

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

Code on Corporate Governance Practices

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

The Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2011. The application of the Code is stated in the following paragraphs.

Board of Directors

Board Composition

As at the date of this Annual Report, the Board is comprised of eight members as detailed below:

Executive Directors:

Mr. Chan Wing Kin, Alfred (*Chairman*)
Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John (*Company Secretary*)
Ms. Law Wai Fun, Margaret

Independent Non-Executive Directors:

Dr. Chow Yei Ching
Dr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity.

Board of Directors (Continued)

Each Independent Non-Executive Director has confirmed, in accordance with the guidelines for assessing independence set out in 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/relevant relationship(s)) between any members of the Board, and in particular, there is none between the Chairman and the Chief Executive Officer.

Pursuant to the Articles of Association of the Company, at least one third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2011, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise. The Independent Non-Executive Directors represent more than one third of the Board.

The term of office for Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, being the Independent Non-Executive Directors commenced from 23 May 2010 to 22 May 2013 or the conclusion of the Company's AGM in 2013, whichever is earlier. They are also subject to retirement by rotation in accordance with the Articles of Association of the Company.

Functions of the Board

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 the day-to-day management of the Company's operations and 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.

Specific matters are decided by the Board and those reserved for management are reviewed by the Board.

In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association of the Company sets out the responsibilities and proceedings 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 are discussed and passed by the Board.

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Board of Directors (Continued)

Board Meetings

The Board held four regular Board meetings (within the meanings of the Code) during the year ended 31 December 2011 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles of Association of the Company and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/Number of Meetings
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	4/4
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	4/4
Mr. Kwan Yuk Choi, James	4/4
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	4/4
Ms. Law Wai Fun, Margaret	4/4
Mr. Ou Yaping ^(Note)	0/1
Mr. Tang Yui Man, Francis ^(Note) (<i>Alternate Director to Mr. Ou Yaping</i>)	1/1
Independent Non-Executive Directors	
Dr. Chow Yei Ching	4/4
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4

Note: Mr. Ou Yaping resigned as an Executive Director of the Company on 16 March 2011 while Mr. Tang Yui Man, Francis resigned as an alternate Director to Mr. Ou Yaping on 16 March 2011. One Board meeting was held during their terms of office.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Wing Kin, Alfred and the Chief Executive Officer is Mr. Wong Wai Yee, Peter. The roles of Chairman and Chief Executive Officer are separate. 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 of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group.

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

Board of Directors (Continued)

Responsibilities of the Directors

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;
- actively participating in the boards of the Company's subsidiaries and associated companies;
- approving the annual budgets for each operating company covering financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reportings;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering the misuse of corporate assets and abuse in related party transactions; 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 relevant 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

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, namely Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David and is chaired by Dr. Chow Yei Ching.

Written terms of reference of the Remuneration Committee have been adopted by the Board. 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 recommendations relating to remuneration of Non-Executive Directors.

Corporate Governance Report

Board Committees (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2011, the Remuneration Committee:

- reviewed the remunerations of the senior management for 2011;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2011.

The Remuneration Committee held one meeting during the year ended 31 December 2011 with individual attendance as follow:

Members of the Remuneration Committee	Attendance/Number of Meeting
Dr. Chow Yei Ching	1/1
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chan Wing Kin, Alfred	1/1

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 its employees to pursue a balanced life and provides a good working environment to maximize their potential and also contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Chow Yei Ching and Dr. Cheng Mo Chi, Moses, all of whom are Independent Non-Executive Directors, and is chaired by Mr. Li Man Bun, Brian David.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and review the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee have been adopted and are regularly reviewed and updated by the Board.

Board Committees (Continued)

Audit Committee (Continued)

During the year ended 31 December 2011, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2010 and for the six months ended 30 June 2011;
- made recommendation on the re-appointment of the external auditor;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed the Company's continuing connected transactions for the year ended 31 December 2010 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2011 with individual attendance as follow:

Members of the Audit Committee	Attendance/Number of Meetings
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching	2/2
Dr. Cheng Mo Chi, Moses	2/2

Nomination Committee

The Nomination Committee comprises one Executive Director, Mr. Chan Wing Kin, Alfred, and three Independent Non-Executive Directors, Dr. Chow Yei Ching, Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, and is chaired by Mr. Chan Wing Kin, Alfred.

The Nomination Committee was established in November 2011 and written terms of reference of the Nomination Committee have been adopted by the Board. The Nomination Committee's responsibilities include formulating policy and making recommendation to the Board on nominations, appointment of Directors and Board succession. The Nomination Committee is also responsible for reviewing the composition of the Board and making recommendations on any proposed changes to the Board.

No meeting of the Nomination Committee was held within the year of 2011.

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Model Code for Securities Transactions by Directors

The Company had 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 its own code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2011, following specific enquiry made by the Company, confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2011.

The Company has further adopted a formal model code for securities transactions by its relevant employees in 2008, who may have access to the Company's price-sensitive information during the course of their employment, on terms no less exacting than the required standard set out in the Model Code.

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of the Group's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the year ended 31 December 2011. Deloitte also reviewed the 2011 unaudited interim financial information of the Group, which was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2011 amounted to HK\$5.68 million.

Non-audit service fees charged by Deloitte during 2011 are as follows:

Description of non-audit services performed	HK\$
(1) Interim review of the financial statements of the Company for the six months ended 30 June 2011	500,000
(2) Tax review	49,000
(3) Annual review on continuing connected transactions for the year ended 31 December 2011	60,000
Total	609,000

Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards. The statement of the external auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 58 to 59 of this Annual Report.

Going Concern Basis in Preparing Financial Statements

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.

Effectiveness of Internal Control System

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. The Group's internal audit department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2011, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct non-compliances, if any.

Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders.

The Company uses a range of communication tools, such as the AGM, the annual reports, various notices, announcements and circulars, to ensure its shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at "www.towngaschina.com" which serves as a forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived (for documents published in the previous five years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2011 AGM held on 30 May 2011, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, chairman of the Remuneration Committee, members of the Audit Committee and members of senior management attended the 2011 AGM to answer questions from the Company's shareholders.