



Strengthening Our Competitive Advantages
through Technological Innovation

Corporate Governance Report



The Company has been consistently stressing the importance of corporate governance through promoting innovation on the Company's system management and strengthening the establishment the Company's system. It strives to enhance the transparency of the Company's corporate governance standards and to maintain high-quality corporate governance on an ongoing basis. The Company insists on adopting the principle of "maximizing the benefits of the Company and of all shareholders" as the starting point and treats all shareholders fairly in order to ensure the generation of long-term, stable and growing returns for shareholders.

(A) CODE OF CORPORATE GOVERNANCE

In recent years the Company adopted the following measures in order to strengthen corporate governance and enhance the Company's operation quality:

- (1) Except from complying with the provisions of the applicable laws, as a public company listed in three markets both domestically and internationally, the Company is subject to the regulations of the securities regulatory authorities of the three listing places and the supervision of investors at-large. Accordingly, our fundamental principles are adopting a corporate governance structure balancing and coordinating the decision-making powers, supervisory powers and operating powers, acting with honesty and integrity, complying with the law and operating in accordance with the law.

In 2004 and 2005, we amended and added certain clauses to the Articles of Association according to the Company's actual situation of development and the requirements and stipulations of the relevant regulations including the Listed Companies Governance Standards, and again made adjustments to the memberships of the Company's Board of Directors (the "Board"), the Supervisory Committee and the management team. The Company's Board has added a Vice Chairman and the number of board members has been adjusted from 12 to 15. The five independent directors are experts in accounting, electricity, law and management respectively, and all members of the Audit Committee of the Board comprise independent directors. The Company's independent directors have fulfilled their duties and expressed independent opinions in all the proposals involving the interests of minority shareholders and have practically given full play to their functions. The number of members of the Supervisory Committee has been adjusted from seven to six. At the same time, the Board has also made rejuvenation adjustments to the Company's management team according to work requirements.

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Through the above adjustments, the Board and the Supervisory Committee acted more in line with the requirements of the relevant laws and regulations in terms of scale of operation and personnel composition, thereby ensuring that the Board can make effective, scientific and quick decisions and that the Supervisory Committee can independently and effectively exercise its supervisory and inspection powers over the directors, managers and other senior management personnel as well as the Company's finances. At the same time, the rejuvenation adjustments to the management team have effected an innovative and dynamic development, ensuring an integral implementation of the resolutions of the Board and the Supervisory Committee and the establishment of a scientific and highly effective corporate governance structure.

Over the past years, the Company's Board formulated and implemented the Rules and Procedures of the Board of Directors Meetings; the Rules and Procedures of the Supervisory Committee Meetings; the Detailed Rules on the Work of the General Manager; the Detailed Rules on the Work of the Strategy Committee of the Board of Directors; the Detailed Rules on the Work of the Audit Committee of the Board of Directors; the Detailed Rules on the Work of the Remuneration and Appraisal Committee of the Board of Directors; the Detailed Rules on the Work of the Nomination Committee of the Board of Directors; and the System on Work of Independent Directors. The Board has also discussed and approved a number of proposals on the amendments to

the Articles of Association. The Audit Committee of the Company's Board has successfully held various meetings to discuss financial management issues encountered during the course of operation of the Company in order to seek scientific resolutions to steadily raise the Company's governance level. The Company has complied with the provisions of the Code on Corporate Governance Practices in Appendix 14 to the Hong Kong Listing Rules in this accounting year.

