

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, control, 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.

Corporate Governance Practices

The Company has adopted the code provisions in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules from time to time, 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 2014.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

Board of Directors

Board Composition

As at the date of this Annual Report, the Board comprises seven members as detailed below:

Executive Directors

Mr. Chan Wing Kin, Alfred (*Chairman*)

Mr. Wong Wai Yee, Peter (*Chief Executive Officer*)

Mr. Ho Hon Ming, John (*Company Secretary*)

Non-Executive Director

Mr. Kwan Yuk Choi, James

Independent Non-Executive Directors

Dr. Cheng Mo Chi, Moses

Mr. Li Man Bun, Brian David

Mr. Chow Vee Tsung, Oscar

Board of Directors (Continued)

Board Composition (Continued)

All Directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. Directors give sufficient time and attention to the Group's affairs. The Company also requests the Directors to disclose to the Company semi-annually the number and the nature of offices held in public companies or organisations and other significant commitments with an indication of time involved. The Board believes that the balance of skills and experience are appropriate for safeguarding the interests of shareholders and the Group.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for Directors and officers of the Company. This insurance coverage is reviewed on an annual basis.

Each Independent Non-Executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx").

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 no relationship (including financial, business, family or other material/relevant relationship(s)) between the Chairman and the Chief Executive Officer.

All directors entered into formal letters of appointment with the Company. Pursuant to the Articles, 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 2014, 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 pursuant to Rule 3.10 of the Listing Rules and the appointment of Independent Non-Executive Directors representing at least one third of the Board pursuant to Rule 3.10A of the Listing Rules.

Corporate Governance Report

Board of Directors *(Continued)*

Board Composition *(Continued)*

The current term of office of Dr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, each an Independent Non-Executive Director, shall expire on 22 May 2016. The current term of office of Mr. Chow Vee Tsung, Oscar, an Independent Non-Executive Director, shall expire upon the conclusion of the Company's AGM on 29 May 2015. The term of office of Mr. Kwan Yuk Choi, James, a Non-Executive Director, shall expire on 2 June 2016. Their respective terms of office are subject to the Listing Rules and the provisions of the Company's memorandum and the Articles in force from time to time, including but not limited to, the requirements for retirement, rotation and vacation of office of directors as set forth in the Articles.

The Board adopted a Board Diversity Policy in March 2013 setting out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

Functions of the Board

Headed by the Chairman, the Board 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 the internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring the internal control system and risk management function.

Specific matters are decided by the Board and those reserved for management's direction are reviewed by the Board. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expense.

The Articles set out the responsibilities and proceedings of the Board. The Board meets regularly at least four times a year to consider operational reports and policies of the Company. Significant operational policies are discussed and passed by the Board.

Board of Directors (Continued)

Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

- (a) developing and reviewing the Company's policies and practices on corporate governance;
- (b) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) reviewing the Company's compliance with Appendix 14 to the Listing Rules and disclosure in this Corporate Governance Report.

Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company Secretary updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

According to the records maintained by the Company, the Directors received the following training for the year ended 31 December 2014:

Directors	Type of Training
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	A, B
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	A, B
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	A, B
Non-Executive Director	
Mr. Kwan Yuk Choi, James	A, B
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	A, B
Mr. Li Man Bun, Brian David	A, B
Mr. Chow Vee Tsung, Oscar	A, B

A: attending seminars and/or conference and/or forums or giving talks at seminars

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.

Corporate Governance Report

Board of Directors (Continued)

Board Meetings

The Board held four regular Board meetings during the year ended 31 December 2014 at approximately quarterly intervals. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles and the Code. Details of individual attendance of each of the Directors are set out below:

Directors	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. Ho Hon Ming, John (<i>Company Secretary</i>)	4/4
Non-Executive Director	
Mr. Kwan Yuk Choi, James	4/4
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4
Mr. Chow Vee Tsung, Oscar	4/4

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 the Chairman and the Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It 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, clear, complete and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding the business development of the Group and ensuring that good corporate governance practices and procedures are established.

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 on 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 reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders of the Company;
- considering any 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 organisational 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. Cheng Mo Chi, Moses, Mr. Li Man Bun, Brian David and Mr. Chow Vee Tsung, Oscar and is chaired by Dr. Cheng Mo Chi, Moses.

Written terms of reference of the Remuneration Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Remuneration Committee's responsibilities include but are not limited to the review and consideration of the Company's remuneration policy for Directors and senior management, the making of recommendations to the Board on the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and the making of recommendations relating to remunerations of Non-Executive Directors.

