

# Corporate Governance Report

The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

## CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the seventeen months ended 31 December 2006, the Company was in compliance with the code provisions set out in the CG Code except for the followings:

<b>Deviation from the CG Code</b>	<b>Relevant CG Code provisions</b>	<b>Remedial steps have been taken to comply with the CG Code</b>
1. The roles and responsibilities between the Chairman and chief executive officer have not been divided.	A.2.1	Upon the appointment of chief executive officer on 30 August 2006, the Company has divided the roles and responsibilities of the Chairman and chief executive officer clearly.
2. The non-executive Directors are not appointed for specific term.	A.4.1	The non-executive Directors are subject to the provision for retirement by rotation under the Bye-laws of the Company.
3. According to the then Bye-laws of the Company, at each annual general meeting one-third of the Directors for the time-being (or, if their number is not 3 or a multiple of 3, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the chairman of the Board and/or the managing Director of the Company shall not be subject to retirement by rotation.	A.4.2	A special resolution was passed at the annual general meeting of the Company held on 22 September 2006 whereby the Bye-Laws was amended so that all Directors appointed by the Board either to fill a casual vacancy or as an additional to the Board should be subject to election by the shareholders of the Company at the first general meeting after their appointment and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.
4. The Company has not established written guidelines for Directors and relevant employees in respect of dealings in the securities of the Company.	A.5.4	The Company has adopted on 13 January 2006 the written guidelines for Directors and senior management in respect of dealings in the securities of the Company.
5. The Company has not set up a Remuneration Committee ("Remuneration Committee").	B.1.1	The Company has established the Remuneration Committee on 13 January 2006 with written terms of reference.
6. The Company has not formalized the functions reserved to the Board and those delegated to management in written form.	D.1.2	The Company has formalized in writing the work among the Board and senior management on 13 January 2006.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the seventeen months ended 31 December 2006.

# Corporate Governance Report

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the period.

## BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of seven Directors including four executive Directors and three independent non-executive Directors:

### Executive Directors

Mr. XU Tie-liang (*Chairman*)

Mr. QU Guo-hua (*Chief Executive Officer*)

Mr. ZENG Xiao

Mr. CHEUNG Shing

### Independent non-executive Directors

Mr. CHEUNG Man Yau, Timothy

Mr. SHI Xun-zhi

Mr. PENG Long

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 10 to 11 under the section headed "Biographical Details of Directors".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

### Chairman and Chief Executive Officer

The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. Mr. Xu Tie-liang, the Chairman, is in-charge of the management of the Board and strategic planning of the Group. Mr. Qu Guo-hua, the Chief Executive Officer, is responsible for the day-to-day management of the Group's business.

# Corporate Governance Report

## Non-executive Directors

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The three independent non-executive Directors are not appointed for specific term and are subject to retirement by rotation in accordance with the Bye-laws of the Company.

## Board Meetings

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board, the Board reviewed the operation and financial performance and review and approve the annual and interim results.

During the seventeen months ended 31 December 2006, the Board held 36 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
XU Tie-liang**	19/19
QU Guo-hua**	19/19
ZENG Xiao*	28/29
CHEUNG Shing*	27/29
CHEUNG Man Yau, Timothy	29/36
SHI Xun-zhi**	10/19
PENG Long*	26/29
Masanori SUZUKI***	0/17
Eiji SATO***	0/17
WONG King Shiu, Daniel***	17/17
WONG Kui Shing, Danny***	17/17
KIM Kwi Nam, Takao***	0/17
LIN Che Chu, George****	1/3

\* These Directors were appointed on 13 January 2006, and 29 meetings were held after their appointment.

\*\* These Directors were appointed on 30 August 2006, and 19 meetings were held after their appointment.

\*\*\* These Directors resigned on 30 August 2006, and 17 meetings were held before their resignation.

