



# 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.

In 2007, the Company has modified its various corporate governance practices, such as changing the voting procedures in its shareholders' meetings from "show of hands" to "voting by poll", redesigning the mechanism for nominating directors and implementing more regulated internal control system. The Company will continue 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 2007. The application of the Code is stated in the following paragraphs.

## BOARD OF DIRECTORS

### Composition

As at the date of this report, the Board comprises 11 members (including one alternate Director). The respective dates of their appointment of the Directors who held offices during the year of 2007, together with details of changes in the Board since 1 January 2007, are as follows:

#### Executive Directors:

Mr. Chan Wing Kin, Alfred ( <i>Chairman</i> )	(appointed on 1 March 2007)
Mr. Wong Wai Yee, Peter ( <i>Chief Executive Officer</i> )	(appointed on 1 March 2007)
Mr. Kwan Yuk Choi, James	(appointed on 1 March 2007)
Mr. Ho Hon Ming, John ( <i>Company Secretary</i> )	(appointed on 1 March 2007)
Mr. Ou Yaping ( <i>ex-Chairman</i> )	
Mr. Chen Wei ( <i>ex-Managing Director</i> )	
Mr. Shen Lian Jin	
Mr. Tang Yui Man, Francis ( <i>ex-Vice Chairman</i> ) ( <i>alternate director to Mr. Ou Yaping</i> )	(appointed as alternate Director to Mr. Ou Yaping on 1 March 2007)

---

# CORPORATE GOVERNANCE REPORT

## Independent non-executive Directors:

Dr. Chow Yei Ching	(appointed on 23 May 2007)
Mr. Li Man Bun, Brian David	(appointed on 23 May 2007)
Mr. Cheng Mo Chi, Moses	(appointed on 23 May 2007)

## Resigned executive Directors:

Mr. Tang Yui Man, Francis ( <i>ex-Vice Chairman</i> )	(resigned on 1 March 2007)
Mr. Li Fujun	(resigned on 1 March 2007)
Mr. Zhang Keyu	(resigned on 1 March 2007)

## Resigned non-executive Director:

Mr. To Chi Keung, Simon	(retired on 15 February 2007)
-------------------------	-------------------------------

## Resigned independent non-executive Directors:

Mr. Cheung Hon Kit	(resigned on 23 May 2007)
Mr. Li Xiao Ru	(retired on 23 May 2007)
Mr. Zhang Ke	(resigned on 23 May 2007)

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

Each independent non-executive Director has confirmed, in accordance with 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 at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

The term of office for Messrs. Chow Yei Ching, Li Man Bun, Brian David and Cheng Mo Chi, Moses, being the independent non-executive Directors, shall expire on 22 May 2010, 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. The executive Directors conduct meetings with senior management of the Group, at which operational issues and financial performance are evaluated.



# CORPORATE GOVERNANCE REPORT

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.

There are established procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association states responsibilities and operational procedures 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.

The Board held 4 regular Board meetings (within the meanings of the Code) during 2007 at approximately quarterly intervals. Due notice 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 Directors are set out below:-

	No. of meetings attended/held during his term of office
<b>Executive Directors</b>	
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
Mr. Ou Yaping ( <i>ex-Chairman</i> )	2/4
Mr. Chen Wei ( <i>ex-Managing Director</i> )	3/4
Mr. Shen Lian Jin	4/4
Mr. Tang Yui Man, Francis ( <i>ex-Vice Chairman</i> ) ( <i>as alternate director to Mr. Ou Yaping</i> )	2/4
<b>Independent non-executive Directors</b>	
Dr. Chow Yei Ching	3/3
Mr. Cheng Mo Chi, Moses	2/3
Mr. Li Man Bun, Brian David	2/3
<b>Resigned independent non-executive Directors</b>	
Mr. Cheung Hon Kit	1/1
Mr. Li Xiao Ru	0/1
Mr. Zhang Ke	1/1
<b>Resigned executive Directors</b>	
Mr. Tang Yui Man, Francis ( <i>ex-Vice Chairman</i> )	N/A*
Mr. Li Fujun	N/A*
Mr. Zhang Keyu	N/A*

---

# CORPORATE GOVERNANCE REPORT

No. of meetings attended/held  
during his term of office

## Resigned non-executive Director

Mr. To Chi Keung, Simon

N/A\*

\* There had been no regular Board meeting held throughout their respective terms of office during 2007.

