

CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors (the “Board”) and other members of the management team of the Company are committed to exercising leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to acting in the best interest of the Company and its shareholders in a transparent, accountable and responsible manner. Strategic development with prudence formed the basis of Panva Gas’s corporate governance practices during the year 2006, which was crucial to the smooth, and effective operation of the Company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value.

The Company has adopted and complied with 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

As at the date of this report, the Board comprises 11 members (including one alternate director). The respective dates of their appointment of the Directors who held offices during the year 2006, together with details of changes in the Board since 1 January 2006, are as follows:

Executive Directors:

Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	(appointed on 1 March 2007)
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	(appointed on 1 March 2007)
Mr. Chen Wei (<i>ex-Managing Director</i>)	
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	(appointed on 1 March 2007)
Mr. Kwan Yuk Choi, James	(appointed on 1 March 2007)
Mr. Ou Yaping (<i>ex-Chairman</i>)	
Mr. Shen Lian Jin	
Mr. Tang Yui Man Francis (<i>ex-Vice Chairman</i>) (<i>alternate director to Mr. Ou Yaping</i>)	(appointed as alternate Director to Mr. Ou Yaping on 1 March 2007)

Independent non-executive Directors:

Mr. Cheung Hon Kit	
Mr. Li Xiao Ru	
Mr. Zhang Ke	(appointed on 4 July 2006)

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Resigned executive Directors:

Mr. Li Fujun	(resigned on 1 March 2007)
Mr. Zhang Keyu	(resigned on 1 March 2007)

Resigned non-executive Directors:

Mr. Fok Kin-ning, Canning	(resigned on 8 August 2006)
Mr. To Chi Keung, Simon	(resigned as alternate director to Fok Kin-ning, Canning on 8 August 2006)
	(appointed as non-executive director on 8 August 2006 and retired on 15 February 2007)

Resigned independent non-executive Directors:

Mr. Ge Ming	(resigned on 4 July 2006)
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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 are disclosed on pages 23 to 25 of the annual report.

Each independent non-executive Director has confirmed, in accordance with Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) between any members of the Board.

Pursuant to the Articles of Association, 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 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. Zhang Ke, who was appointed on 4 July 2006, and whose term of office runs until 3 July 2007.

The term of office of each non-executive Director is for a period of 1 year from 1 January 2007 to 31 December 2007, subject to retirement by rotation, except for Mr. To Chi Keung, Simon, who was appointed on 8 August 2006, and whose term of office runs until 7 August 2007.

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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 senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Matters specifically decided by the Board and those reserved for management are reviewed by the Board.

There are established procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association states responsibilities and operational procedures of the Board. The Board meets regularly at least four times a year to consider operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During 2006, the Board held 4 regular Board meetings (within the meanings of the Code) at approximately quarterly intervals and 22 other Board meetings which were convened as necessary. Due notice and Board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code. Details of individual attendance of Directors are set out below:-

	<u>No. of meetings attended</u>
Executive Directors	
Ou Yaping (<i>ex-Chairman</i>)	23
Tang Yui Man Francis (<i>ex-Vice Chairman</i>)	26
Chen Wei (<i>ex-Managing Director</i>)	16
Li Fujun	4
Shen Lian Jin	8
Zhang Keyu	1
Independent Non-executive Directors	
Cheung Hon Kit	5
Ge Ming (<i>Note 1</i>)	1
Li Xiao Ru	2
Zhang Ke (<i>Note 1</i>)	4
Non-executive Directors	
Fok Kin-ning, Canning (<i>Note 2</i>)	-
To Chi Keung, Simon (<i>Note 3</i>)	1

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Notes:

1. Mr. Ge Ming resigned on 4 July 2006 and Mr. Zhang Ke was appointed on the same day.
2. On 8 August 2006, Mr. Fok Kin-ning Canning resigned as non-executive Director and Mr. To Chi Keung, Simon automatically ceased to act as alternate director to Mr. Fok.
3. Mr. To Chi Keung, Simon was appointed as non-executive Director on 8 August 2006.

Chairman and Chief Executive Officer

The role of the ex-Chairman, Mr. Ou Yaping, and the ex-Vice Chairman, Mr. Tang Yui Man Francis remained separate from that of the ex-Managing Director, Mr. Chen Wei during the year 2006. In March 2007, the role of the Chairman was taken up by Mr. Chan Wing Kin, Alfred, and that of Chief Executive Officer by Mr. Wong Wai Yee, Peter. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each.

The Chairman oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account matters proposed by other Directors. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Managing Director (now Chief Executive Officer), assisted by other executive Directors, is responsible for day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Managing Director (now Chief Executive Office) is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

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 senior management, Board 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 of the Board, including the Audit Committee, Remuneration Committee and Nomination Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprised one executive Director, Mr. Ou Yaping, and three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru, and was chaired by Mr. Ge Ming until 3 July 2006.

Thereafter, the Remuneration Committee comprised one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke and was chaired by Mr. Cheung Hon Kit.

