

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company (the “Board”) is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasise accountability and an increase in transparency which will enable the Group’s stakeholders, including shareholders, investors, customers, suppliers, employees and the community to have trust and faith in the Group to take care of their needs and to fulfill its social responsibility.

Corporate Governance Practices

The Company complied with the code provisions as set out in the Code on Corporate Governance Practices (the “Code”) (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) during the period from 1st January 2012 to 31st March 2012 and the Corporate Governance Code (the “Revised Code”) (the new edition of the Code, which is applicable to financial reports covering a period after 1st April 2012) during the period from 1st April 2012 to 31st December 2012.

The Board is responsible for the Group’s system of corporate governance and has performed and reviewed in a timely manner the corporate governance functions as required under the Revised Code. The terms of reference for performing the corporate governance functions as set out in the Revised Code have been approved by the Board for adoption.

The below sets out the corporate governance principles and practices adopted by the Group which indicates how the Group has applied relevant principles in the Code and the Revised Code.

Board of Directors

Responsibilities of Directors

The Board is ultimately accountable for the Group’s activities, strategies and financial performance, which includes formulating business development strategies, directing and supervising the Group’s affairs, reviewing the accounts and budget proposal of the Group, approving interim reports and annual reports and announcements of interim results and annual results, considering dividend policy, reviewing the effectiveness of the internal control system and so on.

The management team is responsible for the day-to-day management, administration and operation of the Group. The Board gives clear directions to the management team as to their powers of management, and circumstances in which the management team should report back.

Newly appointed Directors will be arranged a comprehensive, formal and tailored induction which includes provision of key guidelines, documents and publications relevant to their roles, responsibilities and ongoing obligations; a briefing on the Group’s structure, businesses, risk management and other governance practices and meeting with other fellow Directors to help the newly appointed Directors familiarise with the management, business and governance policies and practices of the Company, and ensure that he has a proper understanding of the operations and businesses of the Group.

Board of Directors (continued)**Responsibilities of Directors** (continued)

To ensure that Directors' contribution to the Board/committees remains informed, continuous professional development are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. Directors are also provided with monthly updates of the Group's development, and information such as performance and key operational highlights to enable the Board as a whole and each Director to discharge their duties.

All Directors have participated in appropriate continuous professional development and provided the Company their records of training they received for the period from 1st April 2012 to 31st December 2012.

During the period from 1st April 2012 to 31st December 2012, all Directors participated in the training which included reading regulatory updates or information relevant to the Group or its business and attending or giving talks at seminars and/or conference.

Directors	Training
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	✓
Mr. Colin LAM Ko Yin	✓
Mr. LEE Ka Kit	✓
Mr. LEE Ka Shing	✓
Independent Non-executive Directors	
Mr. LEUNG Hay Man	✓
Dr. the Hon. David LI Kwok Po	✓
Professor POON Chung Kwong	✓
Executive Directors	
Mr. Alfred CHAN Wing Kin	✓
Mr. James KWAN Yuk Choi *	✓

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Every Director ensures that he gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his appointment the directorships held in other listed companies or nature of offices held in public organisations and other significant commitment. The Company has also requested Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company their time commitment.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from their risks arising from the businesses of the Group.

Board of Directors (continued)

Board Composition

The Board currently has two Executive Directors and seven Non-executive Directors. Three of the seven Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests.

During the year ended 31st December 2012 and up to the date of publication of this Annual Report, the Directors of the Company are set out below:

Non-executive Directors

Dr. the Hon. LEE Shau Kee (Chairman)
 Mr. Colin LAM Ko Yin
 Mr. LEE Ka Kit
 Mr. LEE Ka Shing

Independent Non-executive Directors

Mr. LEUNG Hay Man
 Dr. the Hon. David LI Kwok Po
 Professor POON Chung Kwong

Executive Directors

Mr. Alfred CHAN Wing Kin
 Mr. James KWAN Yuk Choi *
 Mr. Peter WONG Wai Yee **

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

** Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer - Utilities Business on 1st February 2013.

The Company has received from each of the Independent Non-executive Directors confirmation in writing of their independence pursuant to Rule 3.13 of the Listing Rules. Mr. Leung Hay Man ("Mr. Leung") was previously a non-executive director of three listed companies which are connected persons of the Company under the Listing Rules and was engaged by one of these connected persons to provide occasional general consultancy services. Notwithstanding, the aforesaid are considered insignificant and immaterial by the Company. In view of the fact that Mr. Leung does not have any material interests in any business activities of, and is not involved in any material business dealings with, the Company or any of its subsidiaries or with any connected persons of the Company, the Board considers that the independence of Mr. Leung as an Independent Non-executive Director of the Company is not in any way affected. Further, Mr. Leung was re-designated from a non-executive director to an independent non-executive director of the said listed companies in August and October 2012 respectively and had ceased to provide the consultancy services to the connected person since June 2012. In view of the above, Mr. Leung is able to meet the requirements under Rules 3.13(3) and (7) of the Listing Rules. Taking into account the above, the Company considers Mr. Leung to be independent to continue to act as an Independent Non-executive Director of the Company.

