



## CORPORATE GOVERNANCE

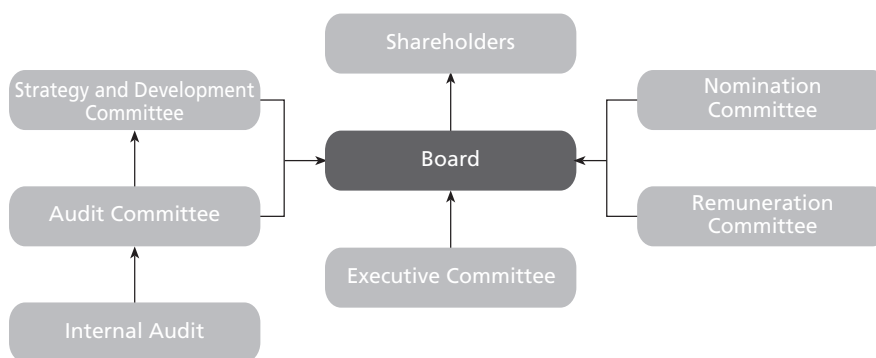
As a company registered and listed in Hong Kong, CR Power has been committed to improving the overall standard of corporate governance. The Board and management acknowledge its responsibilities in establishing and enforcing good corporate governance structure and code of practices in order to improve accountability and transparency, protect shareholders' interests and create shareholder value in the long-term.

In 2004, the company was chosen as one of the companies with the Best Corporate Governance in China in the Asia's Best Companies Poll for the year organized by FinanceAsia.



## GOVERNANCE STRUCTURE

The overall governance structure of CR Power is set out below:





## REPORT ON CORPORATE GOVERNANCE PRACTICES

Since the commencement of listing in 12 November 2003, CR Power has been devoted to complying with the guidelines related to corporate governance under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In 2004, CR Power complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which has now been superseded by Code on Corporate Governance Practices which came into effect in January 2005. For the past year CR Power complied most of the requirements under the newly promulgated Code on Corporate Governance Practices with certain deviations. The following summarizes CR Power's corporate governance practices and explains deviations, if any, from the Code on Corporate Governance Practices.

## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES

### A. COMPOSITION OF THE BOARD

**The Board should assume responsibility for leadership and supervision of the Companies' business and is collectively responsible for promoting the success of the Company.**

- The roles of the Board include:
  1. determine the strategies, objectives, policies and business plans of the Company and supervise the execution of the Companies' strategies;
  2. supervise and control the operating and financial performance of the Company and set appropriate risk control policies and procedures to ensure that the strategic objectives of the Company are fully implemented; and
  3. perfect the corporate governance structure to enhance communication with shareholders.
- The Board authorizes the Chief Executive Officer to implement the strategies of the Company and assume responsibility for decision-making in the day-to-day operations.
- The Board is supported by four committees, (i) the Strategy and Development Committee; (ii) the Audit Committee; (iii) the Nomination Committee; and (iv) the Remuneration Committee (collectively referred to as the "Committees"). Each of the Committee has its own responsibilities, powers and functions. The chairmen of respective Committees report to the Board regularly and make recommendations on matters discussed when appropriate.

Deviation: Nil



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. A balanced composition of executive directors and non-executive directors helps to ensure the independence of the Board. The Board should have three independent non-executive directors, representing at least one-third of the Board.

- The Board of CR Power currently consists of 9 directors, of whom 5 are executive directors, 1 is non-executive director and 3 are independent non-executive directors.
- The membership of respective committees of the Board is as follows:

#### Composition of the Board and the Committees

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

**Note:**

\* Deputy Chairman and Chief Executive Officer

\*\* Resigned on 30 December 2004

E: Executive Directors

NE: Non-executive directors

ID: Independent Non-executive directors



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

- The Company posts the latest membership of the Board on its website (www.cr-power.com), in which roles and responsibilities of the directors are set out and whether they are Independent non-executive directors are noted.
- Each member of the Board of the Company has different background and professional abilities. Each of them is well-experienced in respective areas such as development, construction, establishment, and operation and management of power plants, capital markets and financial management. Amongst which, Mr. Fong Ching, Eddy is with appropriate professional qualifications as required under Listing Rules. Brief biographies of Board members are disclosed page 17 to page 21 of this Annual Report.

