

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders their Report and the Audited Accounts for the year ended 31st December 2013 which are to be presented at the Annual General Meeting to be held at Meeting Room N101 (Expo Drive Entrance), Hong Kong Convention and Exhibition Centre, Wanchai, Hong Kong on Wednesday, 4th June 2014.

Principal Activities

The principal activities of the Group are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and mainland China. Particulars of the principal subsidiaries of the Company are shown on pages 171 to 183 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and mainland China.

Results and Appropriations

The results of the Group for the year ended 31st December 2013 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 78 and 79 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 2nd October 2013 and the Directors recommend a final dividend of HK23 cents per share payable on 20th June 2014 to shareholders whose names are on the register of members on 12th June 2014.

Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every ten existing shares held by the shareholders of the Company whose names are on the register of members on 12th June 2014. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

Financial Summary

A summary of the results of the Group for the past nine financial years is set out on pages 56 and 57 of this Annual Report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in Note 38 to the Accounts.

The distributable reserves of the Company as at 31st December 2013 amounted to HK\$10,644,800,000 (restated 2012: HK\$10,399,000,000) before the proposed final dividend for the year ended 31st December 2013.

Property, Plant and Equipment

Movements in property, plant and equipment of the Group and the Company are shown in Note 17 to the Accounts.

Share Capital

Movements in share capital of the Company are shown in Note 36 to the Accounts.

Borrowings

Particulars of the borrowings of the Group are provided in Note 32 to the Accounts.

Charitable Donations

Charitable donations made by the Company and its subsidiaries, operating mainly in mainland China, amounted to HK\$54,500,000 and HK\$4,100,000 (2012: HK\$3,900,000 and HK\$4,000,000) respectively in 2013.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

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. Peter WONG Wai Yee (appointed on 1st February 2013)

Mr. James KWAN Yuk Choi (retired on 1st February 2013)

At the annual general meeting held on 5th June 2013, Dr. the Hon. Lee Shau Kee, Mr. Leung Hay Man, Mr. Colin Lam Ko Yin, Mr. Alfred Chan Wing Kin and Mr. Peter Wong Wai Yee were re-elected as Directors of the Company. Dr. the Hon. David Li Kwok Po, Mr. Lee Ka Kit, Mr. Lee Ka Shing and Professor Poon Chung Kwong held office throughout the year. Mr. James Kwan Yuk Choi resigned as Executive Director and Chief Operating Officer of the Company on 1st February 2013 upon his retirement. Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer – Utilities Business of the Company on 1st February 2013.

According to the Articles of Association of the Company (the “Company’s Articles”), 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. Pursuant to Article 97 of the Company’s Articles, Dr. the Hon. David Li Kwok Po, Mr. Lee Ka Kit and Mr. Lee Ka Shing, non-executive directors, and Mr. Peter Wong Wai Yee, an executive director, are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out on pages 15 and 18 of this Annual Report.

Disclosure of Interests

A. Directors

As at 31st December 2013, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares and Underlying Shares (Long Positions)

Name of Company	Director	Interest in Shares				Interest in Underlying Shares Pursuant to Share Options	Aggregate Interest	%*
		Personal Interests	Family Interests	Corporate Interests	Other			
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau Kee			3,967,288,023 (Note 3)			3,967,288,023	41.50
	Dr. the Hon. David Li Kwok Po	26,646,620					26,646,620	0.28
	Mr. Lee Ka Kit				3,967,288,023 (Note 2)		3,967,288,023	41.50
	Mr. Alfred Chan Wing Kin	182,156 (Note 5)					182,156	0.00
	Mr. Lee Ka Shing			3,967,288,023 (Note 2)			3,967,288,023	41.50
	Professor Poon Chung Kwong	124,460 (Note 4)					124,460	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau Kee			9,500 (Note 6)			9,500	95
	Mr. Lee Ka Kit				9,500 (Note 6)		9,500	95
	Mr. Lee Ka Shing				9,500 (Note 6)		9,500	95
Yieldway International Limited	Dr. the Hon. Lee Shau Kee			2 (Note 7)			2	100
	Mr. Lee Ka Kit				2 (Note 7)		2	100
	Mr. Lee Ka Shing				2 (Note 7)		2	100
Towngas China Company Limited ("Towngas China")	Dr. the Hon. Lee Shau Kee			1,628,172,901 (Note 8)			1,628,172,901	62.31
	Mr. Lee Ka Kit			1,628,172,901 (Note 8)			1,628,172,901	62.31
	Mr. Lee Ka Shing			1,628,172,901 (Note 8)			1,628,172,901	62.31
	Mr. Alfred Chan Wing Kin					3,618,000 (Note 9)	3,618,000	0.14
	Mr. Peter Wong Wai Yee **					3,015,000 (Note 9)	3,015,000	0.12

* Percentage which the aggregate long position in the shares or underlying shares represents to the issued share capital of the Company or any of its associated corporations.

