

CORPORATE GOVERNANCE

China Power strives to raise the standard of corporate governance and regards corporate governance as part of value creation. This reflects the commitment of the Board and senior management on abiding by the standards of corporate governance, as well as our willingness to maintain transparency and accountability to maximise the value of our shareholders as a whole.

CORPORATE GOVERNANCE REPORT

Except for the deviations from Rules A.2.1 and A.4, the Company has strictly complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules in 2009. The Corporate Governance Report of the Company during the year is set out below:

A. DIRECTORS

A.1 THE BOARD

The Board held eight meetings during the year and meetings were also held as and when necessary to discuss significant transactions, including material acquisitions and disposals and connected transactions, if any. All Directors can give notice to the Chairman or the company secretary if they intend to include matters in the agenda for Board meetings. Before each Board meeting, sufficient notice of meeting was sent to each Director to promote better attendance. To ensure a thorough understanding of the matters to be discussed in the meetings, the Company will provide the Directors with complete and reliable written reports in a reasonable period of time and the management will answer enquiries from the Directors at any time. Where necessary, the Directors can seek separate independent professional advice at the Company’s expenses so as to discharge his/their duties to the Company. Minutes of the meetings are kept by our company secretary, and the Board and committee members may inspect the documents and minutes of the Board and the committees at anytime. All Directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with.

We have arranged appropriate insurance cover on Directors’ and officers’ liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Ms. Li Xiaolin currently serves as chairman of the Board and chief executive officer. The Board believes that Ms. Li Xiaolin has served as the chief executive officer and accumulated extensive experience in the capital market and the industry. It will be more effective in developing the Company's long-term business strategies and in execution of the Company's business plans if Ms. Li Xiaolin continues to serve as the chief executive officer of the Company. To help maintain a balance of power, the Company has set up an Executive Committee. The Executive Committee was formed by all Executive Directors and senior management and meetings were convened regularly to make decisions on matters concerning the daily management and business of the Company.

The Chairman, Ms. Li Xiaolin, provides leadership for the Board. She is responsible for ensuring that all Directors receive adequate information, which must be complete and reliable, in a timely manner and that Directors are properly briefed on issues arising at the Board meetings. She also ensures that the Board works effectively and discharges its responsibilities; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole.

A.3 BOARD COMPOSITION

The Board comprises chairman of the Board and chief executive officer, Ms. Li Xiaolin, executive Director and the president, Mr. Liu Guangchi, two non-executive Directors, namely Mr. Gao Guangfu and Mr. Guan Qihong, 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 possess various experience, capabilities, and expertise suitable for and relevant to the Company's businesses. The Board includes experts in electric power technology and management, professionals in finance and law as well as scholars. 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 judgment. The non-executive Directors (including the independent non-executive Directors) who form the majority of the Board possess diverse expertise. As such, they are able to make decisions in an objective and professional manner, to assist the management 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 written 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.

A.4 APPOINTMENTS, RE-ELECTION AND REMOVAL

In accordance with our articles of association, one-third of the Directors (with the exception of the executive Director who is also the chief executive officer of the Company) will retire from office by rotation for re-election by shareholders at the annual general meeting after the annual general meeting in year 2007. In addition, any new appointment to the Board is subject to re-appointment by shareholders at the upcoming general meeting.

Code provision 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 provision A.4.2 also stipulates 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 (except Mr. Guan Qihong who has been appointed for a term of three years) 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. In addition, as provided in the articles of association 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.

The Company is of the view that the position of chief executive officer is crucial to the operation of the Company. The articles of association of the Company stipulate that the chief executive officer shall not be subject to retirement by rotation, which reflects the importance of this position and ensures that the impact of the change of personnel on the operation of the Company is kept to minimal.

A.5 RESPONSIBILITIES OF DIRECTORS

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as 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, other regulatory requirements, and especially the governance policies of the Company. The company secretary of the Company will continuously update and refresh Directors on areas regarding their responsibilities and relevant regulations. All Directors are required to disclose to the Company their offices held in public companies or organisations and other significant commitments.

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 2009.

A.6 SUPPLY OF AND ACCESS TO INFORMATION

Full Board or committee papers will be sent to all Directors at least three days before the intended date of a Board meeting or committee meeting.

