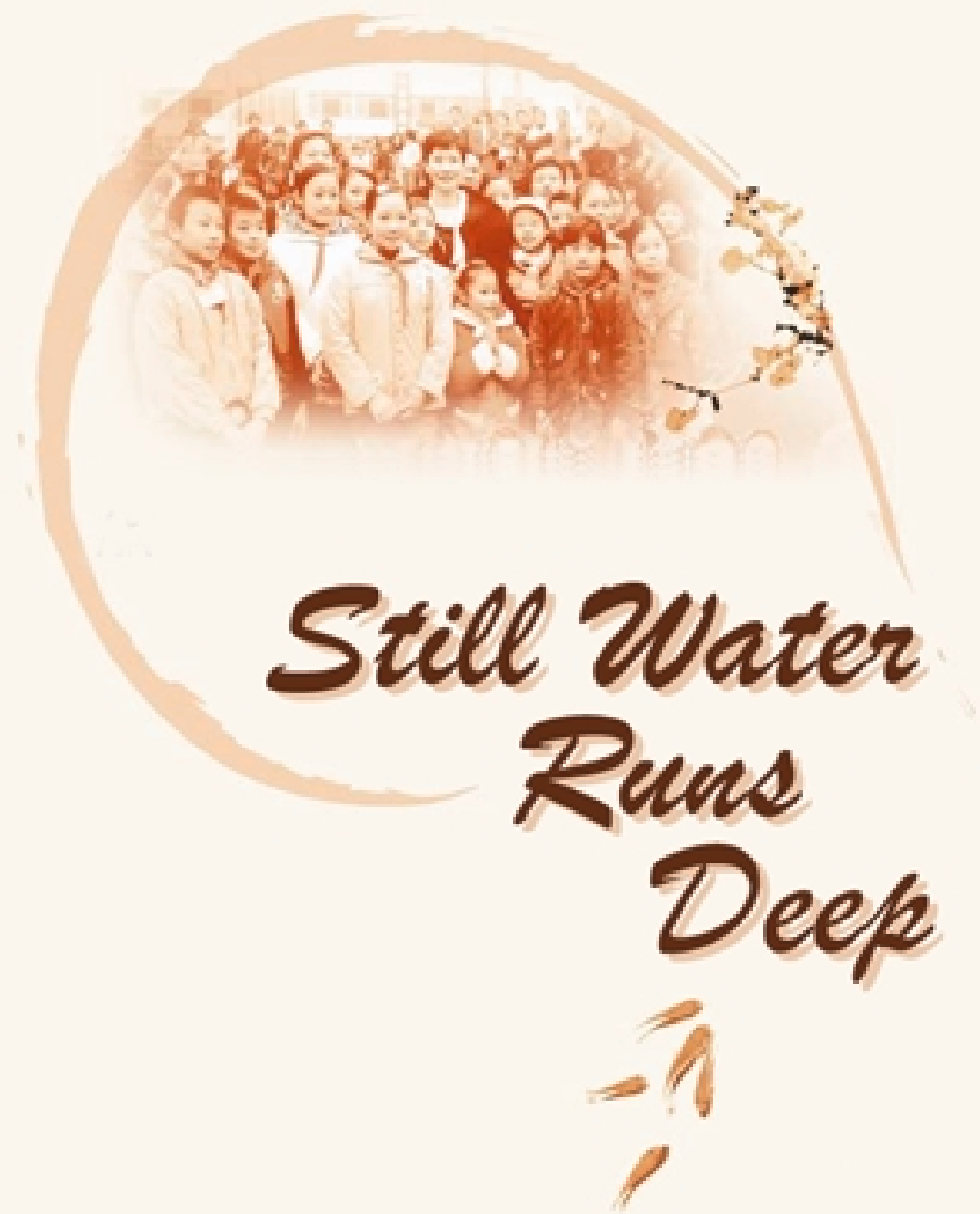


Responsibility, Honesty,
Wisdom and Value



CORPORATE GOVERNANCE

As a company incorporated and listed in Hong Kong, the Company strives to raise the standard of corporate governance. This reflects the commitment of the Board of Directors and senior management on abiding by the standards of corporate governance, as well as our willingness to maintain transparency and accountability on the management and approach of the Company.

