



Actively Pursue

Nuclear Power, Wind Power

Expand the Realms of
Generation Technology

During the Year, the Company invested in the construction of two nuclear power generation units of the 1,000 MW class, and the State's authorities have already given approval on relevant preliminary works.

The construction work of the Company's Bayin Wind Power Plant Phase I in Zhuozi also commenced during the Year, with all units in the project expected to commence operation in 2007. The Company will continue to expand the realms of power generation technology, gearing up fully for a rapid, sustainable development through the utilisation of new resources and new technologies.



Corporate Governance Report



During 2006, the Company continued to apply the principles as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “HKEx”) to various aspects of the corporate governance system and materialised such principles in the implementation of the Company’s various regulations and corporate management. During the Year, the Company has fully complied with the code provisions (the “Code Provisions”) of the Code on Corporate Governance Practices, and reached or even exceeded the best recommended practices in the Code on Corporate Governance Practices in certain aspects.

The corporate governance condition of the Company is hereby reported as follows:

1. SHAREHOLDERS AND GENERAL MEETING

For years, apart from committing itself to the operation and expansion of its businesses in order to attain appropriate returns for shareholders, the Company also provides details on the Company’s operations management and relevant information to shareholders in a timely and accurate manner through a variety of channels and methods, including: the convening of the annual general meeting each

year as required to decide on the Company’s operating strategies and investment plans, as well as electing and replacing directors and supervisors; reviewing the work of the board of directors (the “Board”) and the supervisory committee, as well as considering and approving the Company’s annual financial budgets, final accounts and profit distribution plans; regularly publishing the interim and annual results and the interim and annual reports of the Company, providing details of the Company’s operating status and directors’ conditions as well as replying to issues in concern of shareholders’ and investors’; and releasing relevant information on major decisions by the Board, the execution of general meeting resolutions by the Board and the Company’s implementation of Board decisions to shareholders on a timely basis, with reference to the regulations stipulated by the Listing Rules. The Company has also established specific divisions to assign specific staff to handle relevant work and receive visitors, with contact numbers published to answer phone enquiries at any time. In addition, the Company’s website has been set up to provide updates and past results on the Company, as well as the management organisation of the Company, so as to facilitate a comprehensive understanding of the Company by shareholders and investors.

2. DIRECTORS AND THE BOARD

Pursuant to the Company's articles of association (the "Articles of Association"), major duties of the Board include: determining the business plans and investment proposals of the Company, formulating its capital addition and reduction plans, formulating its proposal on the amendments to the Articles of Association and merger and demerger schemes, determining its annual financial budgets, final accounts, profit distribution plans and proposals for making up losses, deciding upon the setting up of the Company's internal management organisation and laying down the Company's fundamental management system. The management is responsible for the actual execution of the Board resolutions and daily management matters.

The Board comprises 15 directors (the "Directors"), including two executive Directors, eight non-

executive Directors and five independent non-executive Directors. Independent non-executive Directors represent one third of the Board, which is in compliance with the best recommended practices on Corporate Governance Practices.

Members of the Board are equipped with various experience, ability, expertise and judgment (see the profiles of the members of the Board as set out in this annual report for details) appropriate for the Board. Directors consist of experts in power-related technics and management, experts in finance and scholars. Each of them has extensive experience, and is intelligent and open-minded, and diligent and responsible as well.

During the Year, the Board held nine meetings, the attendance by the Directors (in person or in proxy by other Directors) was 100%.

Executive Directors	Attendance (%)	Non-executive Directors	Attendance (%)	Independent Non-executive Directors	Attendance (%)
Zhang Yi	100	Zhai Ruoyu	100	Xie Songlin	100
Yang Hongming	100	Hu Shengmu	100	Xu Daping	100
		Fang Qinghai	100	Yu Changchun	100
		Liu Haixia	100	Liu Chaoan	100
		Guan Tiangang	100	Xia Qing	100
		Su Tiegang	100		
		Ye Yonghui	100		
		Tong Yunshang	100		

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors. After making specific queries with each Director and according to the information obtained, the Board confirms that all Directors complied with the Model Code during the Year.

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman (chairman of the Board, Mr. Zhai Ruoyu) and President of the Company (Mr. Zhang Yi) are held by two different persons respectively. It is expressly provided in the Articles of Association the power of the Chairman and the President. The main duties of the Chairman include presiding over the general meetings, convening

and presiding over Board meetings and reviewing the status of the implementation of the Board's resolutions. The main duties of the President include: (1) to take charge of the production and operation management of the Company, and coordinate the implementation of the Board resolutions; (2) to coordinate the implementation of the Company's annual operation plans and investment proposals; (3) to formulate the Company's internal management systems; (4) to lay down the Company's fundamental management system; (5) to formulate the fundamental constitution of the Company; (6) to propose the appointment or dismissal of the deputy managers and person in charge of finance; (7) to appoint or dismiss other officers in charge that are not appointed or removed by the Board and so forth. The relevant division of duties and authorities maintains the afore-mentioned governance structure where duties and authorities are clearly defined and each individual fulfills his/her own duties.

