

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

Maintaining high standards of corporate governance in everything we do in the Company. The Board and management of the Company are committed to exercise leadership, enterprise, integrity and judgment in directing the Company so as to achieve continuing prosperity for the Company and to act in the best interest of the Company and shareholders of the Company in a manner based on transparency, accountability and responsibility. With this philosophy in day-to-day operation of the Company, we, Panva Gas, had formed a sound foundation for corporate governance practices which is crucial to the smooth, effective and transparent operation of the Company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value.

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

The chairman and other members of the audit committee were unable to attend the annual general meeting of the Company held on 21 April 2005 because they were out of Hong Kong at that time for their personal business commitment. This does not meet with the first sentence of the code provision E.1.2 of the Code which provides that the chairman of the Board should attend the AGM and arrange for the chairman of the audit committee or another member of the committee or his duly appointed delegate to be available to answer questions at the annual general meeting.

BOARD OF DIRECTORS

Composition

The Board comprises 10 members. Mr. Ou Yaping acts as Chairman of the Board, whereas Mr. Tang Yui Man Francis acts as Vice Chairman of the Board. Mr. Chen Wei is Managing Director of the Company. Other executive Directors are Messrs. Li Fujun, Shen Lian Jin and Zhang Keyu. The Company has a non-executive Director, namely Mr. Fok Kin-ning, Canning, while Mr. To Chi Keung, Simon acts as an alternate Director to Mr. Fok. The Company also has three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru, both Messrs. Cheung Hon Kit and Ge Ming 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 are disclosed in pages 17 and 18 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.

There is no relationship (including financial, business, family or other material relationship) among members of the Board.

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Pursuant to the Articles of Association, 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.

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, Articles of Association 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 Company and its subsidiaries and associated companies, 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 Articles of Association 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. 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 17 irregular board meetings which were convened when deemed necessary. Due notice and Board papers were given to all Directors prior to the meeting in accordance with the Articles of Association and the Code. Details of individual attendance of Directors are set out below:–

	No of meeting attended
Executive Directors	
Ou Yaping (<i>Chairman</i>)	19
Tang Yui Man Francis (<i>Vice Chairman</i>)	19
Chen Wei (<i>Managing Director</i>)	16
Li Fujun	–
Shen Lian Jin	8
Zhang Keyu	3
Independent Non-executive Directors	
Cheung Hon Kit	4
Ge Ming	6
Li Xiao Ru	6
Non-executive Directors	
Fok Kin-ning, Canning	–
To Chi Keung, Simon (<i>Alternate Director to Mr. Fok Kin-ning, Canning</i>)	–

Chairman and Managing Director

The role of the Chairman, Mr. Ou Yaping, and the Vice Chairman, Mr. Tang Yui Man Francis are separate from that of the Managing Director, Mr. Chen Wei. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

The Chairman, assisted by the Vice Chairman, is the leader of the Board and he oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Managing Director, assisted by other executive Directors, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the Vice Chairman and the executive management team of each core business division, he ensures smooth operations and development of the Group. He maintains continuing dialogue with the Chairman, the Vice Chairman and all Directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

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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 Audit Committee, Remuneration Committee and Nomination 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 established a Remuneration Committee comprising two executive Directors, Messrs. Ou Yaping and Chen Wei, and three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru before October 2005. It was chaired by Mr. Cheung Hon Kit before October 2005.

After October 2005, the Remuneration Committee comprises one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru. It is chaired by Mr. Ge Ming.

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 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 the remuneration policy for 2005/2006;
- to review the remuneration of the executive Directors and the independent non-executive Directors; and
- to review 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:–

	No. of meeting attended
Members of the Remuneration Committee	
Chen Wei*	1
Cheung Hon Kit (<i>Chairman before October 2005</i>)	1
Ge Ming (<i>Chairman after October 2005</i>)	1
Li Xiao Ru	1
Ou Yaping	1

Note: Mr. Chen Wei was the member of Remuneration Committee before October 2005.

The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

Audit Committee

The Audit Committee is composed of three independent non-executive Directors, namely Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru. It was chaired by Mr. Cheung Hon Kit before Oct 2005, and since then it is chaired by Mr. Ge Ming. It reports directly to the Board and reviews 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 accounting issues, and reviews effectiveness of internal controls. 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 of the financial statements for the year ended 31 December 2004 and for the three months ended 31 March 2005, for the six months ended 30 June 2005 and the nine months ended 30 September 2005;
- review of the effectiveness of the internal control system;
- review of the external auditors' audit findings; and
- review and approve 2005 auditors' remuneration.

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The Audit Committee held 4 meetings during the year. Details of individual attendance of its members are set out in the table below:–

Members of the Audit Committee	No. of meeting attended
Cheung Hon Kit (<i>Chairman before October 2005</i>)	3
Ge Ming (<i>Chairman after October 2005</i>)	4
Li Xiao Ru	4

Nomination Committee

The Board has established a Nomination Committee comprising one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru. It is chaired by Mr. Ge Ming.

The Nomination Committee meets before the holding of the annual general meeting of the Company where the appointment of Directors will be considered. Written terms of reference, which describes the authority and duties of the Nomination Committee are regularly reviewed and updated by the Board.

According to the terms of reference, the Nomination Committee has the power from time to time and at any time to nominate 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 Nomination Committee has taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

Since the Nomination Committee was formed in Oct 2005 during the migration to the listing on the Main Board, the committee has reviewed the nomination policy laid down by the Board. As there is no change in composition of the Board, no meeting was held during the year 2005.

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 for 2005 amounted to HK\$1,998,000. In respect of non-audit services, the fees charged by Deloitte are set out as below:

<i>Description of services performed</i>	<i>Fee HK\$</i>
Interim review of the financial statements of the Company for the six months ended 30 June 2005	150,000
Professional services rendered in connection with the acquisition of Changchun Gas Holdings Limited	280,000
Professional services rendered in connection with the migration exercise of the Company to the listing on Main Board of the Stock Exchange	5,000,000
Total	<u>5,430,000</u>

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.

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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 attended the 2005 Annual General Meeting to answer questions of shareholders, while the chairman and other members of the Audit Committee were unable to attend the 2005 Annual General Meeting because they were out of Hong Kong at that time for their personal business commitment.

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 44.