MANAGEMENT STRUCTURE

The management structure of the Company is as follows:

Our management structure comprises of one focal point that includes the shareholders' meeting, the Board and the Management Committee and other six units, under which every unit plays an important role in achieving our goal of excellence in corporate governance of the Company.



COPERATE GOVERNANCE REPORT

The Company has strictly complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules in 2006, save for deviations from Code A.4.

The Corporate Governance Report of the Company during the year is set out 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. In addition, the Directors have acknowledged that the principal responsibilities of the Board also include preparation of accounts, as well as approving the result announcements and other announcement concerning operation conditions of the Company to be published to the public on a regular basis.

COMPOSITION OF THE BOARD

The Board comprises Mr. Wang Binghua, non-executive chairman of the Board, Ms. Li Xiaolin, vice-chairman of the Board, executive Director and chief executive officer, Mr. Hu Jiangdong, executive Director and the executive vice president, Mr. Gao Guangfu, 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.

Members of the Board have suitable and relevant experience, capabilities, and skills. Details are set out in the section headed “Directors and Senior Management Profiles” of this annual report.

The Board includes experts and scholars in electric power technology and management, as well as finance and law. They are not only experienced, but also have progressive thinking. More than one-third of our Board members are independent non-executive directors who can help the Board to make more effective independent judgement. The non-executive Directors (including the independent non-executive directors) who form the majority of the Board of the Company possess diverse expertise. As such, they are able to make decisions in an objective and professional manner, to assist the management team in formulating the Company’s development strategies, and to ensure that the preparation of financial and other mandatory reports by the Board are in strict adherence to appropriate standards 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 in accordance with the relevant requirement of the Listing Rules.

SECURITIES TRANSACTIONS 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 2006.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

For the financial year ended 31 December 2006, 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 A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to retirement by rotation and re-election. Code 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, 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 2007.

In order to achieve full compliance with the Code, the Company will 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 the chief executive officer is indispensable to the operations 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 minimizing disruption to the operations of the Company.

AVAILABILITY AND ACCESS OF THE INFORMATION OF THE BOARD MEETING

The Board held several regular meetings during the year. Before each Board meeting, sufficient notice of meeting was sent to each Director of the Company to promote better attendance of the Directors. To ensure a thorough understanding of the proposed matters by the Directors, the Company will provide the Directors with complete and reliable written reports in a reasonable period of time and the management or professionals will answer enquiries from the Directors at any time. The Board held five meetings during 2006 (average attendance was 100%). Minutes of the meetings are kept by the Company's secretary, and the Board and committee members may inspect the documents and minutes of the Board and the committees at anytime.

COMMITTEES UNDER THE BOARD

Currently, the Board has set up three Committees, namely Audit Committee, Compensation and Nomination Committee, as well as 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 of 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 two meetings during 2006 (average attendance was 100%). The committee together with the senior management, internal and independent auditors of the Company reviewed the internal and independent audit results, the accounting standards and practices adopted by the Group and discussed matters relating to audit, internal control system and financial reporting (including recommendations to the Board on approval of annual results for 2005 and interim results for 2006).

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 compensation packages for all executive Directors, including benefits in kind, pension benefit, 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 remuneration of the Directors approved by the shareholders are determined by the Board with reference to their experience, performance, duties and market conditions.

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 one meeting during 2006 (average attendance was 100%) to review and make recommendations in respect of the the Directors' remuneration in 2005 and the overall package for Directors, senior management and staff in 2006.

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 one meeting during 2006 to review relevant significant acquisitions (average attendance was 100%) .

Details of Directors' attendance at the Board meetings and meetings of Board committees held in 2006 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 <i>(Vice-chairman of the Board and chief executive officer)</i>	5/5	—	—	1/1
Hu Jiandong <i>(Executive vice president)</i>	5/5	—	—	1/1
Non-executive Directors				
Wang Binghua <i>(Chairman of the Board)</i>	5/5	—	—	1/1
Gao Guangfu	5/5	—	—	1/1
Independent Non-executive Directors				
Kwong Che Keung, Gordon	5/5	2/2	1/1	—
Li Fang	5/5	2/2	1/1	—
Tsui Yiu Wa, Alec	5/5	2/2	1/1	—

ACCOUNTABILITY AND AUDITING

During the interim and annual Board meetings, the Board received feedback from the management in regard to the Company's production, operating and financial situations, which helped us better understand and assess the Company's performance and position. Aside from making comprehensive and due analysis and evaluation on the Company's production, operational and financial situation, the management also reviewed the Company's future development goals.

