

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (“Board”) considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rule(s)”) on The Stock Exchange of the Hong Kong Limited (the “Stock Exchange”) for the year ended 31 December 2005, except for the deviation from the Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer (defined as Managing Director by the Company) should be separate and should not be performed by the same individual.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

None of the directors is related to each other and the Board of the Company comprises:

Executive Directors:

HE Haochang (*Chairman & Managing Director*)

LAM Siu Hung (*Director & Deputy Managing Director appointed on 4 July 2005*)

CHAN Che Kan, Edward (*Director & Deputy Managing Director resigned on 15 September 2005*)

SITU Min (*Chief Financial Officer & Qualified Accountant*)

LI Feng

Independent Non-executive Directors:

CHAN Ting Chuen, David

CHEUNG Kin Piu, Valiant

NG Pui Cheung, Joseph

The Listing Rules require every listed issuer to have at least three independent non-executive directors or more than one-third of the Board is independent non-executive directors. As at the date of this report, the Board comprises a total of seven directors, with four executive directors and three independent non-executive directors. In addition, one of the independent non-executive directors possesses appropriate professional accounting qualifications and financial management expertise.

The principal focus of the Board, led by the Chairman, is responsible for the approval and monitoring of the Group’s overall strategies, approval of annual budgets and business plans, evaluating the performance of the Group, and oversight of management. The Board also monitors the financial performance and the internal controls of the Group’s business operations.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

Every newly appointed director of the Company shall receive a set of information package from the secretary of the Company on the first occasion of his appointment. This information package is a comprehensive and formal induction on the responsibilities and on-going obligations to be observed by a director. In addition, it includes materials on the operations and business of the Company. The senior management and the secretary of the Company will subsequently conduct such briefing as is necessary, to ensure that the directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

With a wide range of expertise and a balance of skills, the independent non-executive directors bring independent judgment on issue of strategic direction, development, performance and risk management through their contribution at the Board meetings and the relevant committee works. The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties, if necessary. The Company has also arranged appropriate directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis. The directors shall have separate and independent access to the Company's senior management.

The Board meets regularly at quarterly basis together with ad hoc meeting is necessary to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman is primarily responsible for drawing up and approving the agenda of each board meeting in consultation with the directors. Notice of at least 14 days have been given to all directors for all regular meetings and the directors can include matters for discussion in the agenda. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to the directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to the directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are kept by the secretary of the Company and the directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

During the year, ten full board meetings, of which four were regular quarterly meetings, were held and the individual attendance of each director is set out below:

Directors	Attendance of Board Meeting	Attendance Rate
Executive Directors:		
HE Haochang (<i>Chairman & Managing Director</i>)	10/10	100%
LAM Siu Hung	6/6	100%
CHAN Che Kan, Edward	6/6	100%
SITU Min	10/10	100%
LI Feng	9/10	90%
Independent Non-executive Directors:		
CHAN Ting Chuen, David	9/10	90%
CHEUNG Kin Piu, Valiant	10/10	100%
NG Pui Cheung, Joseph	10/10	100%

Chairman and Managing Director

Mr. HE Haochang is the Chairman and the Managing Director of the Company. This deviates from the Code Provision A.2.1 that the roles of Chairman and Managing Director should be separate and should not be performed by the same individual.

The reason of the combined position of the Company's Chairman and Managing Director is that the Group's principal activities are the generation and sale of electricity in Foshan Municipality, Guangdong Province, the People's Republic of China (the "PRC"). The Chairman familiarizes and has good communication channel with the leaders of the relevant PRC parties. In addition, the Chairman possesses the ability to handle the different corporate cultures between Hong Kong and PRC enterprises. The principal of segregation of duty has been carried out among members of the Board for the purposes of balance of power and all directors are freely to brief on issues arising at the Board meeting. The Board believes that the structure outlined above is beneficial to the Company and its business.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Appointments and Re-election of Directors

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. The directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any director.

During the year, Mr. LAM Siu Hung was nominated and appointed by the Board as an additional executive director of the Company and his remuneration was determined by the remuneration committee.

All the independent non-executive directors are appointed for a specific term and subject to re-election. Mr. CHAN Ting Chuen, David has a service contract with the Company for a term of one year together with Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph have service contracts for a term of two years with the Company.

The Code Provision A.4.2 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. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the article 92 of the articles of association of the Company, a director appointed by the Board to fill a casual or as an addition shall hold office until the next following annual general meeting and shall then be eligible for re-election at that meeting. Furthermore, according to the article 101 of the articles of association of the Company, at each annual general meeting one-third of the directors for the time being, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office.

In order to ensure full compliance with the Code Provision A.4.2, a special resolution will be proceed to amend the relevant articles of association of the Company at the annual general meeting to be held on 29 May 2006, so that every director appointed by the Board during the year to fill a casual vacancy shall retire at the next general meeting and every director shall be subject to retirement at least once every three years.