In conclusion, the Board considers Mr. Leung Hay Man, Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong as independent.

Biographical details of the Directors and relevant relationships among them are set out on pages 15 to 18 of this Annual Report.

Board of Directors (continued)**Board Composition** (continued)

According to the Articles of Association of the Company, one-third of its non-executive directors and one-third of its executive directors are subject to retirement by rotation at every annual general meeting. Subject to the provisions contained in the Articles of Association of the Company, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2014.

Chairman of the Board and Managing Director

The Chairman of the Board is Dr. the Hon. Lee Shau Kee and the Managing Director is Mr. Alfred Chan Wing Kin. The roles of Chairman of the Board and Managing Director are separate and are not performed by the same individual. The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive, in a timely manner, adequate and reliable information. The Managing Director is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board. Their respective responsibilities are clearly established and set out in writing.

Board Meetings

The Board meets regularly at least four times a year at approximately quarterly intervals. The Directors can attend meetings in person or through electronic means of communication in accordance with the Articles of Association of the Company.

During the year ended 31st December 2012, the Board met four times. The attendance of each Director at the Board meetings during the year ended 31st December 2012 is set out below:

Directors	No. of Meetings Attended / Held
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	4/4
Mr. Colin LAM Ko Yin	4/4
Mr. LEE Ka Kit	4/4
Mr. LEE Ka Shing	4/4
Independent Non-executive Directors	
Mr. LEUNG Hay Man	4/4
Dr. the Hon. David LI Kwok Po	4/4
Professor POON Chung Kwong	4/4
Executive Directors	
Mr. Alfred CHAN Wing Kin	4/4
Mr. James KWAN Yuk Choi *	4/4

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Board of Directors (continued)

Board Meetings (continued)

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors so as to give them an opportunity to attend. Board papers are circulated not less than three days before the date of a Board meeting to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings.

In addition, Directors at all times have full and timely access to all information on the Group and may seek independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31st December 2012.

The Board has also established written guidelines for relevant employees, including certain employees of the Company, certain directors or employees of its subsidiaries who are considered to be likely to possess inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities.

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report on page 77 of this Annual Report.

Board Committees

The Board has established the following Board committees to oversee particular aspects of the Company's affairs:

Audit Committee

The Audit Committee was formed in May 1996. The members of the Audit Committee are Dr. the Hon. David Li Kwok Po (Chairman of the Audit Committee), Mr. Leung Hay Man and Professor Poon Chung Kwong. All members are Independent Non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

The principal duties of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control systems operate in accordance with applicable standards and conventions. The written terms of reference of the Audit Committee which clearly define the role, authority and function of the Audit Committee were revised in line with the Revised Code and are available on both the websites of The Stock Exchange of Hong Kong Limited (the "Exchange") and the Company.

Board Committees (continued)

Audit Committee (continued)

The Audit Committee held two meetings during the year ended 31st December 2012 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2011 annual results and 2012 interim results;
- recommendation to the Board, for the approval by shareholders, of the reappointment of PricewaterhouseCoopers as the external Auditor and approval of their remuneration;
- determination of the nature and scope of the audit;
- review of the financial and accounting policies and practices of the Company; and
- review of the effectiveness of the Company's financial control, internal control, and risk management system, including the review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The attendance record of each member at the Audit Committee meetings during the year ended 31st December 2012 is set out below:

Directors	No. of Meetings Attended / Held
Dr. the Hon. David Li Kwok Po	2/2
Mr. LEUNG Hay Man	2/2
Professor POON Chung Kwong	2/2

Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. The members of the Remuneration Committee are Dr. the Hon. Lee Shau Kee (Non-executive Director), Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong (both were Independent Non-executive Directors). In light of the Revised Code, the Board appointed Dr. the Hon. David Li Kwok Po (an Independent Non-executive Director) to be the Chairman of the Remuneration Committee on 19th March 2012 to replace Dr. the Hon. Lee Shau Kee who remains as a member of the Remuneration Committee.

The principal duties of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for all Directors' and senior management (who are also executive directors of the Company) remuneration, reviewing and approving the special remuneration packages of all executive directors with reference to corporate goals and objectives resolved by the Board from time to time and determining, with delegated responsibility, the remuneration packages of individual executive directors. The written terms of reference of the Remuneration Committee which clearly define the role, authority and function of the Remuneration Committee were revised in line with the Revised Code and are available on both the Exchange's and the Company's websites.

Board Committees (continued)**Remuneration Committee** (continued)

The Company has not adopted any share option scheme. The emoluments of Directors are determined based on the duties and responsibilities of each Director. The Directors' fees were reviewed by the Remuneration Committee. During the year ended 31st December 2012, every Director received a Director's fee at the rate of HK\$160,000 per annum while the Chairman received an additional fee at the rate of HK\$160,000 per annum and each member of the Audit Committee received an additional fee at the rate of HK\$160,000 per annum. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities.

