

Corporate Governance Report

OVERVIEW

The Company puts great emphasis on corporate governance. We believe that improvement in corporate governance not only assists the Company in effective supervision and control on its business operation, but also attracts investment from international institutional investors, thereby creating and enhancing shareholder value.

In November 2004, the Hong Kong Stock Exchange issued amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Such amendments contained provisions of the Code on Corporate Governance Practices and Corporate Governance Report, which became effective for accounting periods commencing on or after 1 January 2005. The first inclusion of an official Corporate Governance Report of the Board in this annual report reflected the commitment of the Company in adopting good corporate governance.

CODE ON CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the Year, save for deviations from Code A4.1 as explained below.

BOARD OF DIRECTORS

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies and budgets, major investments as well as mergers and acquisitions. The Directors have acknowledged that the principal responsibilities of the Board also include preparation of accounts, approving the results and business operation conditions of the Company to be published to the public on a regular basis.

The Board comprises Mr. Wang Binghua, the chairman of the Board and non-executive Director, Ms. Li Xiaolin, the vice-chairman of the Board, executive Director and chief executive officer, Mr. Hu Jiandong, an executive Director and the executive vice president, Mr. Gao Guangfu, a non-executive Director, and three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec. Profiles of the Directors are set out in the section headed "Directors and Senior Management Profiles" of this annual report (Pages 15 to 21).

The non-executive Directors (the majority of which are independent directors) of the Company possess expertise in various industries. They are able to assist the management team in formulating the Group's development strategies, ensure that the preparation of financial and other mandatory reports by the Board are in strict adherence to appropriate systems in order to protect the interests of the shareholders and the Company. The Board has received annual confirmation of independence from each of the independent non-executive Directors and believed that, as at the date of this annual report, they were independent of the Company and complied with the relevant requirement of the Listing Rules.

The Board held several regular meetings during the Year to discuss the overall strategy, operating and financial performance of the Group. Matters subject to the decision or consideration of the Board included the overall strategy of the Group, material acquisitions and disposals, annual budget, annual and interim results, recommendations on appointment or re-election of Directors, material capital transactions and other material operations or financial issues. Before each Board meeting, sufficient notice of meeting was sent to each Director of the Company to promote the better attendance of the Directors. The Board held five meetings during 2005 (average attendance was 100%).

The Board has set up an Audit Committee, a Compensation and Nomination Committee as well as an Investment and Risk Control Committee to implement internal control and supervision on each relevant aspect of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 24 August 2004 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code which became effective on 31 December 2004. The primary duties of the Audit Committee are to review and monitor the financial reporting process and internal control systems of the Company and to make recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Kwong Che Keung, Gordon. For the purpose of reinforcing their independence, all members of the Audit Committee possess appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held four meetings during 2005 (average attendance was 100%). The committee conducted reviews with the senior management and internal and independent auditors of the Company on the internal and independent audit results, the accounting standards and practices adopted by the Group, the listing and legal requirements, as well as discussed matters relating to audit, internal control system, risk management and financial reporting (including recommendations to the Board on approval of annual results for 2004 and interim results for 2005).

COMPENSATION AND NOMINATION COMMITTEE

The Company established the Compensation and Nomination Committee on 24 August 2004. Its primary duties are to evaluate the performance of the Directors and senior management staff and to determine the specific remuneration packages for all executive Directors, including benefits in kind, pension and compensation, and compensation for lost of office or upon appointment, to make recommendations on the remuneration of non-executive Directors and to make recommendations in respect of the appointment and removal of members of the Board according to criteria such as educational background and work experience.

The Compensation and Nomination Committee comprises three members, namely Mr. Li Fang, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec, all of whom are independent non-executive Directors. The committee is chaired by Mr. Li Fang.

The Compensation and Nomination Committee held two meetings during 2005 (average attendance was 100%) to review and make recommendations in respect of the reappointment of the retiring Directors at the last annual general meeting and the determination of Directors' remuneration.