- (2) The Company has been stressing the importance of external information disclosure. The Company has established the Information Disclosure Committee which comprises managers of various departments and headed by the Vice President and the Chief Accountant, and is responsible for examining the Company's regular reports. The Company has implemented the system of holding regular information disclosure meetings every Monday chaired by the Vice President and the Chief Accountant who will report on the Company's important matters of the week, thereby warranting the Company's performance of the relevant information disclosure. The Company has successively formulated and implemented a series of rules including the Provisions on the Management of External Information Disclosure Work, the Measures on Investor Relations Management, the Provisions on Internal Reporting of External Disclosure of Material Information, the Detailed Rules on the Work of the Information Disclosure Committee, the Interim Provisions on the Work Procedures of Capital Operation and the Rules and



Procedures for the Shareholders' Meetings. Relevant departments of the Company compiled answers (and subsequent updates) to questions regarding the hot topics of market concerns, the Company's production, operation and operating results in a timely manner, which shall become the basis of external communication after being approved by the Company's management and the authorized representatives of the Information Disclosure Committee. Also, the Company engages US, Hong Kong and mainland lawyers to conduct professional training for the personnel of the Company responsible for information disclosure on an irregular basis in order to continuously enhance their level of professionalism. The implementation of the above rules and measures ensures that the Company completes various external disclosure work effectively, thereby increasing the transparency of the Company's operation and obtaining good social benefits.

(3) The credibility of a listed company, to a large extent, relates to the quality of the preparation of financial statements and a regulated operation of financial activities. In order to regulate its financial management, the Company has completed a large amount of specific and detailed work, including:

1. In order to strictly implement the accounting rules, accounting standards and accounting systems; to strengthen accounts auditing and accounts supervision; and to truly and fairly reflect the financial position, operating results and cash flow, the Company has compiled the Measures on Accounts

Auditing, the Measures on Infrastructure Accounts Auditing, the Guidelines on Fundamentals of Infrastructure Accounts Auditing, the Measures on Fixed Assets Management, Lists of Fixed Assets and the Measures on Cost Management. The Company's Board and the Audit Committee have examined the Company's financial reports on a quarterly basis and the Company has fulfilled the requirements of making the Chairman, President and Financial Controller responsible for the authenticity and completeness of the financial reports.

2. In order to safeguard the independence of the listed company, the Company realized the separation of personnel in organizational structure and specifically established the Accounts Auditing Division and Funds Management Division responsible for the entrusted business (the business related to the assets entrusted by the Group for management) so that the Company may realize the complete separation of the listed company and the controlling shareholder in terms of personnel, assets and finances according to the laws and regulations of the State and the requirements of regulatory rules.

3. The Company has been stressing the importance of establishing a sound internal control system, in order to strengthen internal management and to effectively enhance the capability of risk prevention, and in 2003 the Company

initiated to strengthen its work in this regard. The Company has added and amended various regulations relating to internal control and produced the Internal Control Handbook (Second Edition). The Company has established the Taskforce of Internal Control to effectively advance the improvement work on internal control. In 2005, it fully launched the internal control governance work and obtained significant results with completion of the following work: formally promulgated the Internal Control Handbook, and continuously amended it in accordance with actual implementation; strengthened the organization systems of internal control work both at the company and power plant levels; amended the management regulations relating to internal control; formally operated the internal control testing and evaluation software system, realised the internal control file recording and online testing management. Practices prove that the above work has enhanced and strengthened the Company's management level and laid a solid foundation for the smooth passing of internal control auditing in Section 404 of the Sarbanes-Oxley Act in 2006.

4. In regard to fund management, the Company has successfully formulated a number of management measures including the Measures on Financial Management, the Interim Measures on the Management of Funds Receipts and Expenses and the relevant examination measures, the Measures on Management of Fund Raising and the Measures on the Management of Bills of Exchange. The Company's Articles of Association also set out provisions relating to loans, guarantees and investment. In the annual reports and semi-annual reports of the Company over the previous years, the Company has engaged registered accountants to conduct auditing on the use of funds by the controlling shareholders and other related parties and issue individual statements according to the requirements of the SFC and the Shanghai Stock Exchange, and there has not been any violation of rules relating to the use of funds. Moreover, the Company also conducted checking and clearing with related parties in timely manner in relation to the operational fund transfers in order to ensure the safety of funds. At the same time, the Company has reported the fund use position to the Beijing Securities Regulatory Bureau in accordance with the relevant requirements and urged itself to comply with the relevant provisions at any time.