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

Disclosure of Interests (Continued)

A. Directors (Continued)

Options to Subscribe for Shares of Towngas China (Long Positions)

Pursuant to the share option scheme of Towngas China, a subsidiary of the Company, certain Directors of the Company have been granted options to subscribe for the shares of Towngas China, details of which as at 31st December 2013 were as follows:

Name of Company	Director	Date of Grant	Exercise Period	Exercise Price (HK\$)	Number of Shares of Towngas China Subject to Outstanding Options as at 01.01.2013*	Number of Shares of Towngas China Subject to Outstanding Options as at 31.12.2013*
Towngas China	Mr. Alfred Chan Wing Kin	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	1,085,400
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	1,447,200
	Total				3,618,000	3,618,000
	Mr. Peter Wong Wai Yee **	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	904,500
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	1,206,000
	Total				3,015,000	3,015,000

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

Save as mentioned above, as at 31st December 2013, there were no other interests or short positions of the Directors of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Disclosure of Interests (Continued)

B. Substantial Shareholders and Others (Long Positions)

As at 31st December 2013, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

	Name of Company	No. of Shares in which Interested	%*
Substantial Shareholders (a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting)	Disralei Investment Limited (Note 1)	2,208,599,773	23.10
	Timpani Investments Limited (Note 1)	3,066,433,895	32.08
	Faxson Investment Limited (Note 1)	3,967,288,023	41.50
	Henderson Land Development Company Limited (Note 1)	3,967,288,023	41.50
	Henderson Development Limited (Note 1)	3,967,288,023	41.50
	Hopkins (Cayman) Limited (Note 2)	3,967,288,023	41.50
	Riddick (Cayman) Limited (Note 2)	3,967,288,023	41.50
	Rimmer (Cayman) Limited (Note 2)	3,967,288,023	41.50
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	900,854,128	9.42
	Chelco Investment Limited (Note 1)	900,854,128	9.42
	Medley Investment Limited (Note 1)	857,834,122	8.97
	Commonwealth Bank of Australia (Note 10)	572,043,700	5.98

* Percentage which the aggregate long position in the shares represents to the issued share capital of the Company.

Save as mentioned above, as at 31st December 2013, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Notes:

- These 3,967,288,023 shares were beneficially owned by Macrostar Investment Limited ("Macrostar"), Medley Investment Limited ("Medley") and Disralei Investment Limited ("Disralei"). Macrostar was a wholly-owned subsidiary of Chelco Investment Limited, which was in turn, a wholly-owned subsidiary of Faxson Investment Limited ("FIL"). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of FIL. FIL was a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD.
- These 3,967,288,023 shares are duplicated in the interests described in Note 1. Hopkins (Cayman) Limited ("Hopkins") owned all the issued ordinary shares which carry the voting rights in the share capital of HD as trustee of a unit trust ("Unit Trust"). Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of the respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these shares by virtue of Part XV of the SFO.
- These 3,967,288,023 shares are duplicated in the interests described in Notes 1 and 2. Dr. the Hon. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these shares by virtue of Part XV of the SFO.
- These 124,460 shares were jointly held by Professor Poon Chung Kwong and his spouse.
- These 182,156 shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.
- These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.
- These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.
- These 1,628,172,901 shares in Towngas China representing 62.31% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,585,202,901 shares), Planwise Properties Limited (as to 40,470,000 shares) and Superfun Enterprises Limited (as to 2,500,000 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 1 to 3 by virtue of Part XV of the SFO.
- These options represent personal interests held by the Directors.
- Commonwealth Bank of Australia ("Commonwealth Bank") was taken to be interested in these 572,043,700 shares which were held by indirect wholly-owned subsidiaries of Commonwealth Bank.

Share Option Scheme of Towngas China

Pursuant to a share option scheme adopted by the shareholders of Towngas China at an extraordinary general meeting held on 28th November 2005 (“2005 Main Board Scheme”), options may be granted to the directors or employees of Towngas China or its subsidiaries, for the recognition of their contributions to the Towngas China Group, to subscribe for shares in Towngas China. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares of Towngas China on the Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares of Towngas China on the Exchange on the date of grant or the nominal value of the shares of Towngas China.

The 2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28th November 2005.

The share options under the 2005 Main Board Scheme are exercisable at any time for a period to be determined by the directors of Towngas China, which shall not be more than 10 years after the date of grant.

Options granted under the 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of shares of Towngas China in respect of which options may be granted under the 2005 Main Board Scheme is not permitted to exceed 10% of the shares of Towngas China in issue on the date of approval of the 2005 Main Board Scheme without prior approval from Towngas China’s shareholders. No option may be granted in any 12-month period to any one grantee which if exercised in full would result in the total number of shares of Towngas China already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the total number of shares of Towngas China in issue.

