

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 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 fully complied with the Code Provisions. 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 in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations.

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 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 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. 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 2006, 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.

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.

Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation at least once every three years.

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 was passed at the annual general meeting of the Company on 25 May 2006, 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 at least once every three years and any new director appointed to fill a causal 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.

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

CORPORATE GOVERNANCE REPORT

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 2006 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	2/2	N/A
Feng Ya Lei	3/4	N/A	N/A	N/A
Zhou Nan Zheng	3/4	N/A	N/A	N/A
William W Liu (resigned on 11 September 2005)	2/3	1/1	N/A	1/1
Fung Chi Kwan, Nicholas (appointed on 7 April 2006)	3/3	N/A	N/A	N/A
Liu Zhijun (appointed on 7 April 2006)	2/3	N/A	N/A	N/A
<i>Independent Non-Executive Directors</i>				
Li Wai Keung (Chairman of audit committee)	3/4	3/3	2/2	2/2
Liu Jian (Chairman of remuneration committee)	4/4	3/3	2/2	1/2
Chan Chun Wai, Tony (Chairman of nomination committee)	3/3	3/3	2/2	2/2

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.

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

Code Provision A.2.1 stipulates that roles of Chairman of the Board and Chief Executive should be separate and should not be performed by the same individual.

The Company supports the division of responsibility to ensure the balance of power and authority. However, in view of the fact that the Group's core business is carried out singularly by its subsidiary, GD(Panyu), and the fact that the Chief Operating Officer, China (de facto Chief Executive), who managed the core business, is a separate person, the Board consider there is no necessity to a separate Chief Executive at the Group level.

The Board has full confidence in Mr. David An and believes that his appointment of the posts of chairman and chief executive is beneficial to the business prospects of the Company.

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 are the members of the Nomination Committee and Mr. Chan Chun Wai, Tony is the chairman of the committee.

CORPORATE GOVERNANCE REPORT

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 three times during the year ended 31 December 2006 to ensure that the Board has a balance of expertise, skills and experience appropriate to meet the requirements of the business of the Company.

The Nomination Committee has accepted the resignation of Mr. William W. Liu and the Board accepted this resignation on 11 September 2006.

The Nomination Committee has also recommended the appointment of Mr. Zhang Lei as Chief Operating Officer, China of the Company and the Board appointed this candidate as Chief Operating Officer, China on 29 September 2006.

Pursuant to Article 116, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian shall retire by rotation. In addition, Ms. Feng Ya Lei shall retire at the forthcoming annual general meeting according to the terms of her appointment. Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian offer themselves for re-election at the forthcoming annual general meeting

The Nomination Committee recommended the re-appointment of Ms. Feng Ya Lei, Mr. Zhou Nan Zheng, Mr. Li Wai Keung and Mr. Liu Jian standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated 10 April 2007 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 twice during the year ended 31 December 2006 and approved bonus payments recommended by the management of the Company and the Board approved such payments on 15 April and 29 August 2006.

The Remuneration Committee approved the employment contract of Mr. Zhang Lei and the Board approved the contract on 29 September 2006.

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including two independent nonexecutive 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.

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, reappointment 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 two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures.

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.

CORPORATE GOVERNANCE REPORT

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 2006.

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.

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 2006.

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 30 to 31.

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 2006 was disclosed on page 56.

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.

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.