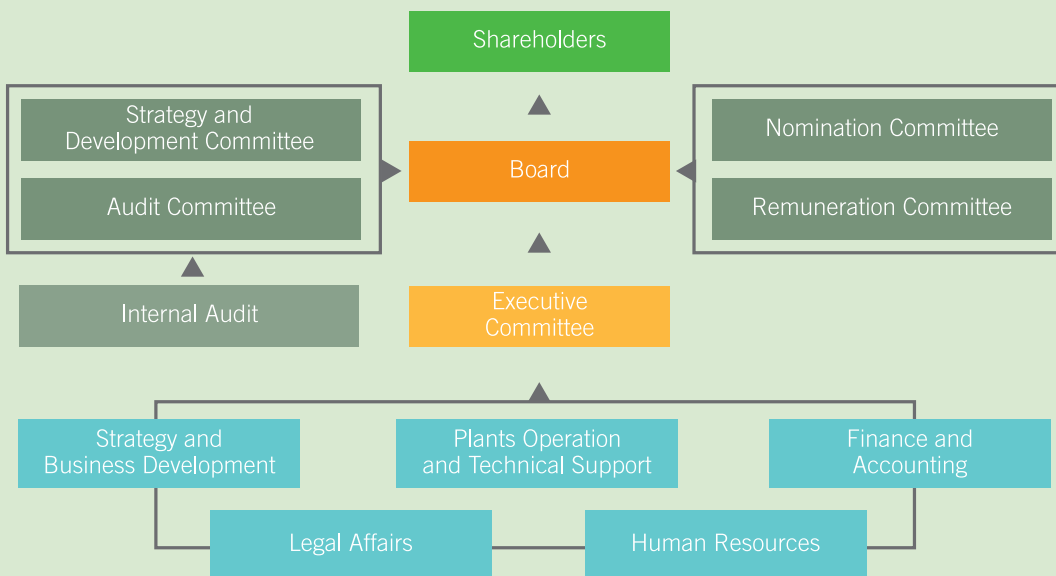


# CORPORATE GOVERNANCE REPORT

CR Power regards corporate governance as a part of value creation, and has been committed to improving the overall standard of corporate governance with reference to international corporate governance practices. The Board acknowledges its responsibilities in establishing and maintaining a good corporate governance structure and complying with the best corporate governance practices in order to continuously improve its accountability and transparency, to be fair to each shareholder and create value for all shareholders.

## CORPORATE GOVERNANCE STRUCTURE



In 2006, CR Power applied the principles and complied with all of the provisions as well as most of the recommended best practices of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) promulgated by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The following summarizes CR Power’s corporate governance practices and explains deviations, if any, from the Code.

## A. Directors

### A.1 The Board

#### *Principle*

*The Board should assume responsibility for leadership and control of the Company and be collectively responsible for promoting its success by directing and supervising the Company's affairs. Directors should take decisions objectively in the interests of the Company.*

The Board is responsible for the Company's corporate governance, and is ultimately accountable for the Company's activities, strategies and financial performance.

The responsibilities of the Board include the following:

- 1) determine the strategies, objectives, policies, and business plans of the Company and supervise the execution of the Company's strategies;
- 2) supervise and control the operating and financial performance of the Company, and set appropriate risk control policies and procedures to ensure that the strategic objectives of the Company are fully implemented;
- 3) monitor the performance of the senior management and set appropriate remuneration of senior members of management; and
- 4) perfect the corporate governance structure in order to enhance communication with shareholders.

The Company has in place internal guidelines setting forth matters that require the Board's approval. Under the guidelines, investment on new power plants, expansion of existing power plants and acquisition of power plants and related business and assets, as well as all commitment to syndicated loans, among others, require the approval of the Board.

The Board is supported by four committees. Each committee has its own responsibilities, power and functions. The chairmen of respective Committees report to the Board regularly and make recommendations on matters discussed when appropriate.

The directors' attendances at the meetings of the Board and Board Committees held in the period under review are as shown below:

Board/ Board Committees	Board		Board Committees		
		Strategy and Development	Audit	Remuneration	Nomination
No. of meetings held	4	3	2	1	2
Directors	No. of meetings attended				
Song Lin		3		1	
Wang Shuai Ting	4	3			2
Shen Zhong Min <sup>1</sup>	1	2	1		
Tang Cheng	4	3			
Zhang Shen Wen	3	3			
Wang Xiao Bin <sup>2</sup>	4		2		1
Jiang Wei	1				
Fong Ching, Eddy <sup>3</sup>	2		2	1	
Anthony H. Adams	4		2	1	2
Wu Jing Ru	4		1		2
Chen Ji Min <sup>4</sup>	4		1		
Ma Chiu-Cheung, Andrew <sup>5</sup>	1				

Note 1: Mr. Shen Zhong Min resigned as an executive director of the Company and a member of the Strategy and Development Committee of the Board on 30 June 2006.