Management has supplied the Board and its committees with adequate information and explanations so as to enable them to make an informed assessment of the financial and other information put before the Board and its committees for approval. Management is also invited to join the Board or committee meetings where appropriate.

All the Directors are also entitled to have access to timely information in relation to our business and make further enquiries where necessary, and they have separate and independent access to senior management.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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 and to determine the specific compensation packages for all executive Directors, including benefits in kind, pensions, benefits, 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 is determined by the Board with reference to their experience, performance, duties and market conditions.

The Compensation and Nomination Committee has 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 two meetings during 2009 (average attendance was 100%) to review and make recommendations in respect of the Directors' remuneration in 2009 and the overall remuneration package for Directors and senior management in 2009.

C. ACCOUNTABILITY AND AUDIT

C.1 FINANCIAL REPORTING

Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, Companies Ordinance and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgements and estimates made are prudent and reasonable. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive information announcements and other disclosures required under the Listing Rules and other statutory requirements.

C.2 INTERNAL CONTROLS

The Board puts particular emphasis on risk management and strengthening internal monitoring system. In respect of organizational structure, in addition to the Audit Committee, the Company has also established the Compensation and Nomination 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 corporate governance structure, build up corporate integrity culture, establish an effective control system, continuously assess the competence of the internal control system and the efficiency of the management through auditing, risk assessments and internal assessment, review identified risk exposures and ensure the effective running of the control system.

The Company has established the Internal Control Department which is crucial to the Company's internal controls. To create a good internal control environment, the Internal Control Department provides internal control assessment reports to the management on a regular or ad hoc 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 processes to avoid risks and provide a solid foundation for building up an effective internal control system.

The Company has preliminarily established a comprehensive internal control system, which includes seven parts, namely "basic framework of the internal control system", "management authorization manual", "staff disciplinary codes", "codes on conflicts of interests", "operation standards for internal control activities", "assessment standards for internal control system", and "implementation standards for internal audit", details of which are contained in our "Internal Control Manual". While taking into full account the risk management framework requirements of The Committee of Sponsoring Organisations of the Treadway Commission, the promoter of the National Commission on Fraudulent Financial Reporting, and risk management guidelines set out by the Hong Kong Institute of Certified Public Accountants, the internal control system of the Company also learns from the experience of outstanding management companies and takes into consideration our actual situation and business characteristics in formulating the control framework for assessing the efficiency and competence of the internal control system, which provide a solid foundation to ensure the effectiveness of the Company's operation activities, reliability of its financial reports and compliance of laws and regulations.

The Directors have reviewed the efficiency of internal control systems of the Company and its subsidiaries in aspects such as financial condition, operation, regulatory compliance and risk management. Directors believe that the internal control system is efficient and effectively controls the risks that may have impacts on the Company in achieving its goals.

In 2009, according to the “Internal Control Manual”, our Internal Control Department had assessed the internal control systems and reviewed the improvement works regarding the issues discovered during the 2008 internal control assessment. By analyzing 188 internal control points relating to the business processes, we have a better picture of the current conditions of internal control of each business unit and unearthed defects and weaknesses of the internal control system. By doing so, potential operation and management risks can be avoided and the corporate governance standard as well as economic benefits can be enhanced.

Furthermore, the Company put efforts in the promotion of risk management culture and raising awareness of risk control among its staff by providing training on risk management concepts and practices to the senior management and key personnel of internal control of the Company and its subsidiaries so as to maintain high standard of management. 640 staff has attended the training sessions.

The Company has enhanced its efforts in internal audit and reviewed our corporate social responsibility achievement, financial management, management of technological upgrading projects and legal compliance of continuous connected transactions 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 internal control system.

C.3 AUDIT COMMITTEE

The Company established the Audit Committee on 24 August 2004 with written terms of reference in compliance with the Listing Rules and the Code. The primary duties of the Audit Committee set out in its terms of reference, inter alia, include: (1) to communicate with internal auditor and determine annual internal audit plans, discuss internal audit procedures with the internal auditor at least once every six months, review and monitor the internal control systems, internal audit functions and effects of annual internal audit plans; (2) to make proposals to the Board on the appointment, re-appointment and removal of the external auditor, review and monitor the independence, objectivity and audit effectiveness of the external auditor in accordance with the relevant standards issued by the Hong Kong Institute of Certified Public Accountants, formulate and implement the engagement policy on the provision of non-audit services by the external auditor; (3) to review financial information of the Company; (4) to supervise the financial reporting system and internal control system including the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget; (5) to conduct any inspection authorised by the Board based on its terms of reference, in that case, the committee is entitled to solicit any necessary information from any employees while who have been instructed to assist the committee to satisfy any of its requirements.

