

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 complied with the code provisions as set out in the Code throughout the year ended 31 December 2009. The application of the Code is stated in the following paragraphs.

Board of Directors

Composition

As at the date of this Annual Report, the Board comprises ten members (including one alternate Director) 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
Mr. Ou Yaping
Mr. Tang Yui Man, Francis (*alternate Director to Mr. Ou Yaping*)

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 field 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 relationship) between any members of the Board.

Pursuant to the Articles of Association, 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 2009, the Board 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 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, shall expire on 22 May 2010 and it is proposed that their terms of office will be renewed for a term commencing from 23 May 2010 to 22 May 2013 or the conclusion of the Company's annual general meeting in 2013, whichever is earlier. They are also subject to retirement by rotation in accordance with the Articles of Association.

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, 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.

Matters specifically 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 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 have to be discussed and passed by the Board.

Board of Directors (Continued)

The Board held four regular Board meetings (within the meanings of the Code) during the year ended 31 December 2009 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 and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/Number of Meeting
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 (<i>Note 1</i>)	0/0
Mr. Ou Yaping	2/4
Mr. Chen Wei	3/4
Mr. Shen Lian Jin (<i>Note 2</i>)	1/1
Mr. Tang Yui Man, Francis (<i>alternate Director to Mr. Ou Yaping</i>)	1/4
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

Notes:

- (1) Ms. Law Wai Fun, Margaret was appointed on 31 December 2009 and no board meetings were held during her term of office in 2009.
- (2) Mr. Shen Lian Jin resigned as an Executive Director of the Company on 19 March 2009 and only one Board meeting was held during his term 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. 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.

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 for 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

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 the Board, senior management and shareholders;
- consideration of 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 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 and the Audit 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. Alfred Chan Wing Kin, 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 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.

During the year ended 31 December 2009, the Remuneration Committee:

- reviewed the performance bonus for the year 2008 to senior management;
- reviewed the remuneration of the senior management; and
- reviewed the Directors' fees for the year ended 31 December 2009.

Board Committees (Continued) **Remuneration Committee (Continued)**

The Remuneration Committee held two meetings during the year ended 31 December 2009 with individual attendance as follow:

Members of Remuneration Committee	Attendance/Number of Meeting
Dr. Chow Yei Ching	2/2
Dr. Cheng Mo Chi, Moses	2/2
Mr. Li Man Bun, Brian David	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 maximize their potential and also contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David (being the Chairman of the Audit Committee), Dr. Chow Yei Ching and Dr. Cheng Mo Chi, Moses, all of whom are Independent Non-Executive Directors.

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 reviews 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.

During the year ended 31 December 2009, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2008 and for the six months ended 30 June 2009;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed and approved remuneration of auditor for the year ended 31 December 2009.

The Audit Committee held two meetings during the year ended 31 December 2009 with individual attendance as follows:

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

Nomination of Directors

The Company has not established a nomination committee and the selection and appointment of a Director are determined by the full Board directly. The Directors will select those proposed new Directors based on their skills, experience and who, in the opinion of the Directors, are able to make a positive contribution to the performance of the Board. The Board also reviews its composition to ensure that the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Company.

Model Code for Securities Transactions by Directors

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2009, following specific enquiry made by the Company, confirm that they have complied with the required standard set out in the Model Code throughout the year of 2009.

The Company has further adopted a formal model code for securities transactions by its relevant employees ("Code for 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 Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2009. Deloitte also reviewed the 2009 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2009 amounted to HK\$5.38 million.

Non-audit service fees charged by Deloitte during 2009 were as follows:

Description of services performed	HK\$
(1) Acting as tax representative	25,000
(2) Liquidity Review for Disposal of LPG Operations	220,000
(3) Interim review of the financial statements of the Company for the six months ended 30 June 2009	500,000
(4) Annual review on continuing connected transactions for the year ended 31 December 2009	25,000
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Total	770,000

Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge that 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 Auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Auditor's Report on page 61 of this Annual Report.

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.

Effectiveness of Internal Control System

The Board is responsible for the Company's system of internal control 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 2009, 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 any non-compliances.

Shareholders Communication

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

The Company uses a range of communication tools, such as the AGM, the annual report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of 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 can be archived (for documents published in the previous 5 years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2009 AGM held on 11 May 2009, 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 Audit Committee, Chairman of the Remuneration Committee and members of senior management attended the 2009 AGM to answer the shareholders' questions.

An EGM was also held on 11 May 2009 to approve the disposal of the LPG operations of the Group. Members of the independent board committee were available at the EGM to answer questions.