

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

Enerchina Holdings Limited is dedicated to maintaining a good credible corporate governance practices with a view to being transparent, open and accountable to our shareholders, as well as to the stakeholders.

On 1 January 2005, the Code of Best Practices contained in Appendix 14 of the Listing Rules was replaced by the Code on Corporate Governance Practices (the "Code"). The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

## STATEMENT OF COMPLIANCE

The Company had complied with the code provisions as set out in the Code during the year ended 31 December 2005 with exception of the following:

### *Code Provision A.4.2 (last sentence)*

The code provision A.4.2 of the Code (the last sentence) provides that, every of Director (including Directors with specific terms) should be subject to retirement by rotation at least once every three years.

The Chairman of the Board was not subject to retirement by rotation at the annual general meeting of the Company held on 26 April 2005 in accordance with the provisions of Bye-laws before amendment.

To comply with the code provision A.4.2 of the Code, the Company at the annual general meeting of the Company held on 26 April 2005 passed a special resolution to amend its Bye-laws so that all directors are now subject to retirement by rotation at least once every three years.

## BOARD OF DIRECTORS

### Composition

The Board comprises 8 members. Mr. Sun Qiang Chang acted as Chairman of the Board before the redesignation on 2 June 2005 and Mr. Ou Yaping has acted as the Chairman of the Board since June 2005. After the redesignation, Mr. Sun Qiang Chang became a non-executive Director and the non-executive Vice Chairman of the Company. Other executive Directors are Messrs. Tang Yui Man Francis, Xiang Ya Bo and Xu Xinghai. The Company has three independent non-executive Directors, Messrs. Lu Yungang, Davin A. Mackenzie and Xin Luo Lin, all independent non-executive Directors have appropriate professional accounting experience and expertise.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each director is disclosed in pages 9 and 10 of this report.

Each of independent non-executive Directors has pursuant to the Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

Except for the family relationship of Mr. Xiang Ya Bo and Mr. Ou Yaping as disclosed in biographical details on page 9, there is no relationship (including financial, business, family or other material relationship) among members of the Board.

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Pursuant to the Bye-laws, the Directors shall hold office subject to retirement by rotation at the annual general meeting of the Company at least once every three years and eligible for re-election.

The term of office of each non-executive director including the independent non-executive directors is for a period of 1 year from 1 January 2006 to 31 December 2006 subject to retirement by rotation, except for Mr. Sun Qiang Chang, who was redesignated on 2 June 2005 as a non-executive director, his term of office is for a period of 1 year from 2 June 2005 to 1 June 2006.

### Function

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the rules governing the meeting of the Board, the managing director's working guides, Bye-laws and rules governing the meeting of shareholders.

The executive directors are responsible for day-to-day management of the Company's operations. These executive directors conduct regular meetings with the senior management of the Group, at which operational issues and financial performance are evaluated.

The Company views well-developed and timely reporting systems and internal controls are essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Bye-laws contain description of responsibilities and operation procedures of the Board. The Board holds regular meeting and listens to the operating reports of the Company and makes policies. Significant operating policies of the Company have to be discussed and passed by the Board. The Board meetings include regular meetings and irregular meetings. The Board meets formally at least 4 times a year.

Besides regular and irregular meetings, the Board obtains adequate information through working meetings, presided by the Chairman in a timely manner, to monitor objectives and strategies of the management, financial conditions and operating results of the Company and provisions of significant agreements.

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During 2005, the Board held 4 regular Board meetings at approximately quarterly interval and 26 irregular Board meetings which were convened when deemed necessary. Due notice and the Board papers were given to all Directors prior to the meeting in accordance with the Bye-laws and the Code. Details of individual attendance of directors are set out below:-

	<b>No. of meeting attended</b>
<b>Executive Directors</b>	
Ou Yaping ( <i>Chairman</i> )*	29
Xiang Ya Bo	17
Tang Yui Man Francis	29
Xu Xinghai	2
<b>Non-executive Director</b>	
Sun Qiang Chang*	5
<b>Independent Non-executive Directors</b>	
Lu Yungang	3
Davin A. Mackenzie	5
Xin Luo Lin	5

*\*Note: Mr. Sun Qiang Chang acted as Chairman of the Board before redesignation on 2 June 2005, while Mr. Ou Yaping became the Chairman of the Board since 2 June 2005.*

## Chairman and Managing Director

The Company has not appointed an individual managing director but the function and responsibility of managing director is taken by other executive directors. Therefore, the role of chairman and managing director is separate and not performed by same individual in order to preserve independence and have a balanced judgment of views. The Board has appointed a chairman, who has executive responsibilities and provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The said executive director has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

Before 2 June 2005, Mr. Sun Qiang Chang acted as the Chairman, while Mr. Ou Yaping was the Vice Chairman and acting the role of managing director. After 2 June 2005, Mr. Ou Yaping was appointed as the Chairman and the role of managing director was delegated to other executive Director, Mr. Xiang Ya Bo.