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BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Audit Committee

The audit committee has established for many years and it comprises three independent non-executive directors. The Board considers that each audit committee member has broad commercial experience and there is a suitable mix of expertise in the business, accounting and financial management on the audit committee. The composition and members of the audit committee complies with the requirements under the Listing Rule 3.21. The written terms of reference which describe the authority and duty of the audit committee was subsequently amended in January 2005 to conform to the Code provisions, a copy of which is posted on the Company's website.

The audit committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. During the year, the audit committee had held two independent private meetings with the auditors where without the presence of executive directors and senior management so the audit committee members can feel freely to communicate with the auditors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31 December 2005.

During the year, two audit committee meetings were held together with the auditor and senior management and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Audit Committee Meeting	Attendance Rate
CHAN Ting Chuen, David (<i>Chairman</i>)	2/2	100%
CHEUNG Kin Piu, Valiant	2/2	100%
NG Pui Cheung, Joseph	2/2	100%

Remuneration Committee

The remuneration committee was established on 31 January 2005 and the majority of the members are the three independent non-executive directors together with the Chairman of the Company. None of the member or any associate with them should be involved in deciding his own remuneration. The remuneration committee advises the Board on the Group's overall policy and structure for the remuneration of the directors and senior management. The written terms of reference which describe the authority and duty of the remuneration committee is posted on the Company's website.

In determining the emolument payable to the directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

The objectives of the Company's remuneration policy are:

1. to provide an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;
2. to provide base remuneration to the employees that is competitive to the industry and general market condition;
3. to award employees in recognition of good individual and corporate performance; and
4. to encourage future employee contributions to achieve overall corporate goals.

The remuneration package is structured to attract and retain the best talent available, and will contain a combination or modification of some or all of the four main components:

1. *Base salary*

Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for person filling the position is determined based on the experience and ability of the individual selected for the position.

2. *Safe incentive bonus*

Safe incentive bonus is linked to 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV") safety operations. All ranges staff responsible for the operations of Shakou JV power plant is entitled to that bonus in order to encourage the safety operations.

3. *Share option scheme*

Share option scheme for purchase shares in the Company are granted to the employees from time to time at the discretion of the Board for retaining human resources and motivating future performance of the employees. Details refer to the report of directors.

4. *Other benefits*

In addition to the above, the Group offers customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

Corporate Governance Report

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

During the year, two remuneration committee meetings were held and the individual attendance of each member is set out below:

Directors	Attendance of Remuneration Committee Meeting	Attendance Rate
Independent Non-executive Directors:		
CHAN Ting Chuen, David (<i>Chairman</i>)	2/2	100%
CHEUNG Kin Piu, Valiant	2/2	100%
NG Pui Cheung, Joseph	2/2	100%
Executive Directors:		
HE Haochang	2/2	100%

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors’ securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year. Furthermore, senior management who are likely to be possession of unpublished price sensitive information, have been required to comply the provisions of the Model Code.

FINANCIAL REPORTING

The Board should present a balanced, clear and comprehensible assessment of the Company’s performance, position and prospects. Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

Corporate Governance Report

FINANCIAL REPORTING (Continued)

The directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the directors have:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
2. selected and applied consistently appropriate accounting policies;
3. made judgments and estimates that are prudent and reasonable; and
4. prepared the accounts on the going concern basis.

The statement by the auditors of the Company about the directors' reporting responsibilities are set out in the Report of the Auditors on page 33 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2005, KPMG is the auditors of the Company and only provided audit services to the Company and the Group. The remuneration for the year amounted to HK\$940,000.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The Board has delegated implementation of the system of internal control and reviewing all relevant financial, operational, compliance control and risk management function within an established framework to executive management.

An annual evaluation was carried out by the Company to perform documentations and review on the internal controls system of the Group. This evaluation covered all material controls, including financial, operational and compliance controls and risk management functions. It had been thoroughly discussed in a full board meeting. The Board was satisfied that the Group has fully complied with the Code Provisions on internal controls of the year.

For an individual case, it happened in 2004 but announced on 8 February 2005, owing to the misapprehension of the applicable test in respect of the trade receivable, the Company has not complied with releasing by an announcement pursuant to Listing Rules 13.13, 13.14 and 13.15 in a timely manner. The Company had performed an assessment in relation to the late announcement and certain procedures to enhance the compliance with the Listing Rules were complied. Subsequently, such disclosure of trade receivable was excluded from the Listing Rules.

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COMMUNICATION WITH SHAREHOLDERS

The Board has endeavoured to maintain an on-going dialogue with the shareholders and in particular, use annual general meetings or other general meetings to communicate with the shareholders and encourage their participation by providing forum for them to raise comments and exchange views with the board. The Company's website offers communication channel between the Company and the shareholders and also updated and key information of the Group are available on the Company's website.

VOTING BY POLL

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.