

*Expanding into Hydropower,
Optimizing Our Generation
Structure ...*





One of the Company's long-term strategies is to place equal emphasis on coal fuel and other feasible types of fuel. During 2004, the Company actively developed other viable energy sources, while continuing its focus on thermal power generation. Apart from pushing forward with the planned gas-fired project, the Company also acquired 60% equity interest in Sichuan Hydro Power. This is a major step for the Company to venture into hydropower development after its equity participation in China Yangtze Power Co., Ltd. in 2002, thereby starting to establish a more diversified and balanced fuel structure and creating favorable conditions for the Company to stabilize its power generation.

Corporate Governance

Pursuant to the relevant requirements of the Listing Rules of the Hong Kong Stock Exchange and with reference to the provisions in Appendix 23 of the Listing Rules, please find below the report on corporate governance of the Company for this year:

(A) CORPORATE GOVERNANCE PRACTICES

Except that Article C.2.1 of the Code on Corporate Governance Practices (“the Code”) in Appendix 14 has yet to be reinforced, we have complied with the provisions of the Code in a comprehensive manner. The Articles of Association of the Company have fully covered the principles set out in the Code. Moreover, the Company has established a regulated and highly effective governance system comprising the Board of Directors, the Supervisory Committee and the President. Four special committees, namely the Strategy Committee, the Audit Committee, the Nomination Committee, and the Remuneration and Appraisal Committee have been established under the Board of Directors assisting in handling various affairs of the Board of Directors. The Company has also established the Board of Directors’ Office responsible for the routine matters of the Board of Directors. As the Company attaches great importance to corporate governance, the Company obtained the “Best Corporate Governance in China” award given by *IR Magazine* in 2004. The Company ranked first in the “Overall Best Managed Company in China” award and “Best Corporate Strategy and Best Operating Efficiency in China” award, and ranked second in the “Best Focus on Shareholder Value” award given by *Asiamoney*.

As regards the internal control matters contained in Article C.2.1 of the Code, currently the Company is conducting a comprehensive improvement arrangement on the internal control system of the Company and corporate governance of the Company will be further enhanced in the new financial year.

(B) SECURITIES TRANSACTIONS BY DIRECTORS

As the Company is listed in three places, the Company has strictly complied with the relevant restrictive provisions imposed by the US, Hong Kong and PRC regulatory organs in relation to securities transactions by directors and consistently upholds the principle of complying with the highest standards of the provisions, that is performing according to the strictest restrictions of the three places. At present, special enquires have been made on all the directors of the Company and all the directors do not hold any shares of the Company.

(C) BOARD OF DIRECTORS

The Board of Directors of the Company comprises 15 members. Mr Li Xiaopeng acts as Chairman of the Board of Directors, whereas Mr Wang Xiaosong and Mr Ye Daji act as Vice Chairmen of the Board of Directors. President Mr Huang Yongda is an executive director of the Company; other non-executive directors are: Mr Huang Jinkai, Mr Liu Jinlong, Mr Shan Qunying, Mr Yang Shengming, Mr Xu Zujian and Mr Liu Shuyuan. The Company has five independent non-executive directors representing one-third of the members of the Board of Directors, namely Mr Gao Zongze, Mr Zheng Jianchao, Mr Qian Zhongwei, Mr Xia Donglin and Mr Liu Jipeng.

The Company has held five board meetings during this financial year and all the directors have attended the meetings.

The Articles of Association contain a detailed description of the responsibilities and operation procedures of the Board of Directors (please refer to the Articles of Association for details). The Board of Directors of the Company holds meetings regularly, listens to the operating results reports of the Company and makes policies. Significant operating policies of the Company have to be discussed and passed by the Board of Directors and extraordinary general meetings may be convened. Board meetings include regular meetings and irregular meetings. Regular meetings of the Board of Directors include: annual meeting, half-yearly meeting, first quarterly and third quarterly meetings.

Besides regular and irregular meetings, the Board of Directors obtains adequate information through the working meetings presided by the Chairman in a timely manner in order to monitor the objectives and strategies of the management, financial conditions and operating results of the Company and the provisions of significant agreements. The working meetings presided by the Chairman perform the responsibilities on behalf of the Board of Directors during the closed session of the Board of Directors' meeting.

The working meetings presided by the Chairman are held irregularly, attended by the Chairman, Vice Chairman, Secretary to the Board of Directors, President, the relevant senior management personnel and personnel of the relevant departments who will listen to the reports on the operation conditions of the Company and make the relevant policies. The contents include: (1) examining proposals on establishing or cancelling development and construction projects; (2) examining proposals of the President in relation to the appointment, removal and transfer of managers of various departments of the Company and managers of agencies; (3) examining plans on the use of substantial funds; (4) examining proposals on the establishment or cancellation of branch companies or branch organs; (5) examining other particularly important issues.

The Chairman of the Company, on behalf of the Board of Directors, enters into the authorized management letter with the President of the Company specifying the powers and responsibilities of the Board of Directors and the management. The management of the Company makes a comprehensive report on the handling of authorizations each year.

