

# 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

During the year ended 31st December 2015, the Company complied with all the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The below sets out the corporate governance principles and practices adopted by the Group which indicate how the Group has applied relevant principles in the 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 financial statements and budget proposal of the Group, approving interim reports, annual reports and announcements of interim results and annual results, considering dividend policy, reviewing the effectiveness of the internal control systems 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 so as to help the newly appointed Directors familiarise with the management, business and governance policies and practices of the Company, and ensure that they have a proper understanding of the operations and businesses of the Group.

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.

## Board of Directors (Continued)

### Responsibilities of Directors (Continued)

All Directors have participated in appropriate continuous professional development and provided the Company with their records of training they received for the year ended 31st December 2015.

During the year ended 31st December 2015, 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 conferences.

Directors	Training
<b>Non-executive Directors</b>	
Dr. the Hon. LEE Shau Kee (Chairman)	✓
Dr. Colin LAM Ko Yin	✓
Dr. LEE Ka Kit	✓
Mr. LEE Ka Shing	✓
<b>Independent Non-executive Directors</b>	
Mr. LEUNG Hay Man	✓
Dr. the Hon. David LI Kwok Po	✓
Professor POON Chung Kwong	✓
<b>Executive Directors</b>	
Mr. Alfred CHAN Wing Kin	✓
Mr. Peter WONG Wai Yee	✓

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 the 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.

### Corporate Governance Functions

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 Code. During the year ended 31st December 2015, the Board reviewed the Company's policies and practices on corporate governance and the disclosure in the Corporate Governance Report. The terms of reference for performing the corporate governance functions as set out in the Code were approved by the Board for adoption.

## Board of Directors (Continued)

### Board Diversity Policy

The Board adopted the Board Diversity Policy setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to professional experience, skills, knowledge, cultural and educational background, ethnicity, age and gender. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

### 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.

As at 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)

Dr. Colin LAM Ko Yin

Dr. 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. Peter WONG Wai Yee

The Company received from each of the Independent Non-executive Directors confirmation in writing of their independence pursuant to Rule 3.13 of the Listing Rules and considered them as independent.

Biographical details of the Directors and relevant relationships among them are set out from pages 17 to 20 of this Annual Report. Save as disclosed therein, there is no financial, business, family or other material/relevant relationship among the Directors.

According to the Articles of Association of the Company (the "Articles of Association"), one-third of all the directors are subject to retirement by rotation at every annual general meeting. Subject to the provisions contained in the Articles of Association, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2017.

## Board of Directors (Continued)

### 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 the Chairman of the Board and the 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.

During the year ended 31st December 2015, the Board met four times. The attendance of each Director at the Board meetings during the year ended 31st December 2015 is set out below:

Directors	No. of Meetings Attended / Held
<b>Non-executive Directors</b>	
Dr. the Hon. LEE Shau Kee (Chairman)	4/4
Dr. Colin LAM Ko Yin	4/4
Dr. LEE Ka Kit	4/4
Mr. LEE Ka Shing	4/4
<b>Independent Non-executive Directors</b>	
Mr. LEUNG Hay Man	4/4
Dr. the Hon. David LI Kwok Po	4/4
Professor POON Chung Kwong	4/4
<b>Executive Directors</b>	
Mr. Alfred CHAN Wing Kin	4/4
Mr. Peter WONG Wai Yee	4/4

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. Meeting agenda and accompanying meeting papers are sent to all relevant Directors at least 3 days before the date of a Board or committee meeting to enable the Directors to make informed decisions on matters to be raised at the 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.

## **Board of Directors** (Continued)

### **Directors' Securities Transactions**

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiry 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 2015.

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 (the "Relevant Employees"), in respect of their dealings in the Company's securities.

### **Directors' Responsibility for the Financial Statements**

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31st December 2015, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's financial statements in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 85 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 Company has adopted written terms of reference for the Audit Committee that clearly define the role, authority and function of the Audit Committee. The terms of reference of the Audit Committee 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 2015 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2014 annual results and 2015 interim results;
- recommendation to the Board, for the approval by shareholders, of the re-appointment 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;
- 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; and
- review of the terms of reference of the Audit Committee with recommendation to the Board.

The attendance record of each member at the Audit Committee meetings during the year ended 31st December 2015 is set out below:

Audit Committee Members	No. of Meetings Attended / Held
Dr. the Hon. David Li Kwok Po (Chairman)	2/2
Mr. LEUNG Hay Man	2/2
Professor POON Chung Kwong	2/2

The Audit Committee has been renamed as the Board Audit and Risk Committee with effect from 1st January 2016, to better reflect its functions and responsibilities, and continue to oversee the risk management functions at the Company.

### Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. The Remuneration Committee is chaired by Dr. the Hon. David Li Kwok Po (Independent Non-executive Director) with Dr. the Hon. Lee Shau Kee (Non-executive Director) and Professor Poon Chung Kwong (Independent Non-executive Director) as members.