Deviation: Nil

**The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual in order to ensure that there is a balance of power and authority and that power will not be concentrated in any one individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.**

- The Chairman of the Board of the Company is Mr. Song Lin, who is responsible for providing leadership for the Board. His duties are mainly to ensure the effective operation of the Board, and also to ensure the establishment of and compliance with the corporate governance practices and procedures. The Chairman is also responsible for ensuring that appropriate procedures are adopted to guarantee effective communications with shareholders, and that the shareholders' opinions are circulated among all Board members.
- The Chief Executive Officer is Mr. Wang Shuai Ting, who is responsible for daily business and execution of strategies of the Company in order to achieve its business objectives. The Chief Executive Officer of Company is appointed by the Board.
- None of the members of the Board has any connections (including financial, business, family relationship and other material/related relationships) with each other (including between the Chairman and Chief Executive Officer).

Deviation: Nil



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

**The Board should establish an appointment, re-election and removal system – the appointment system of the Board, including the establishment of a Nomination Committee with actual scope of duties**

- The Company established the Nomination Committee on 6 October 2003. It is mainly composed of Mr. Wang Shuai Ting as the Chairman and Messers Anthony H. Adams and Mr. Wu Jing Ru as independent non-executive directors.
- The Nomination Committee holds at least one meeting each year.
- The duties of the Nomination Committee (as set out in the Company's website [www.cr-power.com](http://www.cr-power.com)) are as follows:
  - 1) regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and make recommendations to the Board in relation to any proposed changes;
  - 2) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;
  - 3) evaluate the independence of non-executive directors; and
  - 4) evaluate the performance of Directors and make recommendations to the Board in respect of the appointment or re-appointment of Directors (particularly Chairman and Chief Executive Officer) and the related succession planning.
- The Chairman of the Committee reports the findings and recommendations of the Committee to the Board after each meeting.

Deviation: There was no Nomination Committee meeting held in 2004. In order to comply with the Code on Corporate Government Practices, the Directors recommended the Nomination Committee to hold at least one meeting per annum commencing from 2005.

**All Directors should be re-elected at fixed intervals. The non-executive directors should be appointed for a specific term and should be eligible for re-election.**

- According to provisions under Article 98 of the Articles of Association of the Company, all Directors should be subject to election by shareholders at the annual general meeting after the appointment. Pursuant to Article 120 of the Articles of Association of the Company, all Directors are subject to retirement by rotation and shall be eligible for re-election.
- The executive directors of the Company, namely Mr. Wang Shuai Ting, Mr. Shen Zhong Min, Mr. Tang Cheng and Mr. Zhang Shen Wen, have each entered into a 3-year term service contract commencing from 22 August 2003.
- The independent non-executive directors of the Company, namely Mr. Fong Ching, Mr. Anthony H. Adams and Mr. Wu Jing Ru were appointed for a term of 3 years commencing from 22 August 2003.



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

Deviation:

Non-executive directors of the Company are not appointed for a specific term. To ensure full compliance with Code on Corporate Governance Practices, the Board is considering that each of the Directors enter into a service contract with the Company, and in which the term of each member of the Board is specified.

**If a Director resigns or is removed from office, the Company must comply with the disclosure requirements in Rule 13.51(2) of the Listing Rules (Appendix 14, A14 - 6).**

- Mr. Ning Gao Ning, the non-executive director of the Company resigned on 30 December 2004. An announcement was issued by the Company on the same day and was posted on the website of the Company ([www.cr-power.com](http://www.cr-power.com)).

Deviation: Nil

**The Board should meet regularly. Required information is provided to the Board and its Committees in a timely manner.**

- The Board had three meetings in 2004 to discuss and approve the interim report, annual report and plans for investments/mergers and acquisitions of the Company.
- The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of terms in the agenda.
- The information of the meeting will normally be delivered 3 days in advance of the Board or Committees meetings to members of the Board or Committees.
- There exists open atmosphere for Directors to discuss during the meetings and major decisions would only be taken after detailed discussions at Board meetings. Minutes of Board and Committees meetings are fully recorded and draft minutes of meeting are circulated to all Directors/Committee's members for comments before being approved at the next meeting.
- All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.
- Minutes of the Board and Committees meetings are kept by the Company Secretary and are open for inspection by Directors.