The above systems and measures have formed a sound management framework for our production and operation. The timely formulation and strict implementation of the above regulations not only ensure the ongoing standardization of operations of the Company and gradual enhancement of corporate quality, but also enable the Company to win honourable acclaims over the past years, including: “The Best Corporate Governance Award in China”; ranked first in “The Overall Best Managed Company in China”; ranked first in “The Best Company in Corporate Strategy and Best Operational Efficiency in China”; ranked second in “Most Concerned with Shareholders’ Value”; “The Best Investor Relations Award”; “The Best Utilities Company Award in Asia”; “The Best Information Disclosure Communication for Acquisitions and Mergers Award”; and “The Best Corporate Governance in China”. The above awards were conferred by authoritative publications in the international capital industry including *Institutional Investors*, *Euromoney*, *Asiamoney*, *Asia Finance*, *IR Magazine* and *The Asset*, thus establishing a good overall image for the Company in both the domestic and international capital markets.

(B) SECURITIES TRANSACTIONS BY DIRECTORS

As the Company is listed in three places, the Company has strictly complied with the relevant binding clauses on securities transactions by directors imposed by the regulatory authorities of the US, Hong Kong and China and we insist on the principle of complying with the strictest clause, that is, implementing the strictest clause among three places. We have adopted a set of standards not lower than The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules as the model code for securities dealings by directors of the Company, that is, The Administrative Rules on Securities Information and Transactions of Companies, prohibiting informed personnel of the insider information of securities transactions to conduct securities dealing activities, and we have formulated detailed regulations on the informed personnel of insider information. Following a specific enquiry on all the directors and senior management of the Company, all the directors and senior management personnel do not hold any shares in the Company and there is no material contract in which the directors directly or indirectly have material interests.

(C) BOARD OF DIRECTORS

During the reporting period, the Company's Board of Directors comprised 15 members with Mr. Li Xiaopeng as Chairman, and Mr. Huang Yonda and Mr. Wang Xiaosong as Vice Chairmen of the Board during the reporting period; the Executive Directors of the Company are Mr. Li Xiaopeng (Chairman), Mr. Huang Yongda (President), Mr. Na Xizhi (Vice

President) and Mr. Huang Long (Vice President); other Non-executive Directors are: Mr. Wang Xiaosong, Mr. Wu Dawei, Mr. Ding Shida, Mr. Shan Qunying, Mr. Xu Zujian and Mr. Liu Shuyuan. The Company has five Independent Non-executive Directors comprising one-third of the members of the Company's Board of Directors, namely, Mr. Wu Yusheng, Mr. Yu Ning, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Liu Jipeng.

The Board of Directors of the Company has held eight meetings during this financial year including regular meetings and ad hoc meetings (including those with voting by communication). Details of the attendance of directors at the board meetings are as follows:

Name	Number of meetings to be attended	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (%)
Executive Directors				
Li Xiaopeng	8	8	0	100
Huang Yongda	8	5	3	62.5 (Attendance by proxy rate: 37.5)
Na Xizhi	5	5	0	100
Huang Long	5	5	0	100
Non-executive Directors				
Wang Xiaosong	8	8	0	100
Wu Dawei	5	5	0	100
Shan Qunying	8	8	0	100
Ding Shida	1	1	0	100
Xu Zujian	8	7	1	87.5 (Attendance by proxy rate: 12.5)
Liu Shuyuan	8	7	1	87.5 (Attendance by proxy rate: 12.5)



Name	Number of meetings to be attended	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (%)
Independent Non-executive Directors				
Qian Zhongwei	8	8	0	100
Xia Donglin	8	7	1	87.5 (Attendance by proxy rate: 12.5)
Liu Jipeng	8	7	1	87.5 (Attendance by proxy rate: 12.5)
Wu Yusheng	5	4	1	80 (Attendance by proxy rate: 20)
Yu Ning	5	4	1	80 (Attendance by proxy rate: 20)
Retiring Directors				
Huang Jinkai	3	3	0	100
Liu Jinlong	3	3	0	100
Yang Shengming	5	4	1	80 (Attendance by proxy rate: 20)
Gao Zongze	3	2	1	66.7 (Attendance by proxy rate: 33.3)
Zheng Jianchao	3	2	1	66.7 (Attendance by proxy rate: 33.3)

The Company's Articles of Association set out in detail the duties and operational procedures of the Board (please refer to the Company's Articles of Association for details). The Board of the Company holds regular meeting to hear the report on the Company's operating results and makes decision. Material decisions on operation shall be discussed and approved by the Board. Ad hoc meetings may be held if necessary. Board meetings include regular meetings and ad hoc meetings. Regular meetings of the Board include: annual meetings, half-yearly meetings, first quarterly and third quarterly meetings.

