

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the “Board” or “Director(s)”) of New Smart Energy Group Limited (the “Company”) is pleased to present this Corporate Governance Report together with the audited financial statements for the year ended 31 December 2006 (the “Year”).

The Company recognises the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the Year, the Company had complied with the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with an exception of code provisions A.2.1 and A.4.1, details of which will be explained below.

In order to protect and enhance the benefits of shareholders, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

DIRECTORS’ SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding the directors’ securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors’ securities transactions throughout the Year.

BOARD OF DIRECTORS

Responsibilities

The primary responsibilities of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Company and its subsidiaries (collectively the “Group”); to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders’ value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board’s decision.

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2005 and the period ended 30 June 2006 respectively.

Composition

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administration and management of the Group. The Board currently consists of 4 executive Directors and 4 independent non-executive Directors (“INEDs”):

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Executive Directors:

Mr. Tong Nai Kan (*Chairman and Managing Director*)

Miss Chow Sim Chu, Shirley

Mr. Bai Yang

Mr. Tan Chuanrong

Independent non-executive Directors:

Dr. Tang Tin Sek

Mr. Liu Ngai Wing

Mr. Lam Yat Fai

Mr. Chan Kin Sang

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of “Biographical Details of Directors” in this annual report and that the INEDs are expressly identified in all the Company’s publication such as announcement, circular or relevant corporate communications in which the names of Directors of the Company as disclosed.

Four INEDs, who represent half of the Board, include all with appropriate professional qualifications and accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules. Each of the INEDs has made an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considered all INEDs are independent.

Except the following, there is no other financial, business, family or other material/relevant relationships between the Directors and the Company:–

1. Miss Chow is the sister-in-law of Mr. Tong;
2. Mr. Tan is the vendor of the very substantial acquisition regarding the acquisition of the entire interests in Sanxia Gas (BVI) Investment Limited as mentioned in the announcement of the Company dated 9 May 2006; and
3. As mentioned in the announcement dated 22 March 2007, the Company and Marvel Time Holdings Limited entered into the deed of settlement with Mr. Tan on 7 March 2007 whereby Mr. Tan irrevocably agreed that the remaining indebtedness of HK\$178,356,328.12 shall be settled by the issuance of a convertible bond (the “Bond”) by the Company to Mr. Tan in the aggregate principal amount of HK\$178,356,328.12 with a term of 5 years. Also, the Company entered into the subscription agreement with Mr. Tan on 7 March 2007 whereby the Company agreed to issue and Mr. Tan agreed to subscribe for the Bond. Assuming full conversion of the Bond, the Company will issue 713,425,312 new shares, representing approximately 56.05% of the Company’s total issued share capital at the date of this report. The said deed of settlement and the subscription agreement constitute connected transactions for the Company under the Listing Rules and are subject to the approval by the independent shareholders by poll at the extraordinary general meeting to be held on 30 April 2007. Further details are set out in the circular to Shareholders dated 13 April 2007.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size is adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

Appointments, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "Articles"). The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment of directors and assessing the independence of INEDs.

In accordance with the Articles which were amended by a special resolution at the annual general meeting held on 24 May 2006 for the purpose of compliance with the Code, every Director is subject to retirement by rotation at least once every three years and any new Directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election by shareholders at the next following annual general meeting after their appointment.

Non-executive Directors (Deviation from Code Provision A.4.1)

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

None of the existing INEDs of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all Directors of the Company (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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Number of Meetings and Directors' Attendance

The Board held a total of six Board meetings during the Year under review. The attendance record of each Director at the Board meetings is set out below:

Name of Directors	Attendance/Number of Board Meetings
Mr. Tong Nai Kan	6/6
Miss Chow Sim Chu, Shirley	6/6
Mr. Bai Yang	0/6
Mr. Tsang Kwong Fook, Andrew (<i>Note 1</i>)	2/2
Dr. Tang Tin Sek	6/6
Mr. Liu Ngai Wing	5/6
Mr. Lam Yat Fai	6/6
Mr. Chan Kin Sang (<i>Note 2</i>)	1/1

Notes:–

1. Mr. Tsang Kwong Fook, Andrew appointed as an executive Director on 19 June 2006 and resigned on 22 December 2006.
2. Mr. Chan Kin Sang appointed as an INED on 21 July 2006.

Practices and Conduct of Meetings

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Articles allows Board meetings to be conducted by way of telephone or otherwise orally and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director has a conflict of interest.

During the Year under review, the Board minutes were kept and available for inspection by the Directors. Also, the Board minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all Directors for their comments and execution respectively within a reasonable time before/after the Board meeting.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner before the appointed date of Board meetings and at least 3 days before the regular meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (Deviation from Code Provision A.2.1)

Under the code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company has deviated from this code by having the chairman and CEO to be the same person. Mr. Tong Nai Kan currently assumes the roles of both the chairman and CEO of the Company. The Board believes that the vesting of the roles of chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

During the Year under review, the chairman ensured that all Directors were properly briefed on issues arising at Board meetings and received adequate, complete and reliable information.