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 have appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held two meetings during 2009 (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 and discussed matters relating to audit, internal control system and financial reporting.

D. DELEGATION BY THE BOARD

D.1 MANAGEMENT FUNCTIONS

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, budgets, major investments as well as mergers and acquisitions. In addition, the Directors have acknowledged that the principal responsibilities of the Board also include supervising and administrating the operation and financial position of the Company, approving the result announcements and other announcement concerning operation conditions of the Company to be published to the public on a regular basis, optimising corporate governance structure and promoting the communication with our shareholders.

D.2 EXECUTIVE COMMITTEE

Currently, the Board of the Company has set up three committees, namely Executive Committee, Audit Committee and Compensation and Nomination Committee to implement internal supervision and control on each relevant aspect of the Company. Details of Audit Committee and Compensation and Nomination Committee are set out in Sections C.3 and B above.

The Company established the Executive Committee in 2008. As a committee under the Board, the Executive Committee conducts its work under the guidance of the Board and reports to the Board pursuant to the "Working Guidelines for the Executive Committee" approved by the Board. The Chairman of the Board acts as the chairman of the committee. The members of the committee include the president, vice presidents, financial controller and other senior management. The functions and powers of the Executive Committee cover those of the original Investment and Risk Control Committee and extend to all important aspects relating to the operation and management of the Company.

The Executive Committee plays an important role in enhancing the quality of corporate governance as well as strengthening the management efficiency of the Company, and acts as a bridge for communication and connection between the Board and the management. The Executive Committee supervises and guides the management to timely implement the Board resolutions, and ensures that the Board can timely hear the voices of the operation and management staff and acts timely in respect of material operation affairs of the Company.

The Executive Committee held a meeting every month since its establishment, making a total of eleven meetings during the year. The Chairman of the Board, the president and senior management of the Company all attended each meeting.

E. 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 relevant information such as electricity generation regularly 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 aspect 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 investor relations by providing information and services to investors, promptly replying to their enquiries, and maintaining channels of active and timely communications with them.

F. ATTENDANCE RECORDS

Details of Directors' attendance at the Board meetings and meetings of Board committees held in 2009 are set out in the following table:

| Directors | Attendance Required | Attendance in Person | Attendance by Proxy |
|---|---------------------|----------------------|---------------------|
| <u>Board of Directors</u> | | | |
| Executive Directors: | | | |
| Li Xiaolin (<i>Chairman of the Board and chief executive officer</i>) | 8 | 3 | 5 |
| Liu Guangchi (<i>President</i>) | 8 | 8 | — |
| Non-executive Directors: | | | |
| Gao Guangfu | 8 | 8 | — |
| Guan Qihong | 8 | 8 | — |
| Independent Non-executive Directors: | | | |
| Kwong Che Keung, Gordon | 8 | 8 | — |
| Li Fang | 8 | 8 | — |
| Tsui Yiu Wa, Alec | 8 | 8 | — |
| <u>Audit Committee</u> | | | |
| Kwong Che Keung, Gordon (<i>Chairman of the Committee</i>) | 2 | 2 | — |
| Li Fang | 2 | 2 | — |
| Tsui Yiu Wa, Alec | 2 | 2 | — |
| <u>Compensation and Nomination Committee</u> | | | |
| Li Fang (<i>Chairman of the Committee</i>) | 2 | 2 | — |
| Kwong Che Keung, Gordon | 2 | 2 | — |
| Tsui Yiu Wa, Alec | 2 | 2 | — |

G. AUDITOR'S REMUNERATION

For the year ended 31 December 2009, the Company has reviewed the performance of PricewaterhouseCoopers as the Company's auditor (the "Auditor") and is considering their reappointment. For the year ended 31 December 2009, the remuneration payable to the Auditor amounted to approximately HK\$8,000,000, while the fees for audit related services, including the review of interim reports and other services in connection with the Company's acquisitions, amounted to approximately HK\$17,700,000 in aggregate.