All arrangements for regular meetings have been notified to all directors at least 14 days in advance and the Company has ensured that each director thoroughly understood the agenda of the meeting and fully expressed his/her opinions, while all Independent Non-executive Directors expressed their independent directors' opinions. Minutes have been taken for all the meetings and filed at the Office of the Board of Directors of the Company.

Moreover, the Independent Directors of the Company have submitted their annual confirmation letters in relation to their independence according to the requirements of the Listing Rules.

The Board of the Company has made the following important decisions in relation to the Company's operational management during this year:

1. Issuance of RMB5 billion short-term debentures;
2. Entrusted management of Sichuan Hydropower;
3. Transfer of Huaneng Nanjing gas-fired project;

4. Equity participation in Huaneng Finance.

Please refer to the relevant announcements of the Company for details.

Apart from regular and ad hoc meetings, the Board obtained information through the Chairman Office in a timely manner in order to monitor the objectives and strategies of the management, the Company's financial position and operating results and clauses of material agreements. The Chairman Office discharged the duties on behalf of the Board when the Board was not in session.

The Chairman Office held meetings irregularly which were attended by the Chairman, Vice Chairmen, Secretary to the Board, President, relevant senior management and personnel of relevant departments, and they heard reports on the operating conditions of the Company and made decisions. The content of the meetings covered: (1) examined and approved the establishment or cancellation of proposals to develop construction projects; (2) examined and approved proposals of the President in relation to the appointment, removal and transfer of managers of various departments of the Company and managers external branches; (3) examined and approved plans on the use of significant funds; (4) examined and approved proposals on the establishment or cancellation of branch companies or branch organs; (5) studied issues regarding the power market reforms and power sales and marketing; (6) examined and approved other major issues.



The management of the Company shall be in charge of the production and operational management of the Company according to the Articles of Association; implement annual operation plans and investment proposals; and formulate the Company's management system.

The Chairman of the Company shall sign the management authorization letter to the President of the Company on behalf of the Board, and confirm the respective authorities and duties of the Board and senior management. The Company's senior management reports on the actual implementation of various authorizations each year.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board of the Company shall have a Chairman and a President who shall perform their duties respectively according to the Articles of Association. During the reporting period, Mr. Li Xiaopeng acts as Chairman of the Board and Mr. Huang Yongda acts as President of the Company.

The division of duties of the Board and the senior management is as follows:

The Board shall be accountable to the shareholders at the general meeting and shall exercise the following authorities:

- (1) to be responsible for the convening of the shareholders' general meeting and to report its work to the shareholders at the general meetings;
- (2) to implement the resolutions passed by the shareholders at the general meetings;

- (3) to determine the Company's business plans and investment organs;
- (4) to formulate the Company's annual financial budgets and final accounts;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate the proposals for the increase or reduction of the Company's registered capital and for the issue of the Company's debentures;
- (7) to draw up plans for the merger, division or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management organs;
- (9) to appoint or remove the Company's President and to appoint or remove the Vice President and Financial Controller of the Company according to the recommendations of the President and to decide on their remuneration;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendment to the Company's Articles of Association;
- (12) to formulate proposals on amendments to the Rules of Procedures of the shareholders' meetings;
- (13) to decide on the external guarantee matters of the Company within the authorization scope of the applicable laws and the Articles of Association;

- (14) to exercise any other authorities conferred by the provisions of the Articles of Association and the shareholders at the general meetings.