Note 2: Ms. Wang Xiao Bin was appointed as an executive director of the Company on 13 February 2006.

Note 3: Mr. Fong Ching, Eddy, resigned as an independent non-executive director of the Company, the Chairman and a member of the Audit Committee and a member of the Remuneration Committee of the Board on 20 October 2006.

Note 4: Mr. Chen Ji Min was appointed as an independent non-executive director of the Company, a member of the Audit Committee and a member of the Strategy and Development Committee of the Board on 13 February 2006.

Note 5: Mr. Ma Chiu-Cheung, Andrew, was appointed as an independent non-executive director of the Company, the Chairman and a member of the Audit Committee, and a member of the Remuneration Committee of the Board on 13 December 2006.

In accordance with the recommended best practices, the Company has arranged insurance cover in respect of legal action against its directors.

The Company has complied with the above principle, code provisions A.1.1 to A.1.8 and all recommended best practices.

## A.2 Chairman and Chief Executive Officer

### *Principle*

*The operation and management of the Board and the day-to-day management of the Company's business should be clearly divided at the Board level to ensure that there is a balance of power and authority and that power will not be concentrated in any one individual.*

The roles of Chairman and Chief Executive Officer of the Company are performed by different individuals and the division of responsibilities between the Chairman and the Chief Executive Officer has been clearly established and set out in writing.

The Chairman of the Board of the Company is Mr. Song Lin, who is responsible for providing leadership for the Board. His duties are mainly to ensure the effective operation of the Board, and also to ensure the establishment of and compliance with the corporate governance practices and procedures. The Chairman is also responsible for ensuring that appropriate procedures are adopted to guarantee effective communications with shareholders, and that the shareholders' opinions are circulated among all Board members.

The Chief Executive Officer of the Company is Mr. Wang Shuai Ting, who is responsible for managing the Company's business and coordinating overall business operations, implementing major strategies approved by the Board and making day-to-day operation decisions.

None of the members of the Board has any connections (including financial, business, family relationship and other material/related relationships) with each other (including between the Chairman and the Chief Executive Officer).

The Company has complied with the above principles, code provisions A.2.1 to A.2.3 and all recommended best practices except A.2.7.

### A.3 Composition of the Board

#### *Principle*

*The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. A balanced composition of executive directors and non-executive directors helps ensure the independence of the Board and enables it to make independent judgments effectively.*

The Board currently consists of 10 directors, 5 of whom are executive directors, 1 is non-executive director and 4 are independent non-executive directors. The number of independent non-executive directors has met the requirement of Rule 3.10 of the Listing Rules.

Set out below are details of the composition of the Board and the Committees:

Name of Director	Board Role	Committee Membership			
		Strategy and Development	Audit	Nomination	Remuneration
Song Lin	E, Chairman				Chairman
Wang Shuai Ting	E	Chairman		Chairman	
Tang Cheng	E	√			
Zhang Shen Wen	E	√			
Wang Xiao Bin	E				
Jiang Wei	NE				
Ma Chiu-Cheung, Andrew	ID		Chairman		√
Anthony H. Adams	ID		√	√	√
Wu Jing Ru	ID	√	√	√	
Chen Ji Min	ID	√	√		

Note:

- E : Executive Director
- NE : Non-executive Director
- ID : Independent Non-executive Director

The Company posts the names and biographical details of the Board members on its website ([www.cr-power.com](http://www.cr-power.com)), in which whether they are independent non-executive directors are noted.

Each member of the Board has different background and professional abilities. Each of them is well-experienced in his/her respective area such as development, construction, operation as well as management of power plants, capital markets and financial management. Mr. Ma Chiu-Cheung, Andrew, is the independent non-executive director with appropriate professional qualifications as required under Listing Rules and is appointed to head the Audit Committee, which comprises only independent non-executive directors. Brief biographies of Board members are disclosed on page 16 to page 18 of this Annual Report.

The Company has complied with the above principles, code provision A.3.1 and all recommended best practices.

