

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to pursuing strict and high standard of corporate governance since the Board believes that good corporate governance practices are essential to achieve the Group's objectives of enhancing corporate value as well as safeguarding the interests of shareholders.

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2006.

### A. DIRECTORS

#### The Board

The Board has the responsibility to lead and control the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

During the year ended 31 December 2006, the Board held four regular meetings which were participated by the directors either in person or through other electronic means of communication. The attendance record of each director is set out below:

Directors	Attendance
<i>Executive Directors</i>	
Ji Guirong*	4/4
Lo Chi Ho, William	4/4
Sun Wenhao	4/4
Wu Ding	2/4
Ji Hui	4/4
<i>Independent Non-executive Directors</i>	
Wang Zhonghua	4/4
Zhong Qiang	4/4
Xiao Wei	4/4

\* *re-designated as non-executive director on 3 April 2007*

#### Chairman and Chief Executive Officer

The Company segregates the role of chairman and chief executive officer. Mr. Ji Guirong is the Chairman of the Board (the "Chairman") and Mr. Lo Chi Ho, William is the Chief Executive Officer of the Company (the "Chief Executive Officer").

The roles of the Chairman and the Chief Executive Officer are clearly defined to ensure their independence, accountability and responsibilities. The Chairman provides leadership for the Board and oversees the overall strategic planning and corporate development of the Group, whilst the Chief Executive Officer is responsible for day-to-day management of the Group's business.

# CORPORATE GOVERNANCE REPORT

## A. DIRECTORS (Continued)

### Board Composition

During the year ended 31 December 2006, the Board consisted of eight directors including five executive directors and three independent non-executive directors. Mr. Ji Guirong, an executive director, has been re-designated as non-executive director on 3 April 2007. The biographical details of the directors are set out on pages 5 to 6 of this annual report.

The Board has met the recommended best practice under the CG Code that independent non-executive directors represents at least one-third of the Board.

The Company has received annual confirmation from each of the independent non-executive director acknowledging full compliance with relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all independent non-executive directors are independent within the definition of the Listing Rules.

### Appointments, re-election and removal

The Board is empowered under the Company's articles of association to appoint any person to be a director either to fill a casual vacancy or as an additional director. The selection criteria is based on the professional expertise and qualification; business and management experience; operation knowledge; integrity and commitment of a particular candidate.

Any director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall be eligible for re-election at that meeting. At every annual general meeting, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every director including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for election. As such no director has a term of appointment longer than three years.

The Board from time to time reviews the size, structure and composition of the Board on a regular basis and assess the independence of its independent non-executive directors in accordance with the criteria prescribed under the Listing Rules and the CG Code. During the year ended 31 December 2006, all independent non-executive directors of the Company were appointed for a specific term and subject to retirement by rotation and re-election at each annual general meeting.

There was no change in the composition of the Board during the year ended 31 December 2006.

### Responsibilities of Directors

The management of the Company always keep members of the Board apprised of the latest development of the Group's business and operation activities as well as change of regulatory requirements so that the Board members are able to discharge their responsibilities properly.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Code of Conduct"). All directors of the Company have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review. The Code of Conduct also applies to the directors of the Company, employees of the Company and managers or directors of subsidiaries of the Company.

# CORPORATE GOVERNANCE REPORT

## A. DIRECTORS (Continued)

### Supply of and access to information

The management of the Company regularly provides the Board and its committees with relevant and adequate information in a timely manner to assist them to make informed decisions.

Each director has separate and independent access to the company secretary and other senior management and, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established the Remuneration Committee in 2005 with specific written terms of reference defining its duties and authorities. During the year under review, the Remuneration Committee comprises three members which includes one executive director namely Mr. Ji Guirong (who has then been re-designated as non-executive director on 3 April 2007) and two independent non-executive directors namely Mr. Zhong Qiang and Mr. Xiao Wei.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management, review and approve performed-based remuneration by reference to corporate goals and objectives resolved by the Board.

The Company's emolument policy is to maintain fair and competitive remuneration packages for its employees with reference to individual performance, profitability of the Group as well as prevailing market conditions. The Company has adopted a share option scheme in 2005 in order to give incentive to reward eligible participants who has contributed or may contribute to future development and expansion of the Group.