INVESTMENT AND RISK CONTROL COMMITTEE

The Company established the Investment and Risk Control Committee on 24 August 2004. Its primary duties are to formulate our overall development plans and investment decision-making procedures, monitor the implementation of our strategic plans, provide trainings to the Board with regard to the strategies of the Company and assist the senior management in managing our internal and external risks.

The Investment and Risk Control Committee comprises four members, namely Mr. Wang Binghua, Ms. Li Xiaolin, Mr. Hu Jiandong and Mr. Gao Guangfu. The committee is chaired by Mr. Gao Guangfu. We are of the view that the two non-executive Directors, namely Mr. Wang Binghua and Mr. Gao Guangfu, will be able to discharge their duties in the committee effectively as:

- they possess extensive experience and knowledge in the power industry in the PRC, particularly in operation and management of power business. They are able to provide market expertise and advice to the Board;
- the Investment and Risk Control Committee will arrange for regular committee meetings and the senior management of the Company will provide periodic reports to the committee members to keep them informed of the latest operating conditions of the Company. In addition, the Company will also inform each committee member individually of any urgent matters; and
- the two executive Directors, namely Ms. Li Xiaolin and Mr. Hu Jiandong, will from time to time bring any relevant matters of the Company's business to the attention of all the committee members to ensure that the duties of the committee will be properly discharged.

The Investment and Risk Control Committee held two meetings during 2005 (average attendance was 100%).

Details of Director's attendance at the Board meetings and meetings of Board committees held in 2005 are set out in the following table:

Directors	Board Meeting	Attendance/Number of Meetings		
		Audit Committee	Compensation and Nomination Committee	Investment and Risk Control Committee
Executive Directors				
Li Xiaolin (Vice-chairman of the Board and chief executive officer)	5/5	—	—	2/2
Hu Jiandong (Executive vice president)	5/5	—	—	2/2
Non-executive Directors				
Wang Binghua (Chairman of the Board)	5/5	—	—	2/2
Gao Guangfu	5/5	—	—	2/2
Independent Non-executive Directors				
Kwong Che Keung, Gordon	5/5	4/4	2/2	—
Li Fang	5/5	4/4	2/2	—
Tsui Yiu Wa, Alec	5/5	4/4	2/2	—

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific inquiries to all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2005.

Details of the Director's interests in securities of the Company as at 31 December 2005 are set out in the Report of the Board of Directors on page 52 in this annual report.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

For the financial year ended 31 December 2005, the positions of the chairman of the Board and the chief executive officer were served by Mr. Wang Binghua and Ms. Li Xiaolin respectively. The segregation of duties ensures a clear division between the chairman's responsibility to manage the Board and the chief executive officer's responsibility to manage the operations of the Company.

TERM OF OFFICE OF THE DIRECTORS

Code A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles"). In addition, as provided in the Articles of the Company, the executive Director who is also the chief executive officer of the Company shall not be subject to retirement by rotation, while all the other Directors will be subject to retirement at every annual general meeting after the annual general meeting in year 2007.

In order to achieve full compliance with the Code, the Company will stipulate a specific term of office for the non-executive Directors. The Company will also ensure that all Directors (with the exception of the executive Director who is also the chief executive officer of the Company) are subject to retirement by rotation and re-election at least once every three years. The Company is of the view that the position of chief executive officer is indispensable to the operation of the Company and the provision in the Articles excluding the chief executive officer from the requirement of retirement by rotation reflects the indispensable nature of such position with a view to minimising disruption caused to the operation of the Company.