#### A.4 Appointments, re-election and deposition of Board members

##### *Principle*

*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. All directors should be subject to re-election at regular intervals.*

The Company has established a nomination committee with specific written terms of reference. The Nomination Committee is mainly composed of independent non-executive directors. Currently, the Nomination Committee comprises three directors, namely Mr. Wang Shuai Ting as the Chairman, and Mr. Anthony H. Adams and Mr. Wu Jing Ru as members.

The main role of the Nomination Committee is to assure the process of appointments and re-election of the Board members are transparent and to assess effectiveness of the Board as a whole and the contribution of individual directors to the effectiveness of the Board.

The responsibilities of the Nomination committee (as set out in the Company's website: [www.cr-power.com](http://www.cr-power.com)) are as follows:

- 1) to regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and make recommendations to the Board in relation to any proposed changes;
- 2) to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- 3) to evaluate the independence of independent non-executive directors; and
- 4) to evaluate the performance of directors and make recommendations to the Board in respect of the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and CEO.

The Chairman of the Committee reports the findings and recommendations of the Committee to the Board after each meeting.

In accordance with Article 120 of the Company's Articles of Association, one-third of the directors, including executive directors, non-executive directors as well as independent non-executive directors, retire by rotation and being eligible, offer themselves for re-election in the forthcoming annual general meeting of the Company, provided that every director of the Company shall be subject to retirement by rotation at least every three years.

During 2006, the Nomination Committee held two meetings to evaluate the effectiveness of the Board as a whole and to nominate Mr. Ma Chiu-Cheung, Andrew, to be an independent non-executive director and as the Chairman of the Audit Committee of the Board and made its recommendation to the Board.

Mr. Ma Chiu-Cheung, Andrew, has been appointed as an independent non-executive director of the Company and the Chairman of the Audit Committee of the Board with effect from 13 December 2006. Mr. Ma has entered into a 3-year term service contract with the Company. Pursuant to the Articles of Association of the Company, Mr. Ma will hold office until the next annual general meeting of the Company and will then be eligible for re-election.

The Company has complied with the above principles, code provisions A.4.1 to A.4.2 and all recommended best practices.

## A.5 Responsibilities of Directors

### *Principle*

*Every director is required to keep abreast of his/her responsibilities as a director of the Company and of the conduct, business activities and development of the Company. Non-executive directors have the same duties of care and skill, and fiduciary duties as executive directors.*

Every newly appointed director of the Company receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment in order to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements.

Having made specific enquiry about all directors, the Company confirmed that all directors have complied with their obligations under the Model Code set out in Appendix 10 of the Listing Rules.

The Company has established written guidelines for senior management in respect of their dealings in the securities of the Company. The Company issues notices to all directors and senior management and relevant employees and provide written guidelines to prohibit any dealings by such persons in the securities of the Company commencing at least one month prior to the date of any board meeting convened for review and approval of the Company's results for any report period.

The Company encourages directors to participate in continuous professional development seminars and courses and will fund such programmes. The non-executive directors are invited to attend plant visits and attend general meetings and develop a good understanding of our business and a balanced understanding of the views of our shareholders.

The Company has complied with the above principles, code provisions A.5.1 to A.5.4 and all recommended best practices.

## A.6 Supply of and access to information

### *Principle*

*Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities.*

In respect of regular board meetings and committee meetings, the Company's policy is to provide a 14-day notice prior to the meeting setting out the intended agenda. As much as practicable, an agenda and accompanying board papers are delivered in full to all Directors at least three days before the intended date of a board or board committee meeting.

All directors are entitled to have access to board papers and related materials. To enable directors to make decisions based upon the related data on hand, the Company's team is required to provide complete and reliable information and provide briefing to the Board in respect of the matters and issues under consideration.

The Company keeps the Board members informed of the latest developments of the Company in a timely manner. In addition to regular board meetings, the Company also provides the Board members with reports in relation to news releases, investor relations activities and share price performance on a monthly basis.

The Company has set out an internal guideline to enable directors to seek independent professional advice in appropriate circumstances at the Company's expense.

The Company has complied with the above principle and code provisions A.6.1 to A.6.3.