The President of the Company shall be accountable to the Board of Directors and shall exercise the following authorities:

- (1) to be in charge of the Company's production, operation and management and to co-ordinate the implementation of the resolutions of the Board;
- (2) to organize the implementation of various departments of the Company's annual business plans and investment;
- (3) to draft plans for the establishment of the Company's internal management organs;
- (4) to propose the Company's basic management system;
- (5) to formulate basic rules and regulations for the Company;
- (6) to propose the appointment or dismissal of the Company's Vice President and Financial Controller;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- (8) to sign loan agreements and other relevant documents on behalf of the Company;
- (9) other powers conferred by the Articles of Association and the Board.

(E) NON-EXECUTIVE DIRECTORS

According to the provisions of the Articles of Association, the term of office of members of the Board of the Company shall not exceed three years (including three years) and the members may be eligible for re-election. However, the term of office of Independent Non-executive Directors shall not exceed six years (including six years) according to the relevant provisions of the China Securities Regulatory Commission.

The respective terms of office of the Non-executive Directors are as follows:

Name of Non-executive Director	Term of office
Wang Xiaosong	2005.5.11-2006.3
Wu Dawei	2005.5.11-2008.5
Shan Qunying	2005.5.11-2008.5
Ding Shida	2005.11.17-2008.5
Xu Zujian	2005.5.11-2008.5
Liu Shuyuan	2005.5.11-2008.5

(F) DIRECTORS' REMUNERATION

According to the provisions of the relevant laws of the State and the Articles of Association, the Board of the Company has established the Remuneration and Appraisal Committee mainly responsible for studying the appraisal standards of the directors and senior management personnel of the Company, conducting appraisals and making proposals; responsible for studying and examining the remuneration policies and proposals of the directors and senior management personnel of the Company and to be accountable to the Board. As the Executive Directors of the Company are senior management of the Company, their performance appraisals have



been reflected in the assessment and appraisal conducted by the Board on the management team (please refer to the working report of the Board). At present, only Mr. Huang Long and Mr. Na Xizhi have obtained remuneration of the Company in the capacity of executive directors and their remunerations are set out in the annual aggregate wages and calculated according to the internal wage system of the Company. The aggregate wages were submitted to the Board after having been examined by the Remuneration and Appraisal Committee. The executive directors have complied with the requirements of the Stock Exchange and entered into directors' service agreements by adopting the Stock Exchange's standard contract.

Members of the Remuneration and Appraisal Committee of the Fourth Session of the Board comprised five directors, namely Mr. Gao Zongze, Mr. Liu Jinlong, Mr. Xu Zujian, Mr. Zheng Jianchao and Mr. Xia Donglin; of whom Mr. Gao Zongze, Mr. Zheng Jianchao and Mr. Xia Donglin were Independent Non-executive Directors. Mr. Gao Zongze acted as the Chief Member of the

During this financial year, the attendance of meetings of the Remuneration and Appraisal Committee of the Company's Board was as follows:

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Fourth Session of the Remuneration and Appraisal Committee in 2005	2005-3-14	Liu Jinlong, Zheng Jianchao, Xia Donglin	Gao Zongze, Xu Zujian

Remuneration and Appraisal Committee. Members of the Remuneration and Appraisal Committee of the Fifth Session of the Board of Directors comprised seven directors. Members of the Remuneration and Appraisal Committee were Mr. Liu Jipeng, Mr. Na Xizhi, Mr. Xu Zujian, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Wu Yusheng and Mr. Liu Shuyuan; of whom Mr. Liu Jipeng, Mr. Qian Zhongwei, Mr. Xia Donglin and Mr. Wu Yusheng were Independent Non-executive Directors; Mr. Liu Jipeng acted as Chief Member of the Remuneration and Appraisal Committee.

The Company has formulated the Detailed Rules on the Work of the Remuneration and Appraisal Committee which have been approved by the Board for implementation. The Remuneration and Appraisal Committee held a meeting during this year and discussed the aggregate wages for 2005, ways to commence its work and recent work plans. In the new financial year, the Remuneration and Appraisal Committee will commence work in a timely manner pursuant to the above detailed rules on work according to the actual situation.

