

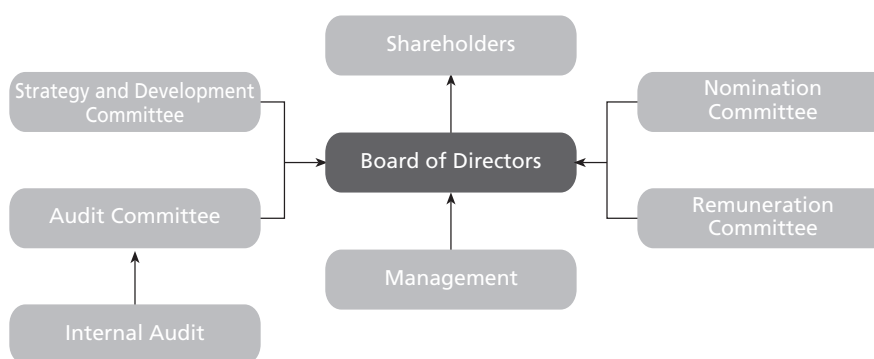


## OVERVIEW

Corporate governance refers to the processes and structure by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value through enhancing corporate performance and accountability.

Our Company believes in having high standards of corporate governance, and is committed to making sure that effective managerial and self-regulatory controls exist to protect shareholders' interests and maximise long-term shareholder value.

### CORPORATE GOVERNANCE STRUCTURE



## BOARD OF DIRECTORS

### ROLE AND RESPONSIBILITIES

The Board of Directors (the “Board”) represents shareholders in managing the Company’s affairs. The Board is responsible for the Company’s system of corporate governance, and is ultimately accountable for the Company’s activities, strategies and financial performance.

The Board’s stewardship responsibility for the Company includes, among others, the following:

- Reviewing and approving corporate strategies, budgets and financial plans;
- Overseeing and monitoring organisational performance and achievement of the Company’s strategic goals and objectives;
- Monitoring financial performance including approval of the annual and interim financial reports;
- Ensuring the significant risks facing the Company and its controlled entities have been identified and appropriate, and adequate control, monitoring and reporting mechanisms are in place;
- Reporting to shareholders and establishing a communication policy;
- Reviewing the integrity and adequacy of the Company’s internal controls and management information systems as well as ensuring compliance with laws, regulations and the company’s internal code of conduct; and
- Appointing, training and mentoring senior management, as well as determining and reviewing compensation levels.



## BOARD OF DIRECTORS (CONT'D)

### ROLE AND RESPONSIBILITIES (CONT'D)

The Board will meet regularly on a quarterly basis and as warranted. The Company's internal guidelines require the following matters to be approved by the Board:

- The approval of the interim and final results of the Company, including the relevant financial statements;
- Related party transactions and any matters which involve a potential conflict of interests with a substantial shareholder or a Director;
- Review of governance practices; and
- New investment or increase in investments in businesses or power plant assets, and any divestments or sales of businesses or power plant assets by the Company, any of its subsidiaries or associated companies.

### BOARD COMPOSITION

Each Board member has equal responsibility to oversee the business and affairs of the Company.

Members shall act in the best interests of the Company and exercise diligence in the performance of their duties, avoid actual or potential conflict of interests and be accountable to all shareholders.

The Board shall exercise objective judgment on corporate affairs independent of the management. To ensure objectivity, the Board will retain at least one third independent non-executive directors.

Currently, there are 10 directors, five of whom are executive directors, two are non-executive directors and three are independent non-executive directors. The nature of the Directors' appointments on the Board and details of their membership of the Board Committees are set out below:

Name of Director	Board Role	Committee Membership			
		Strategy and Development	Audit	Nomination	Remuneration
Song Lin	Executive Chairman				√
Wang Shuai Ting	E	√		√	
Shen Zhong Min	E	√			
Tang Cheng	E	√			
Zhang Shen Wen	E	√			
Ning Gao Ning	Non-E				
Jiang Wei	Non-E				
Fong Ching, Eddy	ID		√		√
Anthony H. Adams	ID		√	√	√
Wu Jing Ru	ID	√	√	√	

Note:

E: executive Directors

Non-E: non-executive Directors

ID: independent non-executive Directors

The Board is headed by the Chairman who is responsible for running the Board, and supported by the Chief Executive Officer who has primary responsibility of running the Company's business.

Biographical details of the Directors are disclosed on page 17 to page 19 in this Annual Report.



### BOARD OF DIRECTORS (CONT'D)

#### BOARD COMMITTEES

The Board has established the following committees with specific terms of reference:

##### **Audit Committee**

In compliance with the Code of Best Practice stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. ("Listing Rules") and guidelines, the Company has established an Audit Committee on 6 October 2003. It is entirely composed of independent non-executive Directors. The committee is to meet four times a year. Currently, the Audit Committee comprises three Directors, namely Fong Ching, Eddy as Chairman, and Messers Anthony H. Adams and Wu Jing Ru as members.

The Audit Committee is authorised by the Board to:

- (a) investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees and all employees are required to co-operate with any request made by the Committee; and
- (b) obtain independent legal or other professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The responsibilities of the Committee are as follows:

- (a) External audit function
  - To consider the appointment of the external auditors, the audit fee, and any questions of resignation and dismissal;
  - To monitor and assess the performance and independence of the external auditors;
  - To review the external auditors' results of auditing and the management's response;
  - To discuss problems and reservations arising from the external auditors, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (b) Internal audit function
  - To review the internal audit programme and the performance of the internal audit functions;
  - To ensure co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and maintains its independency;
  - To consider the major findings of internal investigations and management's response;



## BOARD OF DIRECTORS (CONT'D)

### Audit Committee (CONT'D)

- (c) Review of audited financial statements
- To review draft audited statutory or other financial statements before submission to the Board, focusing on:
    - (i) any changes in accounting policies and practices;
    - (ii) major judgmental areas;
    - (iii) significant adjustments resulting from the audit;
    - (iv) the going concern assumption;
    - (v) compliance with internal policies, accounting standards and legal requirements.
- (d) To maintain an oversight of the reporting system and internal control procedures.