During the year ended 31st December 2012, the Remuneration Committee held its meeting once to review the above matters. The attendance record of each member at the Remuneration Committee meeting during the year ended 31st December 2012 is set out below:

Directors	No. of Meeting Attended / Held
Dr. the Hon. LEE Shau Kee	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1

Nomination Committee

The Company established a Nomination Committee on 19th March 2012 and is chaired by Dr. the Hon. Lee Shau Kee (Non-executive Director) with Dr. the Hon. David Li Kwok Po and Professor Poon Chung Kwong (both were Independent Non-executive Directors) as members.

The principal duties of the Nomination Committee include, but are not limited to, reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy. It is also responsible for making recommendations to the Board on nominations and appointment of Directors as well as assessing the independence of independent non-executive directors. The Committee shall consider the candidate from a range of backgrounds on his/her merits and against objective criteria set out by the Board. The Company has adopted written terms of reference for the Nomination Committee that clearly define the role, authority and function of the Nomination Committee. The terms of reference of the Nomination Committee are available on both the Exchange's and the Company's websites.

The Nomination Committee held one meeting during the year ended 31st December 2012. During the year under review, the Nomination Committee considered the appointment of Mr. Peter Wong Wai Yee as Executive Director and Chief Operating Officer – Utilities Business and made recommendation to the Board.

Board Committees (continued)**Nomination Committee** (continued)

The attendance record of each member at the Nomination Committee meeting during the year ended 31st December 2012 is set out below:

Directors	No. of Meeting Attended / Held
Dr. the Hon. LEE Shau Kee	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1

Auditor's Remuneration

For the year ended 31st December 2012, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to HK\$8.3 million. During the year, payment to PricewaterhouseCoopers in respect of non-audit services, mainly including taxation services and interim results review services provided to the Group amounted to HK\$5.4 million.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board will from time to time conduct a review of the Group's internal control system. During the year ended 31st December 2012, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system over financial, operational and compliance issues, risk management process, information systems security, scope and quality of the management's monitoring of risks and the effectiveness of financial reporting and compliance with the Listing Rules. The Board considered that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

Company Secretary

The Company Secretary is responsible to assist the Board by ensuring good information flow within the Board as well as the Board policy and procedures being followed properly. The Company Secretary also provides professional advice to the Board on corporate governance and other matters. He is also responsible for organising general meetings and facilitating the induction and professional development of Directors.

During the year ended 31st December 2012, the Company Secretary undertook no less than 15 hours of relevant professional training.

Shareholder Rights and Investor Relations

The Board is committed to maintaining an on-going communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The annual general meetings ("AGMs") of the Company provide a good forum for communication between the Board and shareholders. The notice of the AGMs is despatched to all shareholders at least 20 clear business days prior to such AGMs. The Chairman of the Board and the chairmen of all the Board Committees are available to answer questions at the AGMs. Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders in the general meeting so that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of the Exchange and the Company on the business day following the shareholders' meeting. Moreover, a separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

The chairmen of Audit Committee, Remuneration Committee and Nomination Committee are invited to attend the AGMs. Auditor is also invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The 2012 AGM was held on 5th June 2012. The attendance record of each Director at the 2012 AGM is set out below:

Directors	No. of Meeting Attended / Held
Non-executive Directors	
Dr. the Hon. LEE Shau Kee (Chairman)	1/1
Mr. Colin LAM Ko Yin	1/1
Mr. LEE Ka Kit	1/1
Mr. LEE Ka Shing	1/1
Independent Non-executive Directors	
Mr. LEUNG Hay Man	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1
Executive Directors	
Mr. Alfred CHAN Wing Kin	1/1
Mr. James KWAN Yuk Choi *	1/1

* Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement.

Under the Hong Kong Companies Ordinance, shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company are entitled to send a request to the Company to convene an extraordinary general meeting. Such requisition must state the objects of the meeting and must be signed by the shareholders and deposited at the registered office of the Company.

Shareholder Rights and Investor Relations (continued)

If a member wishes to propose a person other than a retiring director of the Company for election as a director of the Company at a general meeting, that member should deposit a written notice stating the full name of the person proposed for election as a director of the Company, together with (a) the proposed person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the member concerned and that proposed person indicating his/her willingness to be elected; and (b) the proposed person's written consent to the publication of his/her personal data not earlier than the day after the despatch of the notice of the meeting and not later than 7 days prior to the day appointed for the meeting. Detailed procedures can be found in the "Procedures for shareholders to propose a person for election as a director of the Company at a general meeting" which is available on the Company's website.

The Company has also maintained a policy on shareholders' communication to handle enquires put to the Board and contact details have been provided so as to enable such enquires be properly directed.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Questions from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at www.towngas.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance practices and other information are posted.