(G) NOMINATION OF DIRECTORS

According to the provisions of the relevant laws of the State and the Articles of Association, the Board of the Company has established the Nomination Committee. The Committee is mainly responsible for studying the selection standards and procedures for candidates for directors and senior management personnel of the Company according to the requirements of the Company Law and Securities Law and in relation to directors' qualifications and the needs of the operational management of the Company, and making proposals thereon to the Board; searching for qualified candidates for directors and suitable persons for senior management personnel on a wide basis; and examining the candidates for directors and suitable persons for senior management personnel and making proposals thereon. At present, nomination of directors of the Company is mainly made by the shareholders of the Company and the names are submitted to the Board after the Nomination Committee has examined their qualifications; and candidates for the Vice President and senior management of the Company are nominated by the President and the names are submitted to the Board after the Nomination Committee has examined their qualifications.

Members of the Fourth Session of the Nomination Committee comprised five directors, namely, Mr. Huang Jinkai, Mr. Gao Zongze, Mr. Yang Shengming, Mr. Qian Zhongwei and Mr. Zheng

Jianchao; of whom Mr. Qian Zhongwei, Mr. Gao Zongze and Mr. Zheng Jianchao are Independent Non-executive Directors; Mr. Qian Zhongwei acted as Chief Member of the Nomination Committee. Members of the Nomination Committee of the Fifth Session of the Board are Mr. Huang Long, Mr. Shan Qunying, Mr. Ding Shida, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning; of whom Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng and Mr. Yu Ning are Independent Non-executive Directors; Mr. Qian Zhongwei acted 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 for implementation. The Nomination Committee held two meetings during this year. On 14th March 2005, Mr. Li Xiaopeng, Mr. Huang Yongda, Mr. Wang Xiaosong, Mr. Na Xizhi, Mr. Huang Long, Mr. Wu Dawei, Mr. Shan Qunying, Mr. Xu Zujian, Mr. Liu Shuyuan, Mr. Qian Zhongwei, Mr. Xia Donglin, Mr. Liu Jipeng, Mr. Wu Yusheng, Mr. Yu Ning, Mr. Gao Zongze and Mr. Yang Shengming were nominated as Directors of the Company; Mr. Li Shiqi was nominated as Vice President of the Company. On 9th August, Mr. Ding Shida was nominated as Director of the Company and Mr. Yang Shengming resigned as Director. In the new financial year, the Nomination Committee will commence work in a timely manner pursuant to the above detailed rules on work according to the actual situation.



During the year, the attendance of meetings of the Nomination Committee of the Company's Board of Directors was as follows:

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Nomination Committee of the Fourth Session of the Board of Directors in 2005	2005-3-14	Qian Zhongwei, Huang Jinkai, Yang Shengming, Zheng Jianchao	Gao Zongze
First meeting of the Nomination Committee of the Fifth Session of the Board of Directors in 2005	2005-8-9	Qian Zhongwei, Huang Long, Shan Qunying, Xia Donglin, Liu Jipeng	Yu Ning

(H) REMUNERATION OF AUDITORS

During the year, total remuneration to the auditors, all related to audit services, amounted to approximately Rmb 33.78 million.

- (3) communication between internal auditing and external auditing;
- (4) auditing the Company's financial information and its disclosure;
- (5) any other matters required by the Company's Board.

(I) AUDIT COMMITTEE

According to the requirements of the regulatory authorities of the jurisdictions where the Company is listed and the relevant provisions of the Articles of Association, the Board of Directors of the Company has established the Audit Committee mainly responsible for:-

- (1) proposing to appoint or change external auditing organizations;
- (2) examining and supervising the Company's internal audit system and its implementation;

Members of the Audit Committee of the Fourth Session of the Board were comprised of five directors, namely, Mr. Xia Donglin, Mr. Qian Zhongwei, Mr. Wang Xiaosong, Mr. Shan Qunying and Mr. Zheng Jianchao, of which Mr. Wang Xiaosong, Mr. Xia Donglin, Mr. Qian Zhongwei and Mr. Zheng Jianchao are Independent Non-executive Directors; Mr. Xia Donglin acted as Chief Member of the Audit Committee. Members of the Audit Committee of the Fifth Session of the Board of Directors comprised five directors, namely, Mr. Xia

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Donglin, Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning; all the above members are Independent Non-executive Directors; Mr. Xia Donglin acted as Chief Member of the Audit Committee.