\*\*\*\* Mr. LIN Che Chu, George resigned on 16 September 2006, and 3 meetings were held before his resignation.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

# Corporate Governance Report

## NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the natural gas industry and/or other professional area.

The Company established a Nomination Committee (the "Nomination Committee") with written terms of reference, on 15 March 2006 and consists of two independent non-executive Directors, namely Mr. PENG Long (as chairman) and Mr. CHEUNG Man Yau, Timothy, and one executive Director, namely Mr. CHEUNG Shing.

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the seventeen months ended 31 December 2006, the Nomination Committee held one meeting to review the change of the composition of the Board members and assess the independency of the new independent non-executive Director to be appointed and made recommendation to the Board for the appointment of new members to the Board.

<b>Name of member</b>	<b>Number of attendance</b>
PENG Long	1/1
CHEUNG Man Yau, Timothy	0/1
CHEUNG Shing*	0/0
WONG King Shiu, Daniel*	1/1

\* Mr. CHEUNG Shing was appointed as a member of the Nomination Committee on 30 August 2006 to fill the vacancy arising from the cessation of member by Mr. Wong King Shiu, Daniel on 30 August 2006 upon his resignation as executive Director on 30 August 2006. One meeting was held before the change of member.

## REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee (the "Remuneration Committee") with written terms of reference, on 13 January 2006 and consists of two independent non-executive Directors, namely Mr. CHEUNG Man Yau, Timothy (as chairman) and Mr. PENG Long, and one executive Director, namely Mr. CHEUNG Shing.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

# Corporate Governance Report

## REMUNERATION OF DIRECTORS *(continued)*

During the seventeen months ended 31 December 2006, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

<b>Name of member</b>	<b>Number of attendance</b>
CHEUNG Man Yau, Timothy	1/1
PENG Long*	0/0
CHEUNG Shing*	0/0
WONG King Shiu, Daniel**	1/1
KIM Kwi Nam, Takao**	0/1

\* These two Directors were appointed as members of the Remuneration Committee on 30 August 2006 and no meeting was held after their appointment.

\*\* These two Directors were ceased to be members of the Remuneration Committee upon their resignation as Directors on 30 August 2006, and one meeting was held before their resignation.

The Company has adopted a share option scheme on 31 January 2002. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under the employment agreements, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

## AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in 1998. The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. CHEUNG Man Yau, Timothy (as chairman), Mr. SHI Xun-zhi and Mr. PENG Long.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the quarterly, interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

The Audit Committee meets the external auditors at least two times a year to discuss any area of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

# Corporate Governance Report

## AUDIT COMMITTEE (continued)

During the seventeen months ended 31 December 2006, the Audit Committee held 3 meetings.

Name of member	Number of attendance
CHEUNG Man Yau, Timothy	3/3
SHI Xun-zhi*	1/2
PENG Long	3/3
KIM Kwi Nam, Takao**	0/1

\* Mr. SHI Xun-zhi was appointed as a member of the Audit Committee on 30 August 2006, and two meetings were held after his appointment.

\*\* Mr. KIM Kwi Nam, Takao ceased to be a member of the Audit Committee upon his resignation as independent non-executive Director on 30 August 2006, and one meeting was held before his resignation.

During the seventeen months ended 31 December 2006, the Audit Committee reviewed the interim result, and together with the Auditor of the Company, reviewed the annual result of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules. The Audit Committee noted the existing internal control system of the Group and also noted that review of the same will be carried out annually.

## AUDITOR'S REMUNERATION

During the seventeen months under review, the remuneration paid/payable to the Company's auditor, Ting Ho Kwan & Chan, is set out below:-

Services rendered	Fee paid/payable HK\$'000
Audit services	1,578
Non-audit services	0
	<hr/> 1,578

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Bye-laws of the Company. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of general meeting and explained during the proceedings of the meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Company attended the 2006 annual general meeting to answer questions of the meeting.

# Corporate Governance Report

## INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors acknowledges its responsibility to prepare the Company's financial statements for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the seventeen months ended 31 December 2006, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group 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.

## INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the period ended 31 December 2006, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.