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## Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- regular board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in related party transaction; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

## Board Committees

A number of Board Committees, including the Audit Committee and the Remuneration Committee, have been established by the Board to strengthen its functions and to enhance its expertise. These committees have been formed with specific written terms of reference which deal clearly with the committees authority and duties.

## Remuneration Committee

The Board has established a Remuneration Committee comprising two executive Directors, Messrs. Ou Yaping and Xiang Ya Bo, and three independent non-executive Directors, Messrs. Lu Yungang, Davin. A. Mackenzie and Xin Luo Lin. It is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee have been reviewed with reference to the Code.

The Remuneration Committee's responsibilities are to review and consider the Company's policy for remuneration of Directors and senior management, to determine remuneration packages of executive Directors and senior management including benefits in kind, pension rights and compensation payments, and to recommend to the Board remuneration of non-executive Directors.

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Set out below is the summary of work of the Remuneration Committee done in 2005:-

- to review of the remuneration policy for 2005/2006;
- to review of the remuneration of the executive Directors and the independent non-executive Directors; and
- to review of the annual share option policy.

The Remuneration Committee held 1 meeting during 2005. Details of individual attendance of its members are set out in the table below:-

<b>Members of the Remuneration Committee</b>	<b>No. of meeting attended</b>
Lu Yungang	1
Davin A. Mackenzie	1
Ou Yaping	1
Xiang Ya Bo	1
Xin Luo Lin ( <i>Chairman of the committee</i> )	1

### Audit Committee

The Audit Committee is composed of three independent non-executive Directors, namely Messrs. Lu Yungang, Davin. A. Mackenzie and Xin Luo Lin. It is chaired by Mr. Xin Luo Lin. It reports directly to the Board and reviews matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditors to discuss audit process and accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

Set out below is the summary of work done in 2005:

- review the financial statements for the year ended 31 December 2004 and for the six months ended 30 June 2005;
- review the effectiveness of the internal control system;
- review the external auditors' audit findings;
- review and approve 2005 auditors' remuneration.

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The Audit Committee held 2 meetings during the year. Details of individual attendance of its members are set out in the table below:-

	<b>No. of meeting attended</b>
<b>Members of the Audit Committee</b>	
Lu Yungang	1
Davin A. Mackenzie	2
Xin Luo Lin ( <i>Chairman of the committee</i> )	2

### Nomination of Directors

The Board has not established a nomination committee. According to the Bye-laws, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new Directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company. There was no change in the directorship of the Company during the year.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2005, all Directors have complied with the required standard set out in the Model Code.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

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### EXTERNAL AUDITORS

The external auditors of the Company is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte provided services in respect of the Company's financial statements prepared under Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs") for the year 2005. Deloitte also reviewed the 2005 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year, the fees charged by Deloitte in respect of audit services amounted to HK\$2,658,000. In respect of non-audit services, the fees charged by Deloitte are set out as below:

<b>Description of professional services rendered in connection with:-</b>	<b>Fee HK\$'000</b>
- acting as reporting accountants for the issue of circular for the acquisition of 30% interest in Shenzhen Fuhuade	600
- the interim reviews of the financial statements of the Group for the six months ended 30 June 2005	310
- the migration exercise of a subsidiary of the Company, Panva Gas to the listing on Main Board of the Stock Exchange	5,000
- Other services	320
	<u>6,230</u>

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## INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control system in the new financial year and disclose the relevant measures to the public in a timely manner.

The Company encourages a risk aware and control conscious environment throughout the Company. The Board of Directors, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Company. These include strategic planning, political and regulatory, acquisitions, investments, expenditure control, treasury and environment.

Pursuant to the code provision C.2.1, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in the corporate governance report. Under the transitional arrangement, the said code provision C.2.1 will be implemented for accounting periods commencing on or after 1 July 2005.

## GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## SHAREHOLDERS COMMUNICATION

The objective of shareholders communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in all circulars accompanying notice convening general meeting and has been read out by the Chairman at general meeting.

At the 2005 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election Directors. The Chairman of the Board and the chairman of the Audit Committee attended the 2005 Annual General Meeting and all general meetings of the Company to answer questions of the Company's shareholders.

## DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 35.