

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders their Report and the audited financial statements for the year ended 31st December 2020 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, 1 Expo Drive, Wanchai, Hong Kong on Wednesday, 2nd June 2021.

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 176 to 187 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 2020 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 92 and 93 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 14th September 2020 and the Directors recommend a final dividend of HK23 cents per share payable on 21st June 2021 to shareholders whose names are on the register of members of the Company on 10th June 2021.

Bonus Issue of Shares

The Directors recommend a bonus issue of shares on the basis of one bonus share for every twenty existing shares held by shareholders whose names are on the register of members of the Company on 10th June