## Chairman and Chief Executive Officer

The role of the ex-Chairman, Mr. Ou Yaping, and the ex-Vice Chairman, Mr. Tang Yui Man, Francis remained separate from that of the ex-Managing Director, Mr. Chen Wei throughout their term of office during the first quarter of 2007. In March 2007, the role of the Chairman was taken up by Mr. Chan Wing Kin, Alfred, and that of Chief Executive Officer by 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. The Chairman oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account matters proposed by other Directors. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Chief Executive Officer (previously Managing Director), assisted by other executive Directors, is responsible for 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 (previously Managing Director) is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

## 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 senior management, Board and shareholders;
- consideration of misuse of corporate assets and abuse in related party transaction; 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

A number of committees of the Board, including the Audit Committee and the Remuneration Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

## Remuneration Committee

From 23 May 2007 onwards, the Remuneration Committee comprises one executive Director, Mr. Chan Wing Kin, Alfred and three independent non-executive Directors, Messrs. Chow Yei Ching, Li Man Bun, Brian David and Cheng Mo Chi, Moses, and is chaired by Dr. Chow Yei Ching. Prior to 23 May 2007, the Remuneration Committee comprised one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke, and was chaired by Mr. Cheung Hon Kit.

The terms of reference of the Remuneration Committee complies with the Code.

The Remuneration Committee's responsibilities include review and consideration of the Company's remuneration policy for Directors and senior management, 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 2007, the Remuneration Committee:-

- reviewed the remuneration of the proposed executive Directors;
- reviewed the grant of share options to Directors;
- conducted the annual review of an executive Director's remuneration pursuant to his service contract;
- reviewed the Directors' Fees for 2007; and
- reviewed the service contract of an executive Director.

---

# CORPORATE GOVERNANCE REPORT

The Remuneration Committee held 3 meetings during 2007 with individual attendance as follow:-

	No. of meetings attended/held during his term of office
<b>Members of Remuneration Committee</b>	
Dr. Chow Yei Ching	1/1
Mr. Cheng Mo Chi, Moses	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Chan Wing Kin, Alfred	1/1

#### **Resigned members**

Mr. Cheung Hon Kit	2/2
Mr. Li Xiao Ru	2/2
Mr. Zhang Ke	2/2
Mr. Ou Yaping	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 employees to pursue a balanced life and provides a good working environment to maximize potential and contribution to the Group.

#### **Audit Committee**

The Audit Committee comprises Messrs. Li Man Bun, Brian David (being the Chairman of the Audit Committee), Chow Yei Ching and Cheng Mo Chi, Moses, all of whom had been appointed as independent non-executive directors and members of the Audit Committee effective from 23 May 2007. Prior to 23 May 2007, the Audit Committee comprised three former independent non-executive directors, namely Messrs. Cheung Hon Kit, Zhang Ke and Li Xiao Ru, who had either resigned or retired by rotation on 23 May 2007.

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

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

During 2007, the Audit Committee:

- reviewed financial statements for the year ended 31 December 2006 and for the six months ended 30 June 2007;



# CORPORATE GOVERNANCE REPORT

- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed and approved remuneration of auditors for 2007.

The Audit Committee held 2 meetings during 2007 with individual attendance as follow:–

No. of meetings attended/held  
during his term of office

## Members of Audit Committee

Dr. Chow Yei Ching	1/1
Mr. Li Man Bun, Brian David	1/1
Mr. Cheng Mo Chi, Moses	1/1

## Resigned members

Mr. Cheung Hon Kit	1/1
Mr. Li Xiao Ru	1/1
Mr. Zhang Ke	1/1

## Nomination of Directors

The Company has re-designated the function of nominating directors to the full Board which was previously performed by the pre-existing Nomination Committee comprising restrictive number of Board members. Accordingly, by a resolution of the Board passed on 23 May 2007, the pre-existing Nomination Committee was dissolved.

The pre-existing Nomination Committee comprised one executive Director, Mr. Ou Yaping and three independent non-executive Directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Zhang Ke, and was chaired by Mr. Cheung Hon Kit.

During 2007, the pre-existing Nomination Committee:

- considered the retirement and re-election of Mr. To Chi Keung, Simon as non executive Director and Mr. Zhang Ke as independent non-executive Director;
- considered and nominated Messrs. Chan Wing Kin, Alfred, Wong Wai Yee, Peter, Kwan Yuk Choi, James and Ho Hon Ming, John as new executive Directors for the Board's approval;
- considered and nominated Mr. Chan Wing Kin, Alfred as Chairman of the Board in place of Mr. Ou Yaping for the Board's approval; and
- considered and nominated Messrs. Chow Yei Ching, Cheng Mo Chi, Moses, Li Man Bun, Brian David as new independent non-executive Directors for the Board's approval.

