

Corporate Governance Report

I. CORPORATE GOVERNANCE

Pursuant to Company Law, Securities Law, Management Standards for Listed Companies and the relevant requirements promulgated by CSRC, Shanghai Stock Exchange and the Stock Exchange, the Company continued to actively improve its corporate governance to regulate its operations. The Company established the Strategic Development Committee, the Assets Management Committee, the Audit and Review Committee and the Remuneration Committee under the Board. All the special committees report to the Board and exclusively consist of directors of the Company. The majority of members in the Audit and Review Committee and the Remuneration Committee are independent non-executive directors and the position of committees' chairman is assumed by independent non-executive directors. The Company has formulated a series of corporate governance systems including the Articles of Association, Rules of Procedures for Shareholders' General Meeting, Work Rules for the Board of Directors, Work Rules for the Supervisory Committee, Work Rules for the General Manager, Work Rules for Independent Non-executive Directors and the term of reference of each special committees.

In 2005, the Company fully complied with Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

II. BOARD OF DIRECTORS

1. Constitution of the Board

The Board consists of nine directors, of which three are independent directors. This is the fifth Board of Directors since the incorporation of the Company. Term of office of the directors started from 28 December 2005 and will expire on 27 December 2008.

Directors are elected or re-elected at general meeting by accumulative voting method. Shareholders and directors representing 5% and above of the issued shares were entitled to nominate director candidates in writing. Directors are appointed for a term of three years and eligible for re-election upon the expiry of the term of office. Independent directors are persons having no connected relationship with the management members and substantial shareholders of the Company. The service period of Independent directors is no more than 2 terms.

The positions of Chairman and General Manager are assumed by different individuals with distinct duties. Chairman presides over the work of the Board and superintends the implementation of resolutions of the Board while General Manager is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the assistance of the Board and other senior management members.

The Board members have diversified industry backgrounds. Their biographical details are set out in the section "Directors, Supervisors, Senior Management and Employees" of the annual report.

2. Independent Directors

The Board currently comprises three Independent Directors, representing 1/3 of the total members. All Independent Directors of the Company are aware of the power and obligations of directors and independent directors of listed companies. During the reporting period, Independent Directors attended Board meetings in circumspective, responsible, proactive and earnest manner. Utilizing their experiences and specialisation, they contributed effort in improving corporate management and making major decision and producing relevant and objective opinions on major events and connected transactions of the Company, enhancing the scientific development of the Board's decision and procedure thereof and safeguarding interests of the Company and shareholders effectively. All of the three Independent Directors assume positions in special committees under the Board.

The Board confirms that each of the independent directors has submitted their annual confirmation of their independence pursuant to Rules 3.13 of the Hong Kong Listing Rules.

II. BOARD OF DIRECTORS

3. Board Meetings

In 2005, eleven Board Meetings had been convened with the attendance rate of 100% (including attendance by proxy) to discuss the overall strategy, investment plan, operation and financial performance of the Company. Board Meetings could produce quick and prudent decision through fruitful discussion. Independent Directors of the Company had no objection to the Company's decisions. Details of the attendance of Board Meetings are set out in relevant tables of the section.

In order to keep all directors informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through secretary of the Company. In addition, in order to discharge duties or responsibilities or as required by business, Directors and the special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

The Company strictly observed the relevant restrictive stipulations regarding securities transactions by directors issued by domestic and Hong Kong regulatory institutions.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of Listing Rules (the "Model Code") of the Hong Kong Stock Exchange. The Company has made special enquiries to all Directors for preparation of this annual report, and all Directors has confirmed their compliance with the Model Code during the reporting period.

4. Auditors and their term of service (please refer to "11. Major Events")

The Company did not appoint a qualified accountant to assist the Financial Officer in accordance with Rule 3.24 of the Hong Kong Listing Rules. The Company is actively seeking to appoint an accountant with qualifications as stipulated in Rule 3.24 of the Hong Kong Listing Rules.

5. Special Committees under Board of Directors

The Board of Directors has established four special committees, each of which has the defined terms of reference to oversee the affairs of the Company's specific aspect.

Audit and Review Committee

The main duties of the Audit and Review Committee are to propose the appointment or change of the external auditors, to supervise of the Company's internal audit system and its implementation, to audit the Company's financial information and its disclosure, to discuss with the auditors on problems and reservations about the interim and final audits and matters the auditors may otherwise wish to discuss, to examine the Company's internal control system, to audit major connected transactions, and to review the letters from external auditors to the management and the management's response.

The Audit and Review Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Director Li Hongdong, Independent Director Mr. Chen Zhangwu and Independent Director Mr. Xie Songlin.

During 2005, the Audit and Review Committee convened two meetings altogether, which were presided over by Mr. Zheng Peimin, Chairman of the Audit and Review Committee. Details of the attendance are set out in the relevant table in this section. All matters passed at the meetings are well documented and maintained in accordance with the relevant rules. All the significant matters discussed by the Audit and Review Committee are also reported to the Board.