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

#### Attendance of individual Directors at Board meetings in 2004

<b>Number of meetings</b>	<b>3</b>
<b>Executive Directors</b>	
Song Lin (Chairman)	2/3
Wang Shuai Ting (Vice Chairman and Chief Executive Officer)	3/3
Shen Zhong Min	3/3
Tang Cheng	2/3
Zhang Shen Wen	3/3
<b>Non-executive Directors</b>	
Ning Gao Ning*	0/3
Jiang Wei	1/3
<b>Independent Non-executive Directors</b>	
Fong Cheng, Eddy	3/3
Anthony H. Adams	3/3
Wu Jing Ru	3/3
<b>Average Attendance rate</b>	<b>77%</b>

\* Resigned on 30 December 2004

Deviation:

The Board of the Company met three times for 2004, less than 4 times as required by the Code on Corporate Governance Practices. In order to comply with the Code on Corporate Governance Practices, the Directors intend that at least 1 Board meeting be held on a quarterly basis commencing from 1 January 2005.

#### The Company should arrange appropriate insurance cover in respect of legal action against its Directors.

- The Company arranged liabilities insurance for all Directors.

Deviation: Nil

#### Compliance with Model Code for Securities Transactions by Directors of Listed Issuers.

- CR Power has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.
- The Company also requires the relevant employees who have access to price sensitive information to comply with the Model Code.
- The shareholdings of the Directors in CR Power are set out in "Directors' Interest in Securities" of the Report of Directors on page 60.

Deviation: Nil



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### A. COMPOSITION OF THE BOARD (CONT'D)

**Every Director should keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.**

- The Company encourages the Directors to participate in continuous professional development seminars and courses.

Deviation: Nil

### B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

**There should be a formal and transparent procedures for setting policies in respect of executive directors' remuneration and for fixing the remuneration packages for all Directors**

- The Company has established a Remuneration Committee, comprising Mr. Song Lin, the Chairman of the Board, and Mr. Fong Ching, Eddy and Mr. Anthony H. Adams, the independent non-executive directors. Mr. Song Lin is the Chairman of the Remuneration Committee.
- The terms of reference of the Remuneration Committee include the following:
  - 1) to make recommendations to the board on the Company's policy and structure for all remunerating of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
  - 2) to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors;
  - 3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
  - 4) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and
  - 5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
- The Remuneration Committee meets at least once a year. The Chairman is responsible for reporting the findings and recommendations to the Board after each meeting.





## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

(CONT'D)

#### Attendance of individual members at the Remuneration Committee meetings in 2004

<b>Number of meeting</b>	<b>1</b>
Song Lin (Chairman)	1/1
Fong Ching, Eddy	1/1
Anthony H. Adams	1/1
<b>Average attendance rate</b>	<b>100%</b>

Deviation: Nil

### C. ACCOUNTABILITY AND AUDIT

**The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.**

- The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the operating and financial conditions of the Company. In preparing the accounts for the year ended 31 December 2004, the Directors have:
  - a. selected suitable accounting policies and applied them consistently;
  - b. made judgments and estimates that are prudent and reasonable, and have prepared accounts on the going concern basis.
- The Company has announced its half-yearly financial results in a timely manner to provide details of its latest development as laid down in the requirements of the Stock Exchange.

Deviation: Nil

**The Board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.**

- The Company established an Audit Committee in compliance with the Code of Best Practice and guidelines stipulated in the Listing Rules. The Audit Committee comprises 3 independent non-executive directors, namely Mr. Fong Ching, Eddy, Mr. Anthony H. Adams and Mr. Wu Jing Ru as members. Mr. Fong Ching, Eddy, is the Chairman of the Audit Committee. He is a qualified accountant and used to be a partner of PricewaterhouseCoopers, an international accounting firm.



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### C. ACCOUNTABILITY AND AUDIT (CONT'D)

- The terms of reference of the Audit Committee include the following duties:
  - 1) to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
  - 2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before audit commences;
  - 3) to develop and implement policies on the engagement of an external auditor to supply non-audit service. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
  - 4) to monitor integrity of financial statements, accounts, annual reports and interim report of the Company and to review significant financial reporting findings contained in them, including:
    - a) any changes in accounting policies and practices;
    - b) major judgmental areas;
    - c) significant adjustments resulting from audit;
    - d) the going concern assumptions and any qualifications;
    - e) compliance with accounting standards; and
    - f) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
  - 5) to review the Company's financial control, internal control and risk management systems;
  - 6) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
  - 7) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
  - 8) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor the effectiveness of the internal audit function.
- External auditor, Directors and senior management are invited to attend the Audit Committee meetings.
- During 2004, the fees paid to the Company's external auditor amounted to HK\$2,354,000, of which the fees paid for non-audit related service being HK\$298,000. Non-audit related service includes due diligence for the acquisitions of power plants.