---

# CORPORATE GOVERNANCE REPORT

The pre-existing Nomination Committee held 4 meetings during 2007 with individual attendance as follows:-

No. of meetings attended/held  
during his term of office

## Members of pre-existing Nomination Committee

Mr. Cheung Hon Kit	4/4
Mr. Li Xiao Ru	4/4
Mr. Zhang Ke	4/4
Mr. Ou Yaping	4/4

After the dissolution of the pre-existing Nomination Committee, the selection and appointment of a Director are determined by the full Board directly. Proposed new Directors are selected based on skills and experience that, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board. The Board also reviews its composition to ensure 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 has adopted the Model Code set out in Appendix 10 to 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 2007, 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 2007.

The Company also has written guidelines regarding securities transactions of senior management. In February 2008, the Company has further adopted a formal model code for securities transactions by relevant employees, 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 professional services in respect of the audit of Company's financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2007. Deloitte also reviewed the 2007 unaudited interim financial information of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for 2007 amounted to HK\$6 million.





# CORPORATE GOVERNANCE REPORT

Non-audit service fees charged by Deloitte during 2007 were as follows:

Description of services performed	Fee HK\$
Professional services rendered in connection with the open offer with an assured allotment of one offer share for every ten existing shares of the Company in June 2007	350,000
Review of the interim financial information of the Company for the six months ended 30 June 2007	500,000
<b>Total</b>	<b>850,000</b>

## DIRECTORS' RESPONSIBILITY IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements. The statement of the Auditors regarding reporting responsibility for the financial statements is set out in the Auditor's Report on page 64.

## 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.

## INTERNAL CONTROL

### Internal Control System

The Group has established an internal control system modeled on the framework of COSO (the Committee of Sponsoring Organizations of the Treadway Commission), under which major measures are enforced in environmental monitoring, risk assessment, control activity, information and communication, and supervision respectively. Details of these five aspects are as follows:

### Environmental Control:

#### Criteria

- serving as a basis for other control measures;
- the Company's management style and fundamentals;
- the Company's ethical and good faith standards;
- competence;
- human resources policy;
- organizational structure, authorization and division of responsibilities.

### Major Measures

For the purpose of establishing a stable and sound management structure, it is necessary to set up a board of directors and an audit committee at the level of the Company and in each joint ventures.

# CORPORATE GOVERNANCE REPORT

The president/chairman is in charge of the board of directors. The posts of the president/chairman and chief executive/general manager are taken up by different persons. As at the date of this report, a board of directors had been set up in all joint ventures.

All members of the Company's audit committee are independent Directors, while the members of the audit committees of joint ventures are persons independent of the management of the joint ventures. As at the date of this report, an audit committee had been set up in each of the piped gas companies, other than the operating enterprises in which the Group owns a 100% equity interest. The audit committees of LPG companies will be set up gradually in 2008 and 2009.

The management is in charge of designing, enforcing and maintaining internal control measures, while the board of directors and audit committee are in charge of monitoring the sufficiency and effectiveness of the activities and internal control measures by the board of directors. For the purpose of reinforcing internal control, an internal audit department has been set up in our Shenzhen head office.

For the purpose of reinforcing control over the joint ventures, the senior management has set up executive committees comprising chief executive officer, company secretary, head of finance and head of human resources and senior vice-presidents of various regional offices. The executive committees convene meetings on a regular basis to ensure that the Group's strategies are transmitted, fed back and revised in a timely manner, and that matters in connection with the financial, operation, legal and risk assessment aspects which are not in compliance with the internal control requirements are identified and corrected in a timely manner.



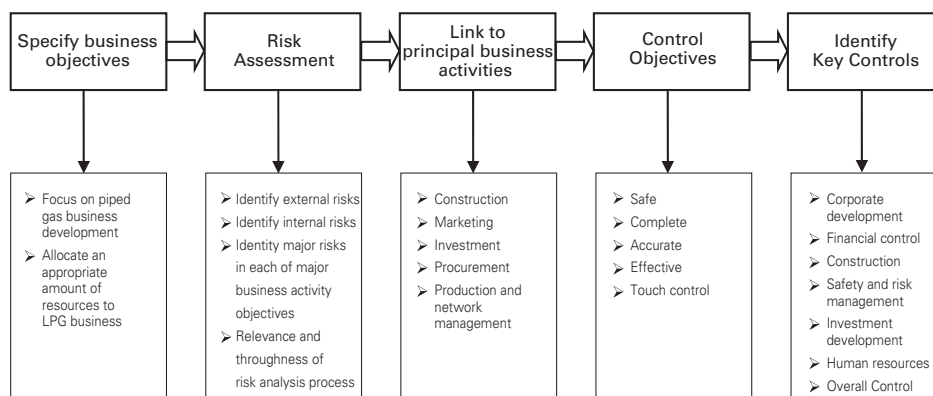
## Risk Assessment:

### Criteria

- specify business objectives which include company's objectives and business activity objectives;
- assess external and internal risks in connection with the business objectives;
- link the risks to the principal business activities;
- set control objectives and ensure that the key control points are in place.

### Major Measures

Based on the findings of the risk assessment, key control points and key management positions have been set up in corporate development, financial control, construction, safety and risk management, investment development, human resources and overall control.



# CORPORATE GOVERNANCE REPORT

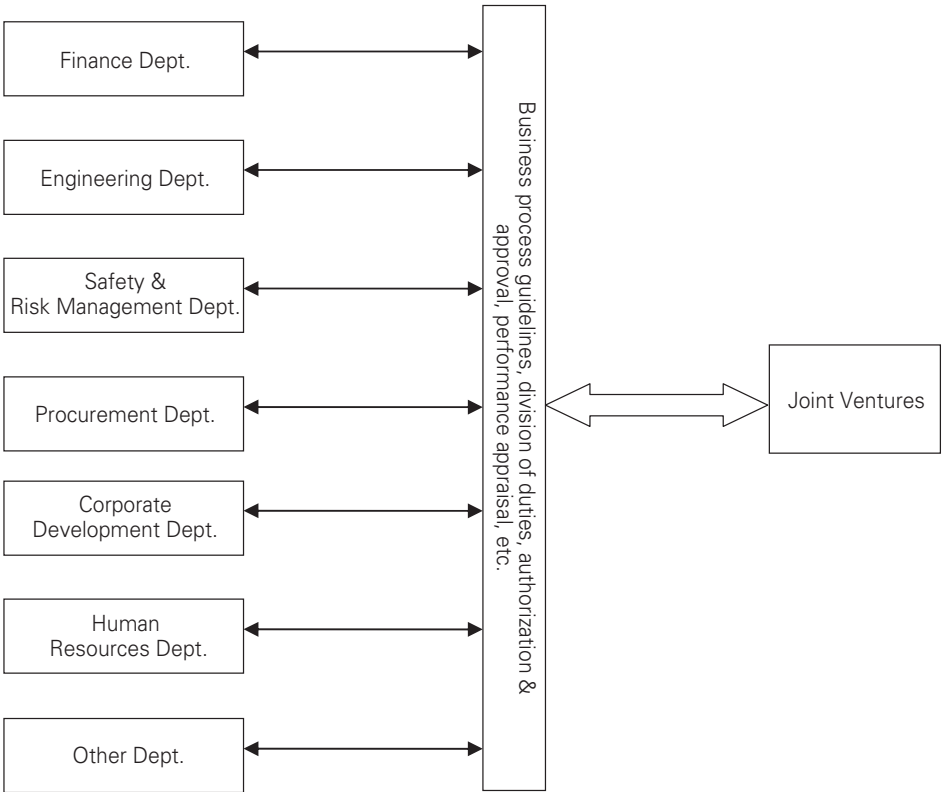
## Control Activities:

### Criteria

- manual control or system control;
- supervisory control or application control.

### Major Measures

Based on the findings of the risk assessment, a full set of codes have been developed, such as business process guidelines, division of duties, authorization and approval and performance appraisal. For the purposes of enhancing efficiency and minimizing errors in manual control, system control has been applied under appropriate circumstances.