Corporate Governance Report

Board Committees (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2014, the Remuneration Committee:

- reviewed the remunerations of the senior management of the Company for 2014;
- reviewed the Executive Directors' remuneration; and
- reviewed the Directors' fees for 2014.

The Remuneration Committee held two meetings during the year ended 31 December 2014 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/Number of Meetings
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	2/2
Mr. Chow Vee Tsung, Oscar	2/2
Mr. Chan Wing Kin, Alfred	2/2

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 maximise their potential and their contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David, Dr. Cheng Mo Chi, Moses and Mr. Chow Vee Tsung, Oscar, 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 the interim and annual financial statements and internal controls of the Company, 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 the internal controls of the Group. Written terms of reference, which describe the authority and duties of the Audit Committee, have been adopted and posted on the websites of the Company and HKEx, and are regularly reviewed and updated by the Board.

Board Committees (Continued)

Audit Committee (Continued)

During the year ended 31 December 2014, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2013 and for the six months ended 30 June 2014;
- made recommendations 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 2013 pursuant to the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2014 with individual attendance as follows:

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

Nomination Committee

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

The written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and HKEx. The Nomination Committee's responsibilities include but are not limited to formulating the policy and making recommendations to the Board on nominations and appointments of Directors and Board succession. The Nomination Committee is also responsible for reviewing the structure, size, composition and diversity of the Board, assessing the independence of Independent Non-Executive Directors and making recommendations on any proposed changes to the Board.

Corporate Governance Report

Board Committees (Continued)

Nomination Committee (Continued)

During the year ended 31 December 2014, the Nomination Committee:

- recommended the nomination of retiring Directors for re-election at the 2014 AGM;
- reviewed the independence of Independent Non-Executive Directors;
- reviewed the amendments to its Terms of Reference relating to Board diversity; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held one meeting during the year ended 31 December 2014 with individual attendance as follows:

Members of the Nomination Committee	Attendance/Number of Meeting
Mr. Chan Wing Kin, Alfred	1/1
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar	1/1

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 2014, 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 2014.

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 inside 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 2014. Deloitte also reviewed the 2014 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 2014 amounted to HK\$6.6 million.

Non-audit service fees charged by Deloitte during 2014 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 2014	600,000
(2) Tax review	167,400
(3) Annual review on continuing connected transactions for the year ended 31 December 2014	66,000
Total	833,400

Directors' and Auditor's 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 65 to 66 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.

Corporate Governance Report

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 2014, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The Whistleblowing Policy was established in 2013, with an aim to encourage employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report any misconduct, malpractice or irregularity to the Company, and which can be found on the Company's website.

The Board has adopted the Policy and Procedures on Disclosure of Inside Information establishing procedures and guidelines for Directors and the directors, officers and employees of members of the Group regarding the use, handling and dissemination of inside information in accordance with the applicable laws and regulations.

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-compliance, if any.

Company's Constitutional Documents

During the year, there have been no changes to the Company's constitutional documents.

Company Secretary

The Company Secretary of the Company is Mr. Ho Hon Ming, John. For the year under review, the Company Secretary has taken no less than 15 hours of relevant professional training.

Communication with Shareholders

The Directors are aware of the importance of maintaining good relations and communications with the Company's shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communication with the shareholders is timely and accurate.

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.

Communication with Shareholders (Continued)

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 updates of the same in compliance with the Listing Rules.

At the 2014 AGM held on 26 May 2014, separate resolutions were proposed by the Chairman in respect of each issue itemised on the agenda, including the re-election of the Directors. The Chairman of the Board, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representatives from the external auditor, attended the 2014 AGM to answer questions from the Company's shareholders.

The notice of the AGM is distributed to all shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

Details of individual attendance of each of the Directors are set out below:

Director	Attendance/Number of Meeting
Executive Directors	
Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	1/1
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	1/1
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	1/1
Non-Executive Director	
Mr. Kwan Yuk Choi, James	1/1
Independent Non-Executive Directors	
Dr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chow Vee Tsung, Oscar	1/1

Corporate Governance Report

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders and putting forward proposals

Under the Articles, an extraordinary general meeting ("EGM") may be convened by the Board upon requisition by any two or more shareholders, or any one shareholder which is a recognised clearing house (or its nominee), of the Company holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The shareholders shall make a written requisition to the Board or the Company Secretary of the Company at the head office of the Company, specifying the shareholding information of the shareholders, their contact details and the proposal regarding any specified transaction/business and its supporting documents.

If within 21 days of receipt of such written requisition, the Board does not proceed to convene such EGM to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Making Enquiries to the Board

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her contact details, such as postal address or fax, addressed to the head office of the Company at 23rd Floor, 363 Java Road, North Point, Hong Kong or facsimile number (852) 2561 6618.