

Corporate Governance Report

The Company is committed to good corporate governance practices to enhance long term shareholder value, with an emphasis on having a quality board, transparency, independence and accountability. The Board acknowledges the importance and benefits of promoting and maintaining high standards of corporate governance.

Compliance with the Corporate Governance Code

The Company has applied the principles and complied with all code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006.

The corporate governance practices adopted by the Group are summarized below.

The Board

The Board of Directors (the "Board"), led by the Chairman, is collectively responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value. It is also responsible for the formulation of the Group's overall strategies and policies, setting of corporate values and management targets and operational initiatives, monitoring and evaluating the performance of the Group, and the approval of annual budgets, business plans, major capital expenditures, major investments and material acquisitions and disposals of assets.

As at 31 December 2006, the Board was comprised of eight Directors, including three Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Biographical details of the Directors and their respective roles in the Group are set out in the Directors section of this Annual Report.

All Independent Non-executive Directors are financially independent from the Group and follow the independence requirements set out in the Listing Rules. The Board has received from each Independent Non-executive Director a written confirmation of his/her independence and considers each of the Independent Non-executive Directors to be independent.

All Non-executive Directors are appointed for a period of two years. In addition, all Directors are subject to re-election by shareholders at the annual general meeting at least every three years on a prescribed rotational basis. According to the byelaws of the Company, Directors appointed to fill casual vacancies shall hold office only until the next following annual general meeting and can be eligible for re-appointment at that time.

The Company has arranged insurance cover for directors' and officers' liabilities including cover for senior management of the Company and directors and officers of its subsidiaries.

Chairman and the Chief Executive

The roles of the Chairman and the Chief Executive are separate to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to and overseeing the functioning of the Board to ensure that it acts in the best interests of the Group. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contributions to the Board in the fulfillment of its responsibilities.

The Chief Executive, supported by the Executive Directors and senior management team, is responsible for the day-to-day management and operations of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations and performance. He maintains an ongoing dialogue with the Chairman and all Directors to keep them fully informed of major business developments and issues and the adoption/execution of Group strategies, policies and objectives by the various business units. He is also responsible for building and maintaining an effective executive team to support him in his role.

Board Meetings

The full Board meets at least four times a year and has formal procedures to include matters to be referred to it for consideration and decisions. Between scheduled meetings, senior management provide timely information to the Directors on the activities of and developments in the businesses of the Group. As and when deemed necessary, additional Board meetings may be convened. In addition, any Director may request the Company Secretary to arrange for independent professional advice to assist the Directors to effectively discharge their duties.

Notice of at least 14 days is served for regular Board meetings. During 2006, four regular Board meetings were held at which the individual attendance records of the Directors were as follows:

On 27 February 2006, Mr. John William Crawford, who was a founding partner of Ernst & Young, Hong Kong and vice chairman of the firm until his retirement in 1997, was appointed as an Independent Non-executive Director and Chairman of the Audit Committee to replace Mr. Liu Hongru, who resigned as an Independent Non-executive Director and Chairman of the Audit Committee due to personal reasons. To further enhance the independence of the Board and cope with the increasing responsibilities of Independent Non-executive Directors as required by corporate governance regulations, Mr. Shek Lai-Him Abraham, who is a member of Hong Kong's Legislative Council, was also appointed as an Independent Non-executive Director and a member of the Remuneration Committee on the same date.

Director	No. of meetings attended	Attendance rate
<i>Executive Directors</i>		
Mr. Tsoi Tin Chun (<i>Chairman</i>)	4 out of 4	100%
Mr. Barry Cheung Chun Yuen	4 out of 4	100%
Mr. Ib Fruergaard	4 out of 4	100%
<i>Non-Executive Director</i>		
Mr. Cheong Soo Kiong	4 out of 4	100%
<i>Independent Non-executive Directors</i>		
Mr. John William Crawford	4 out of 4	100%
Ms. Maria Tam Wai Chu	4 out of 4	100%
Mr. Shek Lai Him Abraham	4 out of 4	100%
Mr. Wong Kong Hon	2 out of 4	50%

Nomination of Directors

The Company does not have a separate nomination committee. The Board regularly reviews its structure, size and composition and, when necessary, the Chief Executive, assisted by the Executive Directors, identifies suitable candidates for consideration by the Board. The appointment of a new Director is a collective decision of the Board after taking into consideration the expertise, experience, integrity and commitment of that appointee to the Group.

Audit Committee

The Audit Committee during the year was comprised of three Independent Non-executive Directors. Mr. John William Crawford was appointed as Chairman of the Audit Committee to replace Mr. Liu Hongru on 27 February 2006. The other members of the Committee are Ms. Maria Tam Wai Chu and Mr. Wong Kong Hon.