The management has provided sufficient information and explanations to the Board, allowing the Board to make an informed assessment on the financial data and other information submitted to them. The Board also has the opportunity to request further detailed information from the Company which will comply with such request accordingly. The Company will hold meetings with the auditors on regular basis for making suggestions and inquiries.

The Board acknowledges its responsibility in preparing accounts. The auditors' report states the auditors' reporting responsibilities.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the Company has reviewed the performance of PricewaterhouseCoopers as the Company's auditors (the "Auditors") and is considering their reappointment. For the year ended 31 December 2006, the remuneration payable to the Auditors amounted to approximately HK\$3,740,000, while the fees for non-auditing services, including the review of interim reports and other services in connection with the acquisition of Shanghai Power, amounted to approximately HK\$7,050,000 in aggregate.

INTERNAL CONTROL SYSTEM

The Board put particular emphasis on risk management and strengthening internal monitoring system. In respect of organizational structure, the Company has established the Investment and Risk Control Committee, the Compensation and Nomination Committee and the Audit Committee. The principles of the internal control framework are: to strengthen the Company's internal monitoring and control in accordance with the requirements of the Hong Kong Stock Exchange, continuously improve the Company's management structure, build up integrity corporate culture, establish an effective control system, continuously assess the competence of the internal control system and the efficiency of the management through auditing, investigations on conflicts of interests and internal assessment and etc. The department will remind the management on risks and ensure the smooth running of the control system.

The Company established the Internal Control Department, which is crucial to the Company's internal controls which have been included as part of the Company's development strategy. Committed to creating a good internal control environment, the Internal Control Department provides internal control assessment report to the Chief Executive Officer on a regular or random basis. It also regularly reports to the Audit Committee and the Board on internal control affairs. To minimize risk faced by the Company, the department evaluates and reviews the Company's internal control process, providing a solid foundation for building up an effective internal control system.

In respect of system establishment, the Company has appointed a management consulting company for the assessment of its internal control system. The assessment began with our business process analysis for risk assessment. By making comparison with leading exemplars and models, the consultant assessed the completeness, rationality, effectiveness of the internal control structure and system of the Company and its wholly-owned holding companies while introducing recommendations for improvements. In accordance with the management consultant's recommendations, the Company has initiated a broad discussion on its management structure, business scopes and philosophy for enhancing our standard of knowledge on system establishment and implementing optimization initiatives. As such, the Company's system modification was carried out in full swing. A total of 210 systems were modified, covering all of the Company's business operation and reinforcing its internal control system.

As for internal auditing, the Company has strengthened its efforts on internal audit items such as non-production energy consumption, budget management, fuel management, and performance assessment this year under its integrated management focuses. With enhanced effectiveness of the internal audit function, internal audit was conducted for the independent and objective supervision and assessment on the adequacy and effectiveness of the operation of the internal control system.

The Company has linked its risk management to internal control. By taking the risk management framework requirements of the Committee of Sponsoring Organizations of the Treadway Commission risk management framework and risk management guidelines set out by the Hong Kong Association of Certified Public Accountants into full account, the Company was able to make prompt efforts necessary for internal control and took a proactive approach in developing risk management. Having considered our operation as a listed company, we have fully revised risk management regulations, restricting the Company's risk scale, and divided into our risk exposure into 128 categories. Furthermore, we have set comprehensive procedures and interface for risk management and required situation on risk management to be reported to our senior management and the Board.

COMMUNICATION WITH SHAREHOLDERS

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 have a better understanding about the operation of the Company.

The Company also holds regular press conferences and meetings with financial analysts and investors, during 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 in a prompt, complete and accurate manner. The Company's website is updated continuously, providing up-to-date information regarding every scope of the Company to investors and the public.

The Company features the Capital Markets and Investor Relations Department, which takes charge of the Company's relationship with investors relations by providing information and services to investors, promptly replying to their enquiries, and maintaining channels of active and timely communications with them.