

CORPORATE GOVERNANCE REPORT

The Company is committed to a high standard of corporate governance practices appropriate to the conduct and growth of its business.

The Company's corporate governance practices are based on the principles ("Principles") and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"). The Company has complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.4.1 and A.4.2, details of which are explained below. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Company acknowledges the important role of its Board of Directors ("Board") in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Company has formalised and adopted written terms on the division of functions reserved to the Board and delegated to the management.

The Board provides leadership and approves strategic policies and plans with a view to enhance shareholder interests while the day-to-day operations of the Company are delegated to the management.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

The Board of the Company comprises the following directors:

Executive Directors

Mr. David An (Chairman of the Board and Chief Executive Officer)

Ms. Feng Ya Lei

Mr. Zhou Nan Zheng

Mr. William W Liu

Mr. Fung Chi Kwan, Nicholas (appointed on 7th April, 2006)

Ms. Liu Zhijun (appointed on 7th April, 2006)

Independent Non-Executive Directors

Mr. Li Wai Keung (Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)

Mr. Liu Jian (Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee)

Mr. Chan Chun Wai, Tony (Chairman of Nomination Committee and Member of Audit Committee and Remuneration Committee)

None of the members of the Board is related to one another.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision 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. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation once every three years. There was no new director appointed to fill a casual vacancy during the year.

In order to ensure full compliance of the Company's Articles of Association with Code Provisions A.4.1 and A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Company's Articles of Association so that all directors (including the Managing Director or Joint Managing Director) will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Four Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year ended 31 December 2005 is set out below:

Directors	Attendance/Number of Meetings held during the tenure of directorship			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
<i>Executive Directors</i>				
David An (Chairman of the Board and Chief Executive Officer)	4/4	N/A	1/1	N/A
Feng Ya Lei	4/4	N/A	N/A	N/A
Zhou Nan Zheng	4/4	N/A	N/A	N/A
William W Liu*	4/4	1/1	N/A	1/1
Kwan Po Wan (resigned on 31 May 2005)	1/1	N/A	N/A	N/A
<i>Independent Non-Executive Directors</i>				
Li Wai Keung (Chairman of audit committee)	3/4	1/1	1/1	3/3
Liu Jian (Chairman of remuneration committee)	4/4	1/1	1/1	3/3
Chan Chun Wai, Tony (Chairman of nomination committee) (appointed on 23 May 2005)	3/3	1/1	1/1	2/2

* re-designated from Independent Non-Executive Director to Executive Director on 23 May 2006

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

CORPORATE GOVERNANCE REPORT

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior executives whenever necessary.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The respective responsibilities of the Chairman and the Chief Executive Officer are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The position of the Chairman is held by Mr. David An while the position of the Chief Executive Officer was held by Mr. David Charles Parker during the period from 25 April 2005 to 19 October 2005. Subsequent to the resignation of Mr. David Charles Parker, the position of the Chief Executive Officer is also held by the Chairman of the Board. However, the Board considers this temporary arrangement will not impair the balance of power and authority between the Board and the management of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

All the three independent non-executive directors together with Mr. William W Liu are the members of the Nomination Committee and Mr. Chan Chun Wai, Tony is the chairman of the committee.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 December 2005 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The Nomination Committee has recommended the appointment of Mr. Fung Chi Kwan, Nicholas and Ms. Liu Zhijun as additional Executive Directors of the Company and the Board appointed these two candidates as Executive Directors of the Company on 7 April 2006.

Mr. Fung Chi Kwan, Nicholas and Ms. Liu Zhijun together with Mr. Chan Chun Wai, Tony, who was appointed as an additional director by the Board on 23 May 2005, shall retire and being eligible, offer themselves for re-election by shareholders at the forthcoming annual general meeting pursuant to Article 99 of the Company's Articles of Association. In addition, Mr. David An and Ms. Feng Ya Lei shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting pursuant to Article 116.

CORPORATE GOVERNANCE REPORT

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 26 April 2006 contains detailed information of the directors standing for re-election and appointment.

Remuneration Committee

The Chairman of the Board and the three independent non-executive directors are the members of the Remuneration Committee and Mr. Liu Jian is the chairman of the committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior executives. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee consults the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2005 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior executives for the year under review.

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr. Li Wai Keung is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT

Responsibilities in respect of the Financial Statements and Auditors' Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 33.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2005 was disclosed on page 61.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Group's internal control framework, covering all material controls including financial, operational and compliance controls is established. The internal control framework also provides for identification and management of risk.

The management is accountable to the Board for operating and monitoring the system of internal control and for providing assurance to the Board that it has done so. The Board forms its own view on effectiveness after due and careful enquiry based on the information and assurances provided to it.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights and procedures are included in all circulars to shareholders convening shareholders' meetings and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.hansenergy.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.