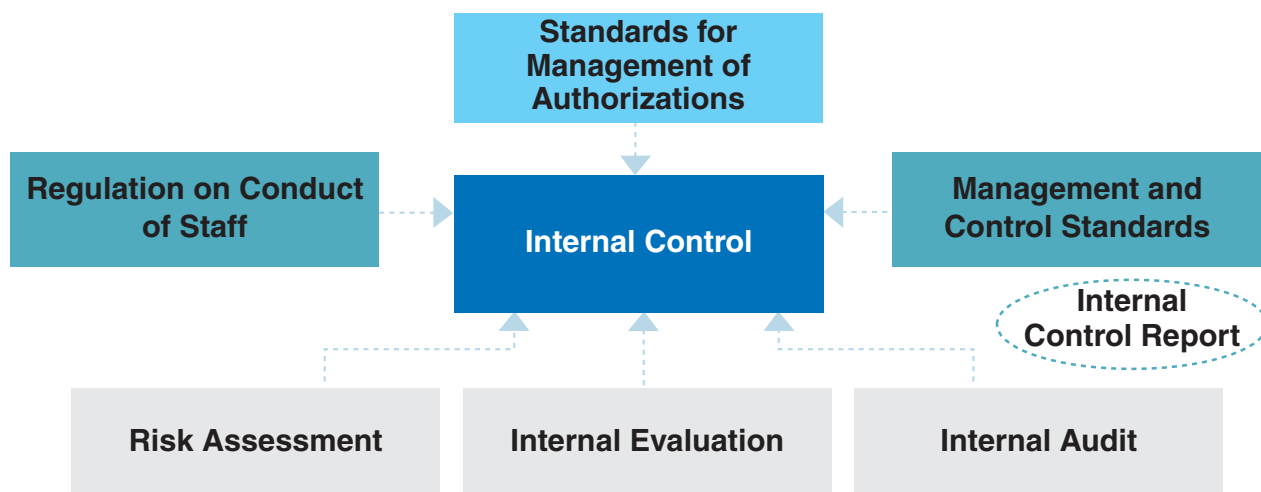
AUDITOR'S REMUNERATION

For the year ended 31 December 2005, the Company had reviewed the performance of PricewaterhouseCoopers as the Company's auditors (the "Auditors") and is considering their reappointment. For the year ended 31 December 2005, the audit fee payable to the Auditors amounted to approximately HK\$3,300,000, while the fees for non-auditing services, including the review of interim reports and other services in connection with the acquisition of Shentou I Power Plant, amounted to approximately HK\$3,400,000 in aggregate.

INTERNAL MONITORING SYSTEM

For the year ended 31 December 2005, the Company committed great efforts in strengthening its internal monitoring system. An independent internal control department has been established to evaluate and promote the setting up of the Company's internal control system. The principles of setting up the Company's internal control framework are to reinforce the internal supervision and control, constantly improve corporate governance structure and build up a corporate culture of integrity pursuant to the requirements of the Hong Kong Stock Exchange; establish an effective management and control system; carry out sustained evaluation on the adaptability of the internal control system and effectiveness of corporate management by means of auditing, investigation on conflicts of interests and evaluation of internal control, so as to constantly identify management risks and ensure smooth operation of the control system. A basic internal management and control system comprising eighteen sub-systems and 207 systems has been developed and completed based on the main management procedures of the Company that substantially covers every operational procedure of the Company. Monitoring systems including "Conflict of Interest Investigation System", "Standards for Management of Authorizations", "Risk Management and Assessment System" and "Internal Control Management Benchmark" were set up, which constantly arouse the staff's awareness of internal control.

The internal control framework of the Company is as follows:



The Company regularly reviews its internal control systems to ensure their sufficiency and efficiency.

IMPROVING CORPORATE TRANSPARENCY

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses regularly the key operating data such as electricity generation so that the investors will have a better understanding about the operation of the Company.

The Company also holds regular press conferences and meetings with financial analysts and investors, at which the Company's management will directly provide relevant information and data to the media, financial analysts, fund managers and investors, as well as answer their enquiries. The Company's management also arranges road shows to meet and communicate with fund managers and institutional investors around the world to enable them to have a better understanding about the achievements of the Company in its business and management.

In addition, the Company regularly publishes announcements and press releases in order to keep the investment public informed of the latest business development of the Company. The Company's management has been able to respond promptly to various questions raised by the media in a comprehensive and accurate manner. The Company's website has been constantly updated in order to provide the investors and the public with timely information about all aspects of the Company.

The Company has set up a Department of Capital Markets and Investor Relations which is responsible for promoting investor relations by providing the necessary information and services to the investors, promptly responding to their various enquiries and maintaining proactive and prompt communications with the investors. The Department of Capital Markets and Investor Relations is principally responsible for handling assets acquisition, financing, capital market research and investor relations management.