Work of the Audit and Review Committee during the year mainly include: to review the Group's annual and interim results announcement and financial reports; to check the matters relating to the Group's adoption of accounting policies and accounting practices; to verify the Company's connected transactions so as to comply with the fair, impartial and open principle and fully protect the minority interests; to assist the Board to make an independent evaluation on the effectiveness of the Group's financial reporting procedures and internal control systems; and to provide suggestions about the Company's significant events or to remind the management of the relevant risks.

II. BOARD OF DIRECTORS *(continued)*

5. Special Committees under Board of Directors *(continued)*

Remuneration Committee

The main duties of the Remuneration Committee are to formulate the remuneration policies and implementation plans in accordance with the main terms of reference, duties, significance of the directors and senior management members and the remuneration level of the relevant positions in corresponding enterprises; to review the performance of duties by directors and the senior management members of the Company and to make annual performance appraisal on them.

The Remuneration and Appraisal Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Director Liu Shigang, Independent Director Mr. Chen Zhangwu and Independent Director Mr. Xie Songlin.

The Remuneration and Appraisal Committee was established at the end of 2005 and convened no meetings in 2005.

Attendance of the Board meetings and meetings of each special committee (times of meetings/ times of attendance in person)

	The fourth Board	The Audit and Review Committee		The fifth Board
Directors			Directors	
Zhu Yuanchao	8/5		Liu Shigang	1/1
Han Zhiqiao	8/7		Zhu Yuanchao	1/1
Zhang Tiande	8/8		Li Hongdong	1/1
Gong Dan	8/7		Gong Dan	1/1
Jing Jiachuan	8/7	2/2	Han Zhiqiao	1/1
He Jianhua	8/5		Fu Haibo	1/1
Gao Feng	5/4			
Liu Hui	8/7			
Independent directors			Independent directors	
Chen Zhangwu	8/5	2/2	Chen Zhangwu	1/1
Xie Songlin	8/4	2/2	Zheng Peimin	1/1
Zheng Peimin	8/5	2/2	Xie Songlin	1/1

All directors who failed to attend the meetings in person have appointed other directors to attend and vote at the meetings.

Furthermore, the Strategic Development Committee and the Assets Management Committee of the Board of Directors have actively carried out their duties in accordance with their duties.

III. MONITORING MECHANISM

1. Supervisory Committee

The Supervisory Committee is the Company's standing supervisory institution. The Supervisory Committee is responsible for supervision over the Board of Directors and its members and senior management members, so as to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staff. Number of supervisors and the composition of the Supervisory Committee are in compliance with the relevant laws and regulations. In 2005, the Supervisory Committee held three meetings altogether, each of which was attended by all supervisors. The Supervisors act on behalf of shareholders to monitor the legitimacy of performance of the Company's finance, directors and senior management members, attend all Board meetings and fulfil their duties in an earnest manner.

2. Internal controls and internal audit

The Board is responsible for establishment and maintenance of the Company's internal control system for reviewing relevant financial, operating and supervisory control procedures to protect shareholders' interests and the Company's assets. The Board authorises the management to promote the internal control system and review its effectiveness through the Audit and Review Committee.

Attaching much importance to the internal control, the Company has set up relevant internal management systems and procedures for corporate governance, operation, construction, finance and administration and personnel to ensure the effective implementation of the management systems.

IV. SUBSTANTIAL SHAREHOLDER

The Company's substantial shareholder is China Dongfang Electric Corporation. The Company is independent of its substantial shareholder in such aspects as personnel, assets, financial affairs, organization and operation:

- (1) Operation: The Company is completely independent from its controlling shareholder in terms of operation and has a completely independent business which can operate on its own accord.
- (2) Personnel: The Company is independent from its controlling shareholder in labor, personnel and salary management. The Company has its own independent personnel department. The senior management members are on the payroll of the Company.
- (3) Assets: The Company has independent systems for production, procurement and sales.
- (4) Organization: The Company is completely independent from its controlling shareholder in terms of organization and has its own independent office and operating premise.
- (5) Financial activities: The Company has an independent finance department, independent accounting and auditing systems and financial management systems as well as independent bank accounts.

V. INFORMATION DISCLOSURE AND INVESTOR RELATION MANAGEMENT

The Company continues to dedicate efforts in promoting investor relation management and information disclosure. The Secretary to the Board is in charge of information disclosure, and is accountable to the office of the Board of Directors. The Company has instituted the Management Method for Information Disclosure and disclosed information on open, fair and impartial basis in strict compliance with the requirements concerning information disclosure, so as to enhance the transparency of the Company. With more efforts in investor relationship management, the Company organised to such activities as interview with investors, participation in investors' forum, holding of teleconference and results presentation to present to investors its the recent trend and potential development of the Company.