## **B. Remuneration of Directors and Senior Management**

### *Principle*

*The Issuer should disclose its directors' remuneration policy and information on other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his/her own remuneration.*

The Company has established a remuneration committee, comprising Mr. Song Lin, the Chairman of the Board, and two independent non-executive directors, namely Mr. Ma Chiu-Cheung, Andrew and Mr. Anthony H. Adams. Mr. Song Lin is the Chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee (as set out in the Company's website: [www.cr-power.com](http://www.cr-power.com)) are as follows:

- 1) to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
- 2) to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
- 3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- 4) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and
- 5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

The Remuneration Committee held one meeting in 2006.

The total remuneration of executive directors and senior management comprises three key components, namely basic salary, annual bonus and share options. The Company's policy is to determine executive directors' and senior managers' bonus based on the Company's and individual's performance for the year. The Company has also set up share option schemes to retain the best available personnel, to provide long-term incentive to employees and to ensure the interests of the executive directors, senior managers and staff are aligned with those of the shareholders. Please refer to note 12 under the section "Notes to the Financial Statements" in this Annual Report on pages 92 to 93 for details on directors' remuneration.

The Company has complied with the above principle, code provisions B.1.1 to B.1.5 and all recommended best practices.

## C. Accountability and Audit

### C.1 Financial reporting

#### *Principle*

*The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.*

The directors acknowledge that they are responsible for overseeing the preparation of financial statements of each financial period, which gives a true and fair view of the operating results and financial conditions of the Company.

In preparing the accounts for the year ended 31 December 2006, the directors have:

- a. selected appropriate accounting policies and applied them consistently;
- b. made judgments and estimates that are prudent and reasonable, and have prepared accounts on a going concern basis.

The Company has complied with the above principle and code provisions C.1.1 to C.1.3. Currently, the Company has not decided to announce and publish the quarterly result and has not complied with all recommended best practices.

### C.2 Internal controls

#### *Principle*

*The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.*

The Company's target is to establish an efficient and effective internal control system which comprises the following five components: control environment, risk assessment, control activities, information and communication and monitoring.

The Company believes that the control environment sets the tone of an organization and provides a foundation of all other components of internal control. It includes integrity, business ethics, management's philosophy and operating style, the way management assigns authority and responsibility, and attention and direction provided by the Board, all of which form and create a control environment.

The Company emphasizes on professional integrity and high business ethics. It creates handbooks and manuals for management and staff, explaining our fundamental value and corporate culture, which is based on honesty and integrity and focuses on value creation.



The Company and its subsidiaries provide regular training to its management and staff. The training sessions not only cover the technical and operational aspects of our businesses, but also on business ethics and corporate value.

The Company has created a Code for Managers that sets out the respective responsibilities, rights and reporting procedures of the management team, mainly the general managers, deputy general managers and chief financial officers of our power plants.

The Company has also laid out an evaluation and remuneration policy which encourages our management team to focus on return and value creation for shareholders.

The Company has an internal audit department that is independent of the activities it audits. The internal auditors report to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal auditors have unrestricted access to any and all aspects of the Company's and the subsidiaries' activities and business functions. The internal auditors can employ outside resources when necessary.

The responsibilities of the internal auditors include but not limited to the following:

- 1) to review adequacy and effectiveness of internal systems and controls;
- 2) to check compliance with the Company's policies and procedures, appropriate laws and good business practices; and
- 3) to ensure economical and efficient use of the Company's resources.

The directors have annually reviewed the effectiveness of the system of internal controls (including financial, operational and compliance controls and risk management functions) of the Company and its subsidiaries. The directors believe that in order to manage the risk of failure in achieving the Company's goals and objectives to an ultimate extent, the Company should improve continuously its internal control system.

During 2006, the internal audit department completed the internal audit and the follow-up audits on a number of power plants and representative offices of the Company, and presented their findings and recommendations to the Audit Committee and the Board.

The Company has complied with the above principles, code provision C.2.1 and all recommended best practices.

### C.3 Audit Committee

#### *Principle*

*The Board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. Audit Committee established by the Company pursuant to the Listing Rules should have clear terms of reference.*

The Company's Audit Committee only comprises independent non-executive directors, namely Mr. Ma Chiu-Cheung, Andrew (appointed as a director on 13 December 2006), Mr. Anthony H. Adams, Mr. Wu Jing Ru and Mr. Chen Ji Min (appointed as a director on 13 February 2006) as members. Mr. Ma Chiu-Cheung is the Chairman of the Committee (Mr Fong Ching, Eddy, the former Chairman of the Committee, resigned as an independent non-executive director of the Company and the Chairman of the Audit Committee on 20 October 2006). Mr. Ma Chiu-Cheung is a Certified Public Accountant (Practising) in Hong Kong, and a fellow member of the Institute of Chartered Accountants in England & Wales, Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and The Hong Kong Institute of Directors.