As at the date of this Report, the outstanding number of shares of Towngas China in respect of which options had been granted under the 2005 Main Board Scheme was 13,535,800 (2012: 16,240,800), representing approximately 0.52% (2012: approximately 0.62%) of the issued share capital of Towngas China as at the date of this Report.

Details of specific categories of options of Towngas China are as follows:

Option Types	Date of Grant	Exercise Period	Exercise Price (HK\$)
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796
	03.10.2006	04.04.2008 – 27.11.2015	2.796
	03.10.2006	04.10.2008 – 27.11.2015	2.796
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811
	16.03.2007	16.03.2009 – 27.11.2015	3.811
	16.03.2007	16.03.2010 – 27.11.2015	3.811

Share Option Scheme of Towngas China (Continued)

The details of movements in the share options of Towngas China during the year are as follows:

	Option Types	Date of Grant	Exercise Period	Exercise Price (HK\$)	Number of Shares of Towngas China Subject to Outstanding Options as at 01.01.2013	Exercised during the Year	Number of Shares of Towngas China Subject to Outstanding Options as at 31.12.2013	Weighted Average Closing Price of Shares of Towngas China Immediately before the Date(s) on which Options were Exercised (HK\$)
Category 1:								
Directors of Towngas China								
Mr. Alfred Chan Wing Kin	Options	2007 16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	–	1,085,400	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	–	1,085,400	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	–	1,447,200	–
Mr. Peter Wong Wai Yee (Note 1)	Options	2007 16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,206,000	–	1,206,000	–
Other directors of Towngas China	Options	2007 16.03.2007	16.03.2008 – 27.11.2015	3.811	1,809,000	904,500	904,000	7.24
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,809,000	595,500	1,213,500	7.24
		16.03.2007	16.03.2010 – 27.11.2015	3.811	2,412,000	–	2,412,000	–
Total for Category 1					12,663,000	1,500,000	11,163,000	
Category 2:								
Employees of Towngas China								
	Options	2006 03.10.2006	04.10.2007 – 27.11.2015	2.796	301,500	–	301,500	–
		03.10.2006	04.04.2008 – 27.11.2015	2.796	542,700	–	542,700	–
		03.10.2006	04.10.2008 – 27.11.2015	2.796	723,600	–	723,600	–
	Options	2007 16.03.2007	16.03.2008 – 27.11.2015	3.811	603,000	301,500	301,500	8.06
		16.03.2007	16.03.2009 – 27.11.2015	3.811	603,000	301,500	301,500	8.06
		16.03.2007	16.03.2010 – 27.11.2015	3.811	804,000	402,000	402,000	8.06
Total for Category 2					3,577,800	1,005,000	2,572,800	
All categories					16,240,800	2,505,000	13,735,800	

Notes:

- Mr. Peter Wong Wai Yee was appointed as Executive Director and Chief Operating Officer – Utilities Business of the Company on 1st February 2013.
- During the year, 1,500,000 options were exercised by Mr. James Kwan Yuk Choi who resigned as Executive Director and Chief Operating Officer of the Company on 1st February 2013 upon his retirement.
- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- During the year, no share option was cancelled or had lapsed.
- During the year, no new option was granted.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of Towngas China disclosed above, at no time during the year was the Company or any of its subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interests of Directors of the Company in businesses which might compete with the Group during the year ended 31st December 2013 and as at 31st December 2013 were as follows:

Directors, Mr. Alfred Chan Wing Kin, Mr. James Kwan Yuk Choi (who resigned as Executive Director and Chief Operating Officer on 1st February 2013 upon his retirement) and Mr. Peter Wong Wai Yee (who was appointed as Executive Director and Chief Operating Officer – Utilities Business of the Company on 1st February 2013), have held directorships in companies engaged in the same businesses of production, distribution and marketing of gas in mainland China as the Group. Although some of the businesses carried out by these companies are similar to the businesses carried out by the Group, they are of different scale and/or at different locations, and the Group, has been operating independently of, and at arm's length from, the businesses of those companies. Therefore, the Board is of the view that the businesses of those companies did not compete with the businesses of the Group.

Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Interests in Contracts and Connected Transactions

The related party transactions set out in Note 41 to the Accounts include transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as mentioned above, no contract of significance in relation to the Group's business to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Major Customers and Suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 21 per cent and 64 per cent respectively during the year. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30 per cent during the year.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 67 to 76 of this Annual Report.

Public Float

As at the date of this report, being also the latest practicable date prior to the issue of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

The Accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment at a fee to be agreed by the Board.

On behalf of the Board

LEE Shau Kee

Chairman

Hong Kong, 19th March 2014