4. NON-EXECUTIVE DIRECTORS

The Company has a total of 13 non-executive Directors. It is provided in the Articles of Association that the term of appointment of Directors (including non-executive Directors) shall not exceed three years and Directors are eligible for re-election and re-appointment. Any new Director will take office only after being elected and approved at the general meeting.

The Articles of Association has not expressly provided that the Directors would retire in rotation once every three years.

5. REMUNERATION OF DIRECTORS

During the Year, the remunerations of the executive Directors and senior management of the Company followed the salary system stipulated by the State. In accordance with the decision of the Board, the annual remuneration for each independent non-executive Directors was RMB60,000. The remunerations for other non-executive Directors were determined by their respective salary systems as provided and paid by their respective affiliated entities. The Remuneration and Appraisal Committee of the Company comprises five

Directors with non-executive Directors being a majority, including independent non-executive Directors Liu Chaoan (President), Xu Daping, Xia Qing and non-executive Director Hu Shengmu and executive Director Yang Hongming. Their major duties include: to examine the criteria for the appraisal of Directors and managers, to conduct the appraisal and make recommendations, to examine and review the remuneration policy and plans of the Directors and senior management. As the Company did not enter into service contracts with the executive Directors, thus the duties of the Committee did not include the approval of the terms for the service contracts of the executive Directors. In March 2007, the Board (including the Remuneration and Appraisal Committee) reviewed the performance and level of remuneration for the executive Directors and senior management of the Company in 2006. The composition and level of remuneration were disclosed in this annual report.

6. NOMINATION OF DIRECTORS

It is provided in the Articles of Association that Directors are elected and removed by the general meeting of the Company with each term of appointment not exceeding three years and are eligible for re-election and re-appointment. The Board has yet to set up a nomination committee. Any change to the composition of the Board will be initiated through the Board, for which the Board will publish biographies of candidates recommended before the general meeting of the Company on the basis of recommendations of the shareholders and a review of the candidates' experience, so that all shareholders will be fully aware of the background of the candidates and exercise the power of the shareholders to elect the Directors.

During the Year, there was no change in Board membership. The term of the fifth session of the Board will expire on 30 June 2007. At the 21st meeting of the fifth session of the Board held on 30 March 2007, it was agreed to submit the issue of forming the sixth session of the Board at the 2006 annual general meeting for consideration.

7. AUDITORS' FEES

During the Year the auditing service fee payable by the Company amounted to approximately RMB12.605 million; the non-auditing service fee amounted to approximately RMB439 thousand. Such non-auditing services included the issuance of letters of comfort and training in relation to the new PRC GAAP.

8. THE AUDIT COMMITTEE

The Audit Committee under the Board comprises five Directors, of whom a majority are independent non-executive Directors. Major duties of the Audit Committee include: to supervise the Company's internal audit system and its implementation; to facilitate the communication between internal and external audit parties; to review the Company's financial information and term disclosure; to review the Company's internal control system and to propose the appointment or replacement of external audit firms. The Company's Directors, supervisors, chief financial manager, other senior management members as well as external auditors of the Company are invited to attend the Audit Committee meetings. The Audit Committee is also responsible for discussing the internal control and financial management affairs of the Company. The Directors understand and recognise their responsibility of compiling the accounts. As for the auditors' statement of responsibility, please refer to the Auditors' Report in this annual report.

During 2006, the Audit Committee convened two meetings. Conscientious audits of the Company's interim and annual results and related financial matters as well as the Company's internal control system were conducted. It also duly assessed the auditors' work. The Audit Committee considered that the Company's internal control systems have achieved remarkable results on internal control system and have effectively controlled the production and operation risks of the Company. Meanwhile, the Audit Committee has proposed to the Board to re-appoint

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Company's auditors for 2007; the re-appointment will become valid subject to the approval at the 2006 annual general meeting.

During the Year, the attendance by the members of the Audit Committee was as follows:

	Attendance (%)
Convenor:	
Yu Changchun (Independent non-executive Director, financial management expert)	100%
Members:	
Xu Daping (Independent non-executive Director)	100%
Xia Qing (Independent non-executive Director)	100%
Ye Yonghui (Non-executive Director)	100%
Guan Tiangang (Non-executive Director)	100%

9. INTERNAL CONTROL AND GOVERNANCE OF THE COMPANY

The Board put strong emphasis on risk management and strengthening internal controls. Apart from establishing the Audit Committee, the Remuneration Committee and the Development and Strategy Committee under the Board, the Company has also established several specialist committees including the Budget Management Committee, the Safe Production Committee, the Steering Group for Energy Saving and Internal Audit, in respect of its operations so as to assist the Company in making various important decisions in daily operations. The specialist committee system has been adopted for years and has been useful in risk prevention. In 2006, the Company has further established steering groups and task forces, including Safe Production Emergency Management, Stability Emergency Management and Public Hygiene Emergency Management and formulated relevant proposals to handle such incidents.