The terms of reference of the Audit Committee (as set out in the Company's website:www.cr-power.com) are as follows:

- 1) primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- 2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 3) to develop and implement policies on the engagement of an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- 4) to monitor integrity of financial statements, accounts, annual reports and interim reports of the Company and to review significant financial reporting judgments contained in them, including:
  - a) any changes in accounting policies and practices;
  - b) major judgment areas;
  - c) significant adjustments resulting from audit;
  - d) the going concern assumptions and any qualifications;
  - e) compliance with accounting standards; and
  - f) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 5) to review the Company's financial controls, internal control and risk management systems;
- 6) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system;
- 7) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- 8) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
- 9) to review and monitor the effectiveness of the internal audit function.

The Audit Committee held two meetings in 2006. External and internal auditors, representatives of the executive directors as well as senior management were invited to attend the Audit Committee meetings. In addition, the Board held a meeting in December 2006 to review the progress and results and findings of internal audits conducted in the second half of 2006 and to approve the internal audit plan for 2007.

There was no disagreement between the Board and Audit Committee on the selection and appointment of the internal and external auditors.

During 2006, the fees paid to the Company's external auditor amounted to HK\$5,257,000, of which fees paid for non-audit related services amounted to HK\$2,157,000. Non-audit related services mainly include financial due diligence work carried out in connection with acquisitions of certain business and assets.

The Company has complied with the above principles, code provisions C.3.1 to C.3.6 and all recommended best practices.

## D. Delegation by the Board

### *Principle*

*The Company should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company. There should be specified written terms of reference for the Board Committees and the authority and duties of the Committees should be expressly stated.*

The Board is mainly responsible for formulating and approving the business strategies, objectives, policies and plans of the Company, and monitoring the execution of the Company's strategies. It is also responsible for overseeing the operating and financial performance of the Company and establishing appropriate risk control policies and procedures in order to ensure that the strategic objectives of the Company are materialized. In addition, the Board is also responsible for improving the corporate governance structure and enhancing communications with shareholders.

The Board has delegated the responsibilities of the execution of strategies and decision-making for day-to-day operation of the Company to the management team headed by the Chief Executive Officer.

The management reports regularly to the Board on the operating and financial performance of the Company. Development, expansion and acquisition of power plants and other major capital expenditure and commitment, as well as major financing decisions are all to be reviewed and approved by the Board.

The Company has also established written terms of reference for the four committees (namely, audit, nomination, remuneration and strategy and development) of the Board. Details on the duties of the Board Committees have been set out in the Company's website ([www.cr-power.com](http://www.cr-power.com)).

The Company has complied with the above principles, code provisions D.1.1 to D.1.2 and code provisions D.2.1 to D.2.2.

## E. Communication with shareholders

### *Principle*

*The Board should endeavor to maintain an on-going dialogue with shareholders and in particular, use annual general meetings to communicate with shareholders and encourage their participation. The Company should regularly inform shareholders of the poll voting procedures and ensure compliance with the poll voting requirements of the Listing Rules and the Articles of Association of the Issuer.*

The Company and its Board and management highly value the opinions and requirements of our shareholders. The Company communicates with shareholders through various channels including publication of interim and annual reports, press releases and announcements of the latest developments of the Company on its corporate website in a timely manner. Shareholders may choose to receive the latest information released by the Company electronically.

The Company regards the annual general meeting as an important opportunity for communication with shareholders. The Chairman of the Board and the Chairmen of different Committees would attend the meeting as far as possible and respond to the enquiry of shareholders. The Vice Chairman of the Board and the Chief Executive Officer Mr. Wang Shuai Ting, executive director and the Chief Financial Officer Ms. Wang Xiao Bin, the Chairman of the Audit Committee Mr. Fong Ching, Eddy and independent non-executive director Anthony H. Adams attended the annual general meeting held on 26 May 2006.

Resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. Details of the proposed resolutions are also set out in the circular.

The Company also enhances communication with shareholders through various investor relations activities. The principal investor relations activities of the Company in 2006 are set out on page 56 to page 57 of this Annual Report.

The Company has complied with the above principles, code provisions E.1.1 to E.1.2 and code provisions E.2.1 to E.2.3.