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### C. ACCOUNTABILITY AND AUDIT (CONT'D)

- The Committee reports its findings and recommendations to the Board after each meeting.
- Minutes of the Committees meetings are kept by the Company Secretary. Draft minutes of meeting are circulated to every member of the Committee for comments within a period of time after the meeting. The final draft will be kept for inspection.

#### Attendance of individual members at Audit Committee meetings in 2004

<b>Number of meetings</b>	<b>2</b>
Fong Ching, Eddy (Chairman)	2/2
Anthony H. Adams	2/2
Wu Jing Ru	2/2
<b>Average attendance rate</b>	<b>100%</b>

Deviation: Nil

#### The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

- The Company has an internal audit department that is independent of the activities it audits. The internal auditors report to the Chairman of the Audit Committee and in administration area report to the Chief Executive Officer. The internal auditors have unrestricted access to and review of all aspects of the Company's activities and internal control.
- The responsibilities of the internal auditors include the following:
  - 1) to review adequacy and effectiveness of the internal systems and controls;
  - 2) to check compliance with the Company's policies and procedures, appropriate laws and good business practices; and
  - 3) to ensure economical and efficient use of the Company's resources.
- Internal auditors are responsible for the internal audit work for all business units within the Company including the review of the Company's internal control system, its operation efficiency and compliance with laid down policies on a regular basis, ensuring the existence of a complete internal control system in all business units of the Company.
- The Company has created a Code for Managers that set out the responsibilities, rights and reporting procedures of managers (mainly the General Managers and Chief Financial Officers of all power plants).

Deviation: Nil



## KEY CORPORATE GOVERNANCE PRINCIPLES AND CR POWER'S PRACTICES (CONT'D)

### D. DELEGATION BY THE BOARD

**The Company should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.**

- The Board is mainly responsible for formulating and approving the business strategies, objectives, policies and plans of the Company, and monitoring the execution of the Company's strategies. It is also responsible for overseeing the operating and financial performance of the Company and establishing appropriate risk control policies and procedures in order to ensure that the strategic objectives of the Company are materialized. In addition, the Board is also responsible for improving the corporate governance structure and enhancing communications with shareholders.
- The Board has delegated the responsibilities for the execution of strategies and decision-making for day-to-day operation of the Company to the Chief Executive Officer. The management team meets regularly at Executive Committee and monthly Management Committee meetings. The Executive Committee comprises the Chief Executive Officer, Chief Operating Officer, Deputy General Managers, Chief Financial Officer, Chief Technical Officer, General Managers of several power plants. The Executive Committee members meet regularly to review the Company's strategic objectives, organizational structure, work flow, major projects and work plans. The Management Committee consists of the Chief Executive Officer, Chief Operating Officer, Deputy General Managers, Chief Financial Officer, Chief Technical Officer, and General Managers of various departments. The Management Committee meetings are held on a monthly basis to discuss daily business operation subjects such as work plans and finalize important decisions for Board approval.

Deviation: Nil

### E. COMMUNICATION WITH SHAREHOLDERS

**The Board should endeavor to maintain an on-going dialogue with shareholders, in particular, use annual general meetings to communicate with shareholders.**

- CR Power strengthens its communications with shareholders through various channels such as publication of interim and annual reports, press release and announcement of the latest development of the Company in its corporate website in a timely manner. Shareholders may choose to receive the latest information released by the Company electronically.
- The annual general meeting provides an opportunity for shareholders to exchange views with the Board. The Chairman as well as chairmen of different Committees are available to answer shareholders' questions.
- Resolutions are proposed at annual general meeting on each substantially separate issue, including the election of individual Directors.
- Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. Details of the proposed resolutions are also set out in the circular.
- The results of the poll, if any, are published in the Company's website ([www.cr-power.com](http://www.cr-power.com)).
- The Company also enhances communication with shareholders through various investor relations activities. During 2004, the principal investor relations activities of the Company are set out on page 34.

Deviation: Nil