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 Company has adopted written terms of reference for the Remuneration Committee that clearly define the role, authority and function of the Remuneration Committee. The terms of reference of the Remuneration Committee 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 2015, every Director received a Director's fee at the rate of HK\$200,000 per annum while the Chairman of the Board received an additional fee at the rate of HK\$200,000 per annum and each member of the Audit Committee, Remuneration Committee and Nomination Committee received additional fees at the rate of HK\$250,000, HK\$100,000 and HK\$100,000 per annum respectively. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities.

During the year ended 31st December 2015, the Remuneration Committee held its meeting once to review the Directors' fees and the remuneration of the Executive Directors. The attendance record of each member at the Remuneration Committee meeting during the year ended 31st December 2015 is set out below:

Remuneration Committee Members	No. of Meeting Attended / Held
Dr. the Hon. David LI Kwok Po (Chairman)	1/1
Dr. the Hon. LEE Shau Kee	1/1
Professor POON Chung Kwong	1/1

### Nomination Committee

The Company established a Nomination Committee on 19th March 2012. The Nomination Committee 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 are 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 2015. During the year under review, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of all independent non-executive directors of the Company. It also recommended to the Board for approval of the re-election of the retiring Directors at the 2015 Annual General Meeting.

## Board Committees (Continued)

### Nomination Committee (Continued)

The attendance record of each member at the Nomination Committee meeting during the year ended 31st December 2015 is set out below:

Nomination Committee Members	No. of Meeting Attended / Held
Dr. the Hon. LEE Shau Kee (Chairman)	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 2015, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to approximately HK\$10.0 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 approximately HK\$4.3 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 2015, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control systems 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. In addition, the Board adopted a Whistleblowing Policy which provides reporting channels and guidance for employees and other parties who deal with the Group (e.g. contractors and suppliers, etc.) to report possible improprieties in matters of financial reporting or other matters. The Whistleblowing Policy is available on the Company's website. 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.



## **Policy and Procedures on Disclosure of Inside Information**

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the officers (referring to directors, managers or Company Secretary of the Company) and all the Relevant Employees of the Company to ensure that the inside information of the Company is to be disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the Company's website.

## **Company Secretary**

The Company Secretary is responsible for assisting 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 of the Company and facilitating the induction and professional development of Directors.

During the year ended 31st December 2015, the Company Secretary undertook no less than 15 hours of relevant professional training.

## **Communication with Shareholders**

The Board is committed to maintaining an ongoing 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. Notices of the AGMs are despatched to all shareholders at least 20 clear business days prior to such AGMs. The chairmen of all Board Committees are invited to attend the AGMs. The Chairman of the Board and the chairmen of all the Board Committees are available to answer questions at 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.

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.

## Communication with Shareholders (Continued)

The 2015 AGM was held on 1st June 2015. The attendance record of each Director at the 2015 AGM is set out below:

Directors	No. of Meeting Attended / Held
<b>Non-executive Directors</b>	
Dr. the Hon. LEE Shau Kee (Chairman)	1/1
Dr. Colin LAM Ko Yin	1/1
Dr. LEE Ka Kit	1/1
Mr. LEE Ka Shing	1/1
<b>Independent Non-executive Directors</b>	
Mr. LEUNG Hay Man	1/1
Dr. the Hon. David LI Kwok Po	1/1
Professor POON Chung Kwong	1/1
<b>Executive Directors</b>	
Mr. Alfred CHAN Wing Kin	1/1
Mr. Peter WONG Wai Yee	1/1

## Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company which are governed by the provisions of the Articles of Association and applicable laws, rules and regulations.

### Convening a General Meeting

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), shareholders representing at least 5% of the total voting rights of all the shareholders are entitled to send a request to the Company to convene a general meeting. Such request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be sent to the Company in hard copy form or in electronic form and must also be authenticated by the person or persons making it.

### Putting Forward Proposals at a Shareholders' Meeting

Pursuant to the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all the shareholders or at least 50 shareholders can request the Company in writing to circulate to the shareholders a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting. A request may be sent to the Company in hard copy form or in electronic form and must identify the statement to be circulated. It must be authenticated by the person or persons making it and be received by the Company at least 7 days before such meeting.

## **Shareholders' Rights** (Continued)

### **Putting Forward Enquiries to the Board**

The Company has maintained a policy on shareholders' communication to handle enquiries put to the Board. In order to enable such enquiries be properly directed, designated contacts, email addresses and enquiry lines of the Company were provided on page 181 of this Annual Report and the Company's website.

### **Proposing a Person for Election as a Director**

If a shareholder 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 shareholder 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 shareholder 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.

### **Investor Relations**

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](http://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.

### **Constitutional Documents**

The latest version of the Articles of Association is available on both the Company's and the Exchange's websites. During the year ended 31st December 2015, there is no change in the Articles of Association.