During the year ended 31 December 2006, the Remuneration Committee held one meeting to discuss remuneration related matters. The attendance record of each committee member is set out below:

<b>Directors</b>	<b>Attendance</b>
<i>Executive Director</i>	
Ji Guirong*	1/1
<i>Independent Non-executive Directors</i>	
Zhong Qiang	1/1
Xiao Wei	1/1

\* re-designated as non-executive director on 3 April 2007

# CORPORATE GOVERNANCE REPORT

## C. ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board takes responsibility for the preparation of financial statements which gives a true and fair view of the state of affairs of the Group in accordance with applicable accounting standards and relevant statutory requirements. The financial statements are prepared on a going concern basis and the Board are not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as a going concern.

The responsibility of the auditors with respect to the financial statements are set out in the Independent Auditors' Report annexing in this annual report.

The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant regulations, in a timely manner within four months and three months respectively after the end of the relevant periods.

### Internal Controls

The Board has established an internal control system over accounting and finance; operational; regulation and compliance; information technology; human resources and administration for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining proper accounting records, and ensuring the reliability of financial information.

The Board reviews and evaluates the effectiveness of the internal control system periodically to meet with the changing business operation environment and will continue to improve such systems to comply with regulatory requirements and to enhance corporate governance.

### Audit Committee

The Audit Committee comprises the three independent non-executive directors. Under its terms of reference, the Audit Committee assists the Board to fulfill its responsibilities in overseeing the financial reporting system, internal control and risk management of the Company.

The Audit Committee reviewed the interim and full year consolidated financial statements, including the Group's adopted accounting principles and practices, internal controls, and financial reporting matters in conjunction with the external auditors. The Audit Committee held two meetings during the year ended 31 December 2006. The attendance record of each committee member is set out below:

Independent Non-executive Directors	Attendance
Wang Zhonghua	2/2
Zhong Qiang	2/2
Xiao Wei	2/2

# CORPORATE GOVERNANCE REPORT

## C. ACCOUNTABILITY AND AUDIT (Continued)

### Auditors' Remuneration

On 22 January 2007, Ernst & Young have been appointed as auditors of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu ("DTT"). DTT had confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the holders of securities of the Company.

For the year ended 31 December 2006, the fee paid/payable to Ernst & Young for audit and non-audit services are set out below:

	Amount (HK\$'000)
Audit Services	1,450
Non-audit services	41

## D. DELEGATION BY THE BOARD

### Management Functions

The Board is primarily responsible for determining overall strategic planning and policy formulation of the Group. Matters that needed to be determined or considered by the Board include substantial investments, acquisitions and disposals; business and investment plans; financial and project budgeting; dividend policy; annual and interim results and reports; recommendations on appointments or re-election of directors and other substantial operating and financial matters.

Implementation of the decisions and plans of the Board and direction of the day-to-day operation are delegated to the management.

### Board Committees

Throughout the year under review, the Board has maintained the Audit Committee and Remuneration Committee each with its own specific written terms of reference which deal clearly with the committees' authorities and duties.

## E. COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good and effective communication with all shareholders, including institutional investors for ensuring good corporate governance.

To ensure a high level of accountability and to stay informed of the Group's strategy and goals, shareholders are encouraged to attend annual general meeting of the Company to exchange views with the Board at which the Chairman and the chairmen of the Board committees are available to answer questions raised by shareholders.

## CORPORATE GOVERNANCE REPORT

### E. COMMUNICATION WITH SHAREHOLDERS (Continued)

The Company holds regular briefings with institutional investors, fund managers and financial analysts as part of its investor relations program to maintain a constant dialogue on the Group's performance and objective. The Company is proactive in dealing with general enquiries raised by individuals, institutional investors and investment analysts.

As a channel of further promoting effective communication as well as fulfilling the new requirements of the Listing Rules, the Company maintains a website, [www.irasia.com/listco/hk/sinogas](http://www.irasia.com/listco/hk/sinogas), where relevant financial and non-financial information is posted on in a timely basis. The published information will be maintained at the above website for at least five years.

The Company keeps shareholders informed of the right to demand a poll and the procedure for voting by poll in all circulars which are from time to time despatched to shareholders together with notices of general meetings of the Company.