

# REPORT OF THE DIRECTORS

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The Directors have pleasure in submitting to shareholders their Report and the audited financial statements for the year ended 31st December 2018 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 Tuesday, 28th May 2019.

## Principal Activities

The principal activities of the Company and its subsidiaries (collectively, 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 from pages 181 to 191 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 2018 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 91 and 92 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 2nd October 2018 and the Directors recommend a final dividend of HK23 cents per share payable on 13th June 2019 to shareholders whose names are on the register of members of the Company on 5th June 2019.

## 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 shareholders whose names are on the register of members of the Company on 5th June 2019. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

## Business Review

A review of the business of the Group during the year, particulars of important events affecting the Group that have occurred since the end of the year ended 31st December 2018 (if any), an analysis of the Group’s performance using financial key performance indicators and a discussion on the Group’s future business development are provided from pages 4 to 65 of this Annual Report. Description of the possible risks and uncertainties that the Group may be facing are set out on page 60. The financial risk management of the Group can be found in Note 3 to the consolidated financial statements. In addition, discussions on the Group’s relationships with its key stakeholders, environmental policies and performance, and compliance with relevant laws and regulations which have a significant impact on the Group can be found from pages 22 to 59 and pages 72 to 84.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last nine financial years is set out on pages 64 and 65 of this Annual Report.

## Distributable Reserves

The distributable reserves of the Company as at 31st December 2018 amounted to HK\$14,819,000,000 (2017: HK\$14,730,000,000) before the proposed final dividend for the year ended 31st December 2018.

## Shares Issued

During the year, the Company issued 1,398,764,648 bonus shares without consideration on the basis of one bonus share for every ten shares held. The reason for the issue of bonus share was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the shares issued by the Company during the year are set out in Note 35 to the consolidated financial statements.

## Charitable Donations

During the year, the Group made charitable donations amounting to approximately HK\$4,800,000 (2017: HK\$5,100,000).

## Directors

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

### 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 (*passed away on 11th October 2018*)  
 Dr. the Hon. Sir David Li Kwok-po  
 Prof. Poon Chung-kwong  
 Dr. Moses Cheng Mo-chi (*appointed on 14th January 2019*)

### Executive Directors

Mr. Alfred Chan Wing-kin  
 Mr. Peter Wong Wai-yee

At the Annual General Meeting held on 6th June 2018, Dr. the Hon. Lee Shau-kee, Prof. Poon Chung-kwong and Mr. Alfred Chan Wing-kin were re-elected as Directors of the Company. Dr. Colin Lam Ko-yin, Dr. the Hon. Sir David Li Kwok-po, Dr. Lee Ka-kit, Mr. Lee Ka-shing and Mr. Peter Wong Wai-yee held office throughout the year. Mr. Leung Hay-man passed away on 11th October 2018. Dr. Moses Cheng Mo-chi was appointed as Independent Non-executive Director on 14th January 2019.

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. Pursuant to Article 97 of the Articles of Association, Dr. Colin Lam Ko-yin, Mr. Lee Ka-shing and Mr. Peter Wong Wai-yee are due to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. Pursuant to Article 91 of the Articles of Association, Dr. Moses Cheng Mo-chi, Independent Non-executive Director, is also due to retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-appointment. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

A list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at [www.towngas.com](http://www.towngas.com) under the "Investor Relations" section.

## Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out from pages 17 to 20 of this Annual Report.

## Disclosure of Interests

### A. Directors

As at 31st December 2018, 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 (the “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	Name of Director	Interest in Shares			Aggregate Interests	%*
		Personal Interests	Corporate Interests	Other Interests		
The Hong Kong and China Gas Company Limited	Dr. the Hon. Lee Shau-kee		6,389,357,019 (Note 3)		6,389,357,019	41.53
	Dr. the Hon. Sir David Li Kwok-po	45,514,645			45,514,645	0.30
	Dr. Lee Ka-kit			6,389,357,019 (Note 2)	6,389,357,019	41.53
	Mr. Alfred Chan Wing-kin	293,361 (Note 5)			293,361	0.00
	Mr. Lee Ka-shing			6,389,357,019 (Note 2)	6,389,357,019	41.53
	Prof. Poon Chung-kwong	200,442 (Note 4)			200,442	0.00
Lane Success Development Limited	Dr. the Hon. Lee Shau-kee		9,500 (Note 6)		9,500	95
	Dr. 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
	Dr. 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		1,895,264,270 (Note 8)		1,895,264,270	67.45
	Dr. Lee Ka-kit			1,895,264,270 (Note 8)	1,895,264,270	67.45
	Mr. Lee Ka-shing			1,895,264,270 (Note 8)	1,895,264,270	67.45
	Mr. Alfred Chan Wing-kin	3,782,569			3,782,569	0.13
	Mr. Peter Wong Wai-yee	3,075,000			3,075,000	0.11