The Audit Committee has specific written terms of reference, including amongst other duties the following key responsibilities:

- make recommendations to the Board on the appointment and, if necessary, the replacement/ resignation of the external auditors and assess their independence and performance;
- review the completeness, accuracy and fairness of the Company's interim and annual financial statements as well as the interim and annual reports;
- ensure compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosure;
- oversee the effectiveness of financial reporting systems; and
- ensure ongoing assessments of the Group's internal control systems over financial, operational, compliance issues and broad risk management processes.

During the year, three Audit Committee meetings were held and the individual attendance records were as follows:

Audit Committee Members	No. of meetings attended	Attendance rate
Mr. John William Crawford — <i>Chairman</i>	3 out of 3	100%
Ms. Maria Tam Wai Chu	3 out of 3	100%
Mr. Wong Kong Hon	2 out of 3	67%

Financial Statements

The Audit Committee met and held discussions with the Chief Financial Officer and other senior management on the Company's annual and interim financial reports, and discussed the audit approach and significant audit and accounting issues with the Group's principal external auditors, Ernst & Young ("E&Y"), including the financial impact of the adoption of applicable new/revised accounting standards. The Committee also reviewed E&Y's management letter recommendation points which were implemented or otherwise cleared to satisfaction.

Review of Connected Transactions

All the Audit Committee members together with the other Independent Non-executive Director, Mr. Abraham Shek, formed an Independent Board Committee to review the major and connected transaction/ continuing connected transaction set out on page 105 in accordance with the Listing Rules requirements. The Committee considered, after completing its review and receiving the advice of an independent financial advisor, where appropriate, that the relevant contract terms of the connected transactions were undertaken on normal commercial terms, were fair and reasonable and in the interests of the shareholders and the Company as a whole.

External Auditors

The Committee reviewed and confirmed the external auditor's independence and objectivity, together with the scope of audit services and fees in connection therewith. It was duly noted that the audit firm has adopted a 5-year rotation policy of the engagement partner for its audit services provided to the Group. The Committee also made recommendations to the Board for the re-appointment of Ernst & Young as the Group's principal external auditors.

During the year ended 31 December 2006, the audit fees paid/payable to Ernst & Young amounted to approximately HK\$3,800,000 and the fees paid/ payable to them for non-audit services amounted to approximately HK\$794,000 which was comprised of taxation services fees of HK\$343,000, interim results review fees of HK\$120,000, review of the major transaction as described on page 105 of HK\$135,000 and a special review of the oil trading systems of HK\$196,000.

The Group has not employed any staff from Ernst & Young who were formerly involved in the Group's statutory audit.

Review of Risk Management and Internal Control Systems

As more fully described in the Internal Control Environment section, the Committee assisted the Board in meeting its responsibilities for ensuring and overseeing effective systems of internal control. During the year, the Committee recommended the set up of an internal audit function which, in turn, led to the risk management study of the Group by an independent consultant in order to prioritize the coverage areas in the internal audit plan.

Internal Control Environment System and Procedures

The Board of Directors acknowledges its responsibility to ensure that sound and effective internal control systems are maintained, which include comprehensive systems for reporting information to the division heads of each business unit and the Executive Directors. The internal control systems are designed to:

- achieve the Group's business objectives of attaining optimal performance and safeguarding assets against unauthorised use or disposition;
- ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication; and
- ensure compliance with the relevant legislation and regulations.

In the past, the Board has ensured that management developed and exercised effective internal control systems and procedures suitable for the various businesses in which the Group has been engaged. In this regard, key areas covered include the following:

- Having a distinct organisation structure in place with defined lines of authority and control responsibilities.

- Development of comprehensive accounting systems to provide financial and by segment performance indicators to management and the relevant financial information for reporting and disclosure purposes.
- Preparation of annual budgets by the management of each business unit which are subject to review and approval by the Executive Directors. Such budgets are compared with actual results and reviewed on a monthly basis. The Executive Committee reviews the monthly management reports, key operating statistics and performance analyses of each business unit, and variances against budgets are analyzed/ explained and appropriate action taken.

While the existing systems, procedures and controls are deemed to have adequately served the Group in the past, during the year the Board recognized the need to continue to make improvements and/or upgrades thereon, in particular, as a result of:

- The overall growth in all business areas; and
- The development of new business areas such as the storage facilities in the PRC.

In line with the above, various initiatives were undertaken, including but not limited to the following:

- During the year, an independent consultant was engaged to conduct an entity risk assessment of the Group. This project was initiated to assist management to:
 - identify and review inherent risks, in order of priority, that could impact the ability to achieve group business objectives; and
 - develop an internal audit program based on the clarified inherent risks facing the Group.

The entity risk assessment analysed various risks and categorized these as environment risks, process risks (including financial risks, operations risks, governance risks, integrity risks, etc) and the information needs for effective decision-making on risks (including strategic risk, public reporting risks and operational risks).