### Nomination Committee

The Nomination Committee was established on 6 October 2003. It is mainly composed of independent non-executive Directors. Currently, the Nomination Committee comprises three Directors, namely Wang Shuai Ting as Chairman, and Messers Anthony H. Adams and Wu Jing Ru as members.

The main role of the Committee is to make sure the process of appointments and reappointments of the Board members are transparent and to assess effectiveness of the Board as a whole and the contribution of individual Directors to the effectiveness of the Board.

The responsibilities of the Nomination Committee are as follows:

- To recommend appointment or reappointment of Directors (having regard to their performance and contribution);
- To review and monitor the size and composition of the Board, with particular regard to ensuring at least one third of the Directors on the Board being independent of management; and
- To evaluate the performance of Directors and determine if they should be re-appointed.

### Remuneration Committee

The Remuneration Committee was formed on 6 October 2003 to facilitate appropriateness, transparency and accountability to shareholders on issues of the remuneration of the Directors and senior managers of the Company. The Remuneration Committee currently comprises three Directors, namely Song Lin as Chairman, and Messers Fong Ching, Eddy and Anthony H. Adams as members.

The main role of the Remuneration Committee is to motivate and retain executives and ensure that the Company is able to attract the best talents in the market in order to maximise shareholder value. Pay levels for Directors and senior management should be set with reference to the benchmarks of the market.



### BOARD OF DIRECTORS (CONT'D)

#### Remuneration Committee (CONT'D)

The responsibilities of the Remuneration Committee are as follows:

- To determine specific remuneration packages for each executive Director, including terms of their services contracts;
- To determine a list of Directors to be reviewed by the Committee on an annual basis and develop a proper communication channel for the Board;
- To review the terms, conditions and remuneration of the senior managers of the Company; and
- To produce an annual remuneration committee report and ensure proper disclosure of compensation details in annual reports in compliance with the provisions in the relevant accounting regulations and the Listing Rules.

To enable the Remuneration Committee to carry out its duties, the Committee has access to expert advice in the field of executive compensation where necessary.

#### Strategy and Development Committee

The Strategy and Development Committee was established in March 2004. It is composed of executive as well as independent non-executive Directors. Currently, the Strategy and Development Committee comprises Wang Shuai Ting as Chairman, and Messers Wu Jing Ru, Shen Zhong Min, Tang Cheng and Zhang Shen Wen as members.

The main role of the Committee is to make recommendations to the Board regarding the development and implementation of the Company's long-term strategic planning efforts.

The responsibilities of the Strategy and Development Committee are as follows:

- To monitor the development of government policies and strategic directions in the power and related industries in the PRC; and
- To study and examine the strategic direction of the Group, and express an opinion and make a recommendation to the Board on major investments including acquisition or divestment opportunities.

The Committee has access to independent expert advice where necessary.

### INTERNAL AUDITORS

The Company has an internal audit function that is independent of the activities it audits. The internal auditors report to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal auditors have unrestricted access to and review of all aspects of the Group's activities and internal controls.

The responsibilities of the Internal Auditors include the following:

- To review adequacy and effectiveness of internal systems and controls;
- To check compliance with the Company's policies and procedures, appropriate laws and good business practices; and
- To ensure economical and efficient use of the Company's resources.



## EXTERNAL AUDITORS

The appointment of external auditors for the Company shall be approved by shareholders in the annual general meeting. In order to maintain the independence of the Group's external auditors, the external auditors will not be engaged for non-audit work unless this has been pre-approved by the Audit Committee.

## INTERNAL CONTROL

It is the responsibility of the Board to establish adequate and appropriate internal control and risk management systems for the Company and exercise timely reviews to ensure their effectiveness and efficiency. The objective of internal control is to safeguard the Company's assets and ensure its accounting records are properly maintained, so that all the financial information is accurate and reliable.

The Company will maintain a clear organisational structure including appropriate segregation of duties and reporting systems. The Internal Auditors are responsible for the review of the Company's internal control system, operational efficiency and compliance with laid down policies on a regular basis, ensuring the existence of a complete internal control system in all business units.

## COMPLIANCE WITH RULES AND REGULATIONS

The Board and management have responsibilities to ensure strict compliance with the applicable rules and regulations. The Directors are required to act honestly and in a bona fide manner and in the best interests for the Company at all times and in so doing, they shall exercise reasonable skill and diligence based on their experience in the performance of their duties.

The Listing Rules require Directors to apply the necessary skills, diligence and care in the performance of their duties, in particular:

- To act honestly and in good faith in the interests of the Company as a whole;
- To act for proper purposes;
- To be responsible for the application or misapplication of the Company's assets;
- To avoid actual and potential conflicts of interest and duty;
- To make full and fair disclosures of his interests in contracts with the Company; and
- To apply reasonable skill, care and diligence as may be expected of a person of his knowledge and experience and holding his directorship within the Company.

## COMMUNICATION WITH SHAREHOLDERS

The Company believes that all shareholders should be treated equitably and fairly.

The Company aims to engage in regular, effective and fair communication with shareholders. The Company's top management takes an active role in investor relations, meeting local and foreign fund managers regularly as well as participating in roadshows and conferences overseas.

The Company's policy is to communicate pertinent information to shareholders on a timely basis. Should there be any inadvertent disclosure of material information to a selected group, the Company will make the same disclosure publicly to all other shareholders as soon as practicable.