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

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

During 2006, the Remuneration Committee:-

- reviewed the remuneration policy for 2006/2007;
- reviewed the remuneration of the executive directors and independent non-executive Directors;
- reviewed the annual share option policy;
- reviewed the remuneration of candidate to be appointed as new directors; and
- assessed the performance of executive Directors and approved the terms of the service contracts of the executive Directors.

The Remuneration Committee held 3 meetings during 2006 with individual attendance as follow:-

	<u>No. of meetings attended</u>
Members of Remuneration Committee	
Cheung Hon Kit	3
Ge Ming (<i>Note</i>)	1
Li Xiao Ru	3
Ou Yaping	3
Zhang Ke (<i>Note</i>)	2

Note: Mr. Ge Ming resigned as a member of the Remuneration Committee on 4 July 2006 and Mr. Zhang Ke was appointed as a member of the Remuneration Committee on the same day.

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The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds bonuses and other incentives. The Group also encourages employees to pursue a balanced life and provides a good working environment to maximise potential and contribution to the Group.

Audit Committee

The Audit Committee comprised of three independent non-executive Directors, namely Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru, and was chaired by Mr. Ge Ming until 3 July 2006. Thereafter, the Audit Committee comprised three independent non-executive Directors, namely Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke, and was chaired by Mr. Cheung Hon Kit.

The Audit Committee reports directly to the Board and reviews 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 accounting issues, and reviews effectiveness of internal controls. Written terms of reference, which describe 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 the effectiveness of the internal control system;
- reviewed the external auditors' findings; and
- reviewed and approved remuneration of auditors for 2006.

The Audit Committee held 2 meetings during 2006 with individual attendance as follows:-

	<u>No. of meetings attended</u>
Members of Audit Committee	
Cheung Hon Kit	2
Ge Ming (<i>Note</i>)	1
Li Xiao Ru	2
Zhang Ke (<i>Note</i>)	1

Note: Mr. Ge Ming resigned as a member of the Audit Committee on 4 July 2006 and Mr. Zhang Ke was appointed as member of the Audit Committee on the same day.

Nomination Committee

The Nomination Committee, comprised one executive Director, Mr. Ou Yaping, and three independent non-executive Directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru, and was chaired by Mr. Ge Ming until 3 July 2006.

Thereafter, the Nomination Committee comprised one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke, and was chaired by Mr. Cheung Hon Kit.

The Nomination Committee meets before consideration of the appointment of Directors by the Board. Written terms of reference, which describes the authority and duties of the Nomination Committee are regularly reviewed and updated by the Board.

The Nomination Committee has the authority to nominate any person as a director either to fill a casual vacancy or as an addition to the Board, taking into account a nominee's qualifications, ability and potential contribution to the Company.

During 2006, the Nomination Committee:

- considered and nominated candidates to fill casual vacancies occasioned by the resignation of Mr. Ge Ming, an independent non-executive Director and Mr. Fok Kin-ning, Canning, a non-executive Director and for the Board's approval; and
- assessed the independence of the newly appointed independent non-executive Director, Mr. Zhang Ke.

The Nomination Committee held 2 meetings during the year with individual attendance as follows:-

	<u>No. of meetings attended</u>
Members of the Nomination Committee	
Cheung Hon Kit	2
Ge Ming (<i>Note</i>)	1
Li Xiao Ru	2
Ou Yaping	2
Zhang Ke (<i>Note</i>)	1

Note: Mr. Ge Ming resigned as a member of the Nomination Committee on 4 July 2006 and Mr. Zhang Ke was appointed as a member of the Nomination Committee on the same day.

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MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 who held office during 2006, the Company confirms that in respect of the year ended 31 December 2006, those Directors have complied with the required standard set out in the Model Code.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Model Code for senior management and any individuals who may have access to price-sensitive information in relation to the securities of the Company.

EXTERNAL AUDITORS

The external auditors of the Company is Deloitte. Deloitte provided services in respect of the Company's financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards for the year 2006. Deloitte also reviewed the 2006 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for 2006 amounted to HK\$5,000,000. Non-audit service fees charged by Deloitte were as follows:

Description of services performed	Fee HK\$
Interim review of the financial statements of the Company for the six months ended 30 June 2006	400,000
Professional services rendered in connection with the acquisition of the entire issued share capital of target companies and assignment of shareholder loans from HK&CG (China)	10,000,000
Total	10,400,000

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control system in the new financial year and disclose the relevant measures to the public in a timely manner.

The Board periodically conducts a review of the effectiveness of the Company's internal control system of the Company and its subsidiaries in accordance with code provision C.2.1 of the Code during the year.

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.

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SHAREHOLDERS COMMUNICATION

Shareholders are provided with detailed information about the Company so 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 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 members of all committees attended the 2006 Annual General Meeting and answered shareholders' questions.

DIRECTORS' RESPONSIBILITY IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements. The statement of the Auditors regarding reporting responsibility for the financial statements is set out in the Auditors' Report on page 52.