by well-defined policies and procedures, properly established and communicated, which reflect the values and corporate culture of the Group.

## Management Assurance on Internal Control Systems

Management and designated staffs evaluate the control environment and conduct risk assessments on business and processes. Material risks and associated controls, including mitigation when needed, are continually reviewed and updated. The Board is regularly informed of significant risks that may have an impact on CLP's performance. Regular management briefings and "deep dive" presentations are presented to the Audit & Risk Committee, as set out in the Audit & Risk Committee Report on page 152.

Our internal control review process continues to follow the substance of the requirements under the Sarbanes-Oxley Act on internal controls over financial statements. Three times a year, management provides internal control review updates to the Audit & Risk Committee which cover the scoping of significant processes and controls, assessment on controls design and operating effectiveness. High risks key controls are required to be tested annually by management while lower risk key controls are tested on rotational basis. Control owners are then able to represent to Senior Management

that their internal controls are working as intended, or that necessary corrections have been made where control weaknesses are identified. The independent auditor also tests the key controls to the extent that they will be relied on for the audit.

Internal audit issues identified and associated remedial actions are followed up for proper implementation, and the progress is reported to the Audit & Risk Committee periodically.

Management is also requested to deliver a personal representation on compliance to major policies and procedures, and areas of concern, to confirm duties towards risk management and internal controls, and to make additional representations on prevention, identification and detection of frauds, among others. This General Representation Letter Process provides assurance to the CEO and CFO when preparing their personal representation statement, to be submitted to the Board, through the Audit & Risk Committee.

## CLP's General Representation Letter Process



### Effectiveness of Risk Management and Internal Control Systems

Through the Audit & Risk Committee's review, the Board is responsible for the Company's risk management and internal control systems and for reviewing their effectiveness.

#### *The review process*

Five times a year, the Audit & Risk Committee reviews management's findings and the opinion of GIA on the effectiveness of the Company's risk management and internal control systems. The reviews cover management's assessment of the internal controls of key business operations, changes in material risks, internal control and compliance issues (both financial and non-financial) and significant issues arising from internal and the external audit reports.

For the year ended 31 December 2019, the Board considered the risk management and internal control systems of the Group to be effective and adequate. No significant areas of concern that might affect shareholders were identified.

### Inside Information

We have our own [Continuous Disclosure Obligation Procedures](#) which set out the procedures and controls for handling and dissemination of inside information. The Procedures are on the CLP website. Our Continuous Disclosure Committee (established in 2016) conducted regular assessment of potential inside information. The members of the committee include the CEO, CFO, the Company Secretary and the Director – Investor Relations. Please also see "Our disclosure" on page 113. [📄](#)

CLP Holdings issued a regulatory profit warning announcement informing the market of a possible goodwill impairment. This Committee spent a considerable amount of time in assessing and preparing this announcement. The Committee convened additional meetings and as a Committee, this was a useful platform for the Members to discuss and consider the timing and the contents of the regulatory disclosure announcement. Members of the Committee also briefed the Audit & Risk Committee on the announcement, in particular, the timing of the release of the announcement.

### Corporate Governance – Continuing Evolution and Disclosure

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 comprehensive view of our practices and policies and how these are developing. 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 our experience, regulatory requirements and international developments.

By Order of the Board



**David Simmonds**

Company Secretary

Hong Kong, 24 February 2020