



Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices since 2005.

STATEMENT OF COMPLIANCE

The Company complied with the code provisions as set out in the Code during the year ended 31 December 2006.

BOARD OF DIRECTORS

Composition

The Board comprises 7 members (each member of the Board, a "Director"). Mr. Ou Yaping acts as the Chairman of the Board. Other executive Directors are Messrs. Tang Yui Man Francis and Xiang Ya Bo. Mr. Sun Qiang Chang acts as non-executive Vice Chairman of the Company. 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 10 and 11 of this report.

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

Except for the family relationship between Mr. Xiang Ya Bo and Mr. Ou Yaping as disclosed in biographical details on page 10 of this Annual Report, there is no financial, business, family or other material relationship between any members of the Board.

Pursuant to the Bye-laws of the Company, the Directors retire on a rotational basis at least once every three years at the annual general meeting of the Company and are 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 2007 to 31 December 2007, subject to retirement by rotation, except for Mr. Sun Qiang Chang, who is a non-executive Director of the Company, whose term of office is for a period of 1 year from 2 June 2006 to 1 June 2007 subject to retirement by rotation.



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Function

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend, and supervision of management.

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

The Company considers the essential of internal controls system and risk management function and the Board plays an important role in the implementation and monitoring of internal controls and risk management.

Matters specifically decided by the Board and those reserved for the management are reviewed by the Board. These are established procedure to enable Directors to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Bye-laws of the Company contains provisions regarding responsibilities and operational procedures of the Board. The Board meets regularly at least four times a year considers operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During the year 2006, the Board held 4 regular Board meetings (within the meaning of the Code) at approximately quarterly interval and 8 Board meetings which were convened as necessary. Due notice and the Board papers were given to all Directors prior to each meeting in accordance with the Bye-laws of the Company and the Code. Details of individual attendance of Directors are set out below:-

No. of meetings attended

Executive Directors

Ou Yaping (Chairman)	12
Xiang Ya Bo	10
Tang Yui Man Francis	10
Xu Xinghai*	-

Non-executive Director

Sun Qiang Chang (Non-executive Vice Chairman)	4
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Independent Non-executive Directors

Lu Yungang	5
Davin A. Mackenzie	5
Xin Luo Lin	5

*Note: Mr. Xu Xinghai has resigned as Executive Director on 29 May 2006.



Chairman and Chief Executive Officer

The Company has not appointed an individual chief executive officer but the function and responsibility of chief executive officer is being taken up by other executive Director. Therefore, the role of chairman and chief executive officer is separate and not performed by the 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.

Mr. Ou Yaping acts as the Chairman and the role of chief executive officer was delegated to another executive Director, Mr. Xiang Ya Bo.

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:

- attending 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;
- consideration of 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 committees, including the Audit Committee and Remuneration Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.



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Remuneration Committee

The Remuneration Committee comprise of 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 and is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee comply with the Code.

The Remuneration Committee's responsibilities include the review and consideration of the Company's remuneration policy for Directors and senior management, the determination of remuneration packages for executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendation to the Board regarding remuneration of non-executive Directors.

During the year 2006, the Remuneration Committee reviewed the remuneration policy for 2006/2007 and the remuneration of executive directors, non-executive director and independent non-executive directors.

The Remuneration Committee held one meeting during 2006 with the present of Messrs. Ou Yaping, Mr. Xiang Ya Bo, Lu Yungang, Davin A. Mackenzie and Xin Luo Lin.

Audit Committee

The Audit Committee comprise of three independent non-executive Directors, namely Messrs. Lu Yungang, Davin. A. Mackenzie and Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The Audit Committee 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.

During 2006, the Audit Committee:

- reviewed financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- reviewed of the effectiveness of the internal control system;
- reviewed of the external auditors' audit findings;
- reviewed and approved remuneration of auditor for 2006.



The Audit Committee held 2 meetings during the year. Details of individual attendance of its members are as follows:–

Members of Audit Committee	No. of meetings attended
Lu Yungang	2
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 and no meeting was held for the aforesaid purpose during the year 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") 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 2006, 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 than the 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.

EXTERNAL AUDITORS

The external auditor of the Company is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte provided professional services in respect of the audit of Company's consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2006. Deloitte also reviewed the 2006 unaudited interim financial report of the Company, prepared under HKFRSs.



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Fees charged by Deloitte in respect of audit services amounted to HK\$6,000,000. Non-audit services fees charged by Deloitte were as follows:

Description of professional services rendered in connection with:-

	Fee <i>HK\$'000</i>
- Reporting accountants for the issue of circular for very substantial acquisition and very substantial disposal	11,000
- Reviews of the interim financial report of the Company and its listed subsidiary for the six months ended 30 June 2006	680
- Other services	<u>40</u>
	<u><u>11,720</u></u>

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

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

Shareholders are provided with detailed information about the Company so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of key business imperatives. Procedures for demanding a poll are included in all circulars and the notices convening the annual general meeting and are also read out by the Chairman at the general meeting.

At the 2006 Annual General Meeting, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of Directors. The Chairman of the Board and certain member of all Committee attended the 2006 Annual General Meeting answered questions from the shareholders of the Company.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows of the Group for the year. The statement of the Auditors regarding reporting responsibility for the financial statements is set out in the Independent Auditor's Report on page 36.