- As part of the above risk assessment study, the independent consultant presented an internal audit program to cover areas identified on a priority risk basis which was duly approved by the Audit Committee. In early 2007, the internal audit program was initiated with the development of detailed programs and testing procedures on an agreed high risk area, the results of which are to be reported to the Audit Committee. Once this pilot risk area has been duly covered by the internal audit function, other areas will be initiated for ultimate execution of the full audit plan.
- The Group engaged Ernst & Young to perform a review of its newly implemented oil trading system, Allegro, and the relevant environment in which it operates. In this engagement, the operational procedures, valuation methodology and information technology process were reviewed. The findings identified more than thirty areas for recommended improvements ranked as to high, medium and low criticality. Management responded promptly and positively to the recommendations by undertaking immediate remedial action and/or developing future action plans.
- During the year, the Group filled certain key management positions to upgrade/enhance the control and management of key areas such as the Chief Financial Officer, Mr. Yoon Wai Nam, and the President, Oil Services, Mr. Christopher Yong. Their detailed biographies are set out in Senior Management section of this Annual Report.
- The Group has a Credit and Risk Committee which meets monthly to assess the commercial risks faced by the Group. The Committee has developed policies and guidelines, including credit policies and approval processes, a value-at-risk model and a stop-loss system which sets out tolerance levels for risk assessment and the general risk management philosophy of the Group.
- The Group has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget

monitoring and are controlled within each business unit with approval levels set by reference to each executive's and officer's level of responsibility.

- Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific controls and approvals, prior to commitment by Executive Directors, are required for material expenditures and acquisitions within approved budgets and also for any unbudgeted items.

Annual Assessment

During the year, the Board, together with the Audit Committee, reviewed the effectiveness of the Group's systems of internal control over financial, operational, compliance issues, and broad-based risk management processes.

No suspected frauds or irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations came to the Committee's attention. As a result of its review efforts and the new initiatives taken during the year, the Board is satisfied that the Group in 2006 fully complied with the Code provisions on internal controls as set forth in the CG Code.

Remuneration Committee

The Remuneration Committee was established in accordance with the Listing Rules and comprises three Independent Non-executive Directors and the Chairman of the Board, namely, Ms. Maria Tam Wai Chu, Mr. Shek Lai Him, Mr. Wong Kong Hon and Mr. Tsoi Tin Chun, respectively. The Committee is chaired by Ms. Maria Tam Wai Chu.

The Committee has specific written terms of reference and its primary duties include:

- ongoing review of the Group's overall remuneration policies and structure;
- making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of Directors and senior management of the Group;

- reviews of and determinations on the specific remuneration packages for all Executive Directors and senior management; and
- reviews of and approvals on performance-based remuneration by reference to corporate goals.
- the proposed variable bonuses for 2006 and the proposed salary adjustments for 2007, in principal; and
- the proposed annual fees to Non-executive Directors for 2007.

The remuneration policy of the Group is to attract, retain and motivate the best available talent as well as to align the interests of executives with achieving shareholder value and promoting sustained improvements in business performance. Remuneration packages include basic salaries, performance bonuses, share options and benefits-in-kind, which are structured by reference to market terms and individual merit, and are reviewed on an annual basis based on objective performance appraisals. Special incentive plans are also adopted for certain key operational staff. No Director or senior management are involved in determining their own remuneration.

In February 2006, the Board approved the granting of share options to certain employees and the Independent Non-executive Directors approved the granting of share options to a Director in respect of his contributions to the Group.

Details of the emoluments of each Director of the Company for the year ended 31 December 2006 are set out on page 77 to 78 of this Annual Report.

The Remuneration Committee held one meeting during 2006 and the attendance record was as follows:

Remuneration Committee Members	No. of meetings attended	Attendance rate
Ms. Maria Tam Wai Chu — <i>Chairman</i>	1 out of 1	100%
Mr. Abraham Shek Lai Him	1 out of 1	100%
Mr. Wong Kong Hon	1 out of 1	100%
Mr. Tsoi Tin Chun	0 out of 1	0%

During the meeting, the Committee discussed with the Chief Human Resources Officer the Group's overall compensation philosophy and reviewed the Group's updated remuneration policies and structure, which included the short, medium as well as long term compensation components (e.g. employee award scheme, annual bonus payout and share option scheme), job rotation plans and the implementation of KPIs (Key Performance Indicators) for effective individual performance evaluations. The Committee also discussed and approved the following:

- specific remuneration packages for all Executive Directors and senior management;

Securities Transactions by Directors and Employees

The Company has adopted the Model Code of the Listing Rules as its code of conduct for security transactions by Directors and has set up relevant compliance procedures to ensure compliance. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code during the year. Furthermore, the Company also adopted corporate guidelines for securities transactions to regulate employees' conduct on securities dealings.