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

## Disclosure of Interests (Continued)

### A. Directors (Continued)

Save as mentioned above, as at 31st December 2018, 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.

### B. Substantial Shareholders and Others (Long Positions)

As at 31st December 2018, the interests and short positions of every person, other than the 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	%*
<b>Substantial Shareholders</b> (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)	3,556,972,015	23.12
	Timpani Investments Limited (Note 1)	4,938,522,441	32.10
	Faxson Investment Limited (Note 1)	6,389,357,019	41.53
	Henderson Land Development Company Limited (Note 1)	6,389,357,019	41.53
	Henderson Development Limited (Note 1)	6,389,357,019	41.53
	Hopkins (Cayman) Limited (Note 2)	6,389,357,019	41.53
	Riddick (Cayman) Limited (Note 2)	6,389,357,019	41.53
	Rimmer (Cayman) Limited (Note 2)	6,389,357,019	41.53
<b>Persons other than Substantial Shareholders</b>	Macrostar Investment Limited (Note 1)	1,450,834,578	9.43
	Chelco Investment Limited (Note 1)	1,450,834,578	9.43
	Medley Investment Limited (Note 1)	1,381,550,426	8.98

\* Percentage which the aggregate long position in the shares represents to the number of issued shares of the Company.

Save as mentioned above, as at 31st December 2018, 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 6,389,357,019 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 6,389,357,019 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. Dr. 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 6,389,357,019 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 200,442 shares were jointly held by Prof. Poon Chung-kwong and his spouse.
- These 293,361 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, Dr. 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.

## Disclosure of Interests (Continued)

### B. Substantial Shareholders and Others (Long Positions) (Continued)

Notes: (Continued)

7. 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, Dr. 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.
8. These 1,895,264,270 shares in Towngas China representing approximately 67.45% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,732,005,573 shares), Planwise Properties Limited (as to 160,527,180 shares) and Superfun Enterprises Limited (as to 2,731,517 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Shau-kee, Dr. 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.

## Equity-Linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

## Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of its 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 Businesses

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 2018 and as at 31st December 2018 were as follows:

Mr. Alfred Chan Wing-kin and Mr. Peter Wong Wai-yee, Directors of the Company, 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 those 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

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## Connected Transactions

During the year, there were no connected transactions and continuing connected transactions which were required to be disclosed in accordance with the requirements of the Listing Rules.

None of the related party transactions as set out in Note 40 to the consolidated financial statements constituted a connected transaction or a continuing connected transaction which was subject to the disclosure requirements under Chapter 14A of the Listing Rules.

## Directors' Material Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Management Contracts

No contracts (as defined in section 543 of the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (the “Companies Ordinance”)) concerning the management and administration of the whole or any substantial part of the business of the Company were 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.

## Permitted Indemnity

Pursuant to the Articles of Association, subject to the provisions of the Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him as a director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his favour or he is acquitted or in connection with any application under the Companies Ordinance in which relief is granted to him by the court.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted under the Companies Ordinance), for the benefit of the Directors of the Company. The Company has maintained appropriate directors’ and officers’ liability insurance coverage for the Directors and officers of the Group.

## Major Customers and Suppliers

During the year, both the percentages of the purchases attributable to the Group’s five largest suppliers combined and the percentage of the turnover attributable to the Group’s five largest customers combined were less than 30 per cent of the total purchases and turnover of the Group respectively.

## Corporate Governance

The Company’s corporate governance principles and practices are set out in the Corporate Governance Report from pages 72 to 84 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 financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment at a fee to be agreed by the Board.

On behalf of the Board

**Lee Shau-kee**

*Chairman*

Hong Kong, 20th March 2019