The Company's Audit Committee held five meetings during the year and discussed the 2004 annual final financial statements, the 2004 profit distribution proposal, the 2004 quarterly financial reports, the

2005 budget reports, the appointment of auditors and the report on management measures relating to the internal control system, respectively, and submitted examination reports to the Company's Board of Directors. Moreover, the Audit Committee has conducted examination on the annual operating results of the Company and has submitted an examination report to the Board.

During this financial year, the attendance of meetings of members of the Audit Committee was as follows:-

Name of meeting	Date of meeting	Members who attended the meeting in person	Members who attended the meeting by proxy
First meeting of the Audit Committee of the Fourth Session of the Board of Directors in 2005	2005-3-14	Xia Donglin, Wang Xiaosong, Shan Qunying, Zheng Jianchao, Qian Zhongwei	Nil
Second meeting of the Audit Committee of the Fourth Session of the Board in 2005	2005-4-14	Xia Donglin, Wang Xiaosong, Shan Qunying, Qian Zhongwei	Zheng Jianchao
First meeting of the Audit Committee of the Fifth Session of the Board in 2005	2005-8-8	Xia Donglin, Qian Zhongwei, Wu Yusheng, Yu Ning	Liu Jipeng
Second meeting of the Audit Committee of the Fifth Session of the Board in 2005	2005-10-18	Qian Zhongwei, Liu Jipeng, Yu Ning	Xia Donglin, Wu Yusheng
Third meeting of the Audit Committee of the Fifth Session of the Board in 2005	2005-12-29	Xia Donglin, Qian Zhongwei, Yu Ning	Liu Jipeng, Wu Yusheng



Currently, the Company has formulated the Detailed Rules on the Work of the Audit Committee which have been approved by the Board for implementation. The Detailed Rules on the Work of the Audit Committee will be amended accordingly. In 2005, the Audit Committee was very concerned with the progress of the Company's internal control work. It continuously acquired an understanding of the progress of the internal control work and examined the relevant internal control system. During the new financial year, apart from commencing work according to the detailed work rules, the Audit Committee will further strengthen its supervision on and guidance to internal control work.

(J) LIABILITY ASSUMED BY THE DIRECTORS IN RELATION TO THE FINANCIAL STATEMENTS

The Directors confirm that they shall assume the relevant liability in relation to the preparation of the financial statements of the Company and ensure that the preparation of the financial statements of the Company complies with the relevant laws and regulations and applicable accounting standards. The Directors also warrant that the financial statements of the Company will be published in a timely manner.

The reporting liability statements made by the auditors of the Company in relation to the financial statements of the Company and its subsidiaries are set out on pages 96 and 194 of this annual report.

In accordance with Rule 14C2.1 of the Hong Kong Listing Rules, the Company has conducted self-assessment on the sound establishment, implementation and effective evaluation of the internal control system, as well as on the existing issues and measures of improvement. We report as follows:

The Board and the senior management of the Company have reviewed the Company's internal control system.

The Board shall be responsible for maintaining an adequate internal system for monitoring the group and reviewing its effect through the Audit Committee. As a company listed in the US, the Company is also required to establish a sound internal control system and evaluate the effectiveness of the design and operation of the internal control system according to Section 404 of the US Sarbanes-Oxley Act and the requirements of the US Securities Commission and the US Listed Companies Supervision Board (PCAOB).

At present, the Company has designed the Internal Control Handbook in order to regulate the internal control system of the Company. The Company has conducted supervision and testing on the implementation of the Internal Control Handbook and further improved the Company's internal control system according to the relevant discoveries.