(D) CHAIRMAN AND CHIEF EXECUTIVE

The Board of Directors of the Company has a Chairman and a President respectively. Mr Li Xiaopeng acts as the Chairman of the Board of Directors and Mr Huang Yongda acts as the President of the Company.

(E) NON-EXECUTIVE DIRECTORS

Pursuant to the stipulations of the Articles of Association of the Company, each term of office of the members of the Board of Directors of the Company shall not exceed three years (including three years) and members of the Board of Directors may be eligible for re-election. However, according to the relevant requirements of the China Securities Regulatory Commission, the term of office of independent non-executive directors shall not exceed six years (including six years).

(F) DIRECTORS' REMUNERATION

Pursuant to the relevant stipulations of the relevant laws of the State and the Articles of Association, the Board of Directors of the Company has established a Remuneration and Appraisal Committee mainly responsible for reviewing the appraisal standards for directors and senior management personnel of the Company, conducting appraisals and making proposals; responsible for reviewing and examining the remuneration policies and plans for directors and senior management personnel of the Company. The Remuneration and Appraisal Committee is accountable to the Board of Directors.

The Remuneration and Appraisal Committee comprises five directors, namely Mr Gao Zongze, Mr Liu Jinlong, Mr Xu Zujian, Mr Zheng Jianchao and Mr Xia Donglin, among whom Mr Gao Zongze, Mr Zheng Jianchao and Mr Xia Donglin are independent non-executive directors. Mr Gao Zongze acts as the Chief Member of the Remuneration and Appraisal Committee.

Currently, the Company has formulated the Detailed Rules on the Work of the Remuneration and Appraisal Committee which has been approved by the Board of Directors for implementation. However, as the Remuneration and Appraisal Committee has been established for a short period of time, it has yet to launch effective activities, and the Company will actively improve thereon in the new financial year.

(G) NOMINATION OF DIRECTORS

Pursuant to the relevant stipulations of the relevant laws of the State and the Articles of Association of the Company, the Board of Directors of the Company has established a Nomination Committee mainly responsible for reviewing the standards and procedures for selecting candidates for the post of directors and senior management personnel according to the operational management requirements of the Company and putting forward proposals to the Board of Directors; extensively searching for qualified candidates for the post of directors and senior management personnel; examining the candidates for the post of directors and senior management personnel and putting forward proposals;

The Nomination Committee comprises five directors, namely Mr Qian Zhongwei, Mr Huang Jinkai, Mr Yang Shengming, Mr Gao Zongze and Mr Zheng Jianchao, among whom Mr Qian Zhongwei, Mr Gao Zongze and Mr Zheng Jianchao are independent non-executive directors. Mr Qian Zhongwei acts as the Chief Member of the Nomination Committee.

Currently, the Company has formulated the Detailed Rules on the Work of the Nomination Committee which has been approved by the Board of Directors for implementation. However, as the Nomination Committee has been established for a short period of time, it has yet to launch effective activities, and the Company will actively improve thereon in the new financial year.

(H) AUDITORS' REMUNERATION

The auditors' appointed by the Company for the year of 2004 were PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company, as the international auditors and the PRC auditors of the Company, respectively. Their remunerations amounted to a total of US\$1.84 million.

(I) AUDIT COMMITTEE

Pursuant to the requirements of the regulatory organs of the places where the Company is listed and the relevant stipulations of the Articles of Association, the Board of Directors of the Company has established the Audit Committee which shall be mainly responsible for:

- (1) making proposals to appoint or change external audit organs;
- (2) examining and monitoring the internal audit system of the Company and its implementation;
- (3) communicating between internal and external audit parties;
- (4) examining the financial information of the Company and its disclosure;
- (5) other matters required by the Board of Directors of the Company.

Members of the Audit Committee comprises five directors, namely Mr Xia Donglin, Mr Wang Xiaosong, Mr Shan Qunying, Mr Zheng Jianchao and Mr Qian Zhongwei, among whom Mr Xia Donglin, Mr Zheng Jianchao and Mr Qian Zhongwei are independent non-executive directors. Mr Xia Donglin acts as the Chief Member of the Audit Committee.

The Audit Committee has held six meetings during this financial year examining the annual final accounts of the Company for 2003, the profit distribution plan for 2003 and quarterly financial reports for 2004 and produced investigation reports to the Board of Directors of the Company.

Currently, the Company has formulated the Detailed Rules on the Work of the Audit Committee which have been approved by the Board of Directors for implementation. The Company is making comprehensive improvements to its internal control system, and major amendments will be made to the Detailed Rules on the Work of the Audit Committee. Accordingly, the Audit Committee has yet to launch comprehensive examination on the internal control system of the Company and such work will be further strengthened in the new financial year.

(J) SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT PERSONNEL

The senior management personnel of the Company do not hold any shares of the Company.

(K) INTERNAL CONTROL

The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control system in the new financial year and disclose the relevant measures to the public in a timely manner.