BOARD COMMITTEE

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the 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 which describes the authority and duties of the respective Board committees. The terms of reference are available to shareholders for inspection at the registered office of the Company.

The member of each Board committee is set out below:

Remuneration Committee

Mr. Lam Yat Fai (*Chairman*)

Dr. Tang Tin Sek

Mr. Liu Ngai Wing

Nomination Committee

Mr. Liu Ngai Wing (*Chairman*)

Dr. Tang Tin Sek

Mr. Lam Yat Fai

Audit Committee

Dr. Tang Tin Sek (*Chairman*)

Mr. Liu Ngai Wing

Mr. Lam Yat Fai

Mr. Chan Kin Sang

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Remuneration Committee

The Remuneration Committee was established for the purposes of determining specific remuneration packages of all executive Directors and senior management; and reviewing and approving their performance-based remuneration and their compensation on termination.

The Remuneration Committee consults the chairman/CEO about their proposal relating to the remuneration of executive Directors. No Directors and executives can determine his/her own remuneration.

The Remuneration Committee held a total of three meetings during the Year under review. The attendance record is set out below:

Name of Directors	Attendance/Number of Remuneration Committee Meetings
Mr. Lam Yat Fai	3/3
Dr. Tang Tin Sek	3/3
Mr. Liu Ngai Wing	3/3

The minutes of Remuneration Committee meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Remuneration Committee meeting.

Nomination Committee

The Nomination Committee was established for the purposes of reviewing the composition of the Board, identifying suitable Board members, assessing independence of the INEDs and making recommendation on appointments and re-appointments.

The Nomination Committee is responsible for selection and approval of candidates for recommendation to the Board for appointment as Directors. In considering the nomination of Mr. Tsang Kwong Fook, Andrew as an executive Director and Mr. Chan Kin Sang as an INED during the Year, the Nomination Committee would take into account their qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics. Nomination Committee would subsequently recommend such nomination of Mr. Tsang as an executive Director and Mr. Chan as an INED to the Board for approval for appointment.

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The Nomination Committee held a total of two meetings during the Year under review. The attendance record is set out below:

Name of Directors	Attendance/Number of Nomination Committee Meetings
Mr. Liu Ngai Wing	2/2
Dr. Tang Tin Sek	2/2
Mr. Lam Yat Fai	2/2

The minutes of Nomination Committee meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Nomination Committee meeting.

Audit Committee

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the audit of the Group.

The Audit Committee is responsible for reviewing the appointment of auditors on an annual basis including a review of the audit scope and approval of the audit fees; ensuring continuing auditor objectivity and to safeguard independence of the Company's auditors; meeting with the auditors to discuss issues arising from the interim review and final audit and any matters the auditors suggest to discuss; reviewing the effectiveness of the external audit and of internal controls and risk evaluation; reviewing the annual and interim report prior approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; serving as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting.

During the Year under review, the Audit Committee held two meetings for reviewing annual and interim reports respectively before submission to the Board; discussing all significant accounting issues as stated in the annual and interim reports, any changes in accounting policies and practices, major judgmental areas, significant adjustments, the going concern assumption, compliance with accounting standards, the stock exchange and legal requirements. The attendance record is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings
Dr. Tang Tin Sek	2/2
Mr. Liu Ngai Wing	2/2
Mr. Lam Yat Fai	2/2
Mr. Chan Kin Sang (<i>Note 1</i>)	1/1

Note:—

1. Mr. Chan Kin Sang appointed as an INED on 21 July 2006.

The minutes of Audit Committee meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Audit Committee meetings.

The annual results of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee.

AUDITORS' REMUNERATION

During the Year, the fees paid to the auditors of the Company, Messrs. PricewaterhouseCoopers was HK\$1,965,000 for the audit service and HK\$583,000 for the non-audit services including interim review and due diligence.

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems.

During the Year under review, with the assistance of an external advisor, the Company had conducted a high-level risk assessment and found that the Company has established high level controls of the strategic management, core business and resource management processes and risk management function that addressed those identified risk parameters. Based on the results, the external advisor noted no material or significant control design gaps.

The Board has conducted a review of the Company's core business internal control systems for the year ended 31 December 2006, including financial, operational and compliance control and risk management functions and assessed the effectiveness of internal control by considering reviews performed by the audit committee, executive management and external advisor.

COMMUNICATION WITH SHAREHOLDERS

The Board will endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.

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Poll results will be published in newspapers on the business day following the general meeting and posted on the website 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 the chairman of the audit committee or in the absence of the chairman of such committee, another member of the committee or failing this his duly appointed delegate, are available to answer questions at the general meetings.

To promote effective communication, the Company maintains websites at www.newsmartgroup.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

On behalf of the Board

Tong Nai Kan

Chairman and Managing Director

Hong Kong, 18 April 2007