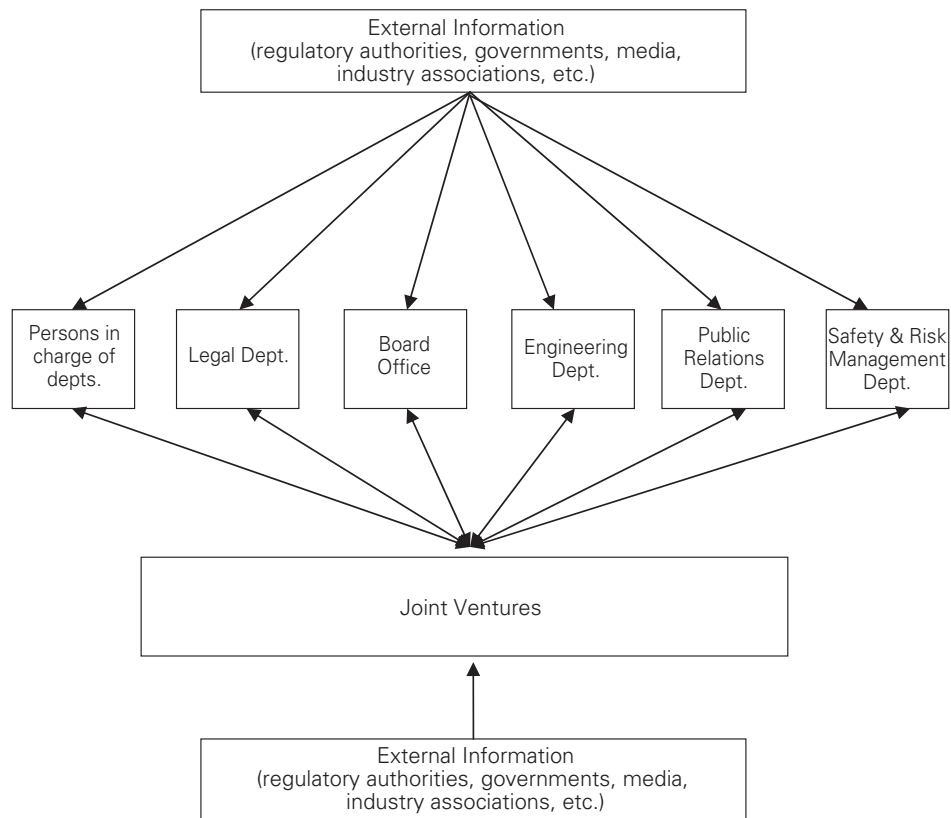
## Information and Communication:

### Criteria

- timeliness, accuracy and accessibility of internal and external information;
- effectiveness of internal two-way communication.

### Major Measures

- set up a mechanism for accessing information from external sources on a regular basis and for circulating such information within the Company;
- establish an internal information sharing, exchange and appraisal mechanism.



---

# CORPORATE GOVERNANCE REPORT

## Supervision:

### Criteria

Assess the design and enforcement of the internal control system, and adopt necessary measures to conduct ongoing supervision or an independent assessment.

### Major Measures

The management staff are required to conduct day-to-day supervision and assessment of the internal control system of each of the business units. The Internal audit department conducts independent assessments.

## Price Sensitive Information

With respect to internal controls for the handling of price sensitive information, the Directors and the relevant employees who have access to price sensitive information are bound by the model codes for securities transactions which contain strict prohibition on unauthorized use or disclosure of confidential or insider information.

## Effectiveness of Internal Control System

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Group 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 opinions 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 2007, the Board considered the improvements made on the internal control system satisfactory and found no significant areas of concern which might affect the shareholders.

## 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.

Acknowledging the growing importance of electronic communications, the Company has revamped its website ([www.towngaschina.com](http://www.towngaschina.com)) during 2007 to provide an easily accessible and user-friendly forum for corporate communications with shareholders and 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.

On 15 February 2007, an extraordinary general meeting (the "EGM") was held to approve, inter alia, (i) the conditional sale and purchase agreement entered into between the Company and HKCG, pursuant to which the Company acquired equity interests in 10 PRC piped gas companies at consideration of issuing and allotting to HKCG new shares representing approximately 44% of the issued share capital (as enlarged) of the Company, constituting a major transaction of the Company; and (ii) the whitewash waiver be granted to HKCG and parties acting in concert exempting them from the obligation to make a mandatory general offer pursuant to Rule 26 of the Code on Takeovers and Mergers. A member of the independent board committee was available at the EGM to answer questions.

At the 2007 Annual General Meeting held on 23 May 2007, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including re-election of Directors. The Chairman of the Board, members of senior management and Mr. Ou Yaping being the delegate of the chairman of the Audit Committee, Remuneration Committee and pre-existing Nomination Committee attended the 2007 Annual General Meeting to answer the shareholders' questions.

## VOTING BY POLL

Procedures for demanding a poll are included in all circulars and read out by the chairman at the general meetings.

At the 2007 Annual General Meeting, the Chairman of the meeting exercised his power under the Articles of Association to put each resolution set out in the notice of the meeting to be voted by way of a poll. The forthcoming annual general meeting in 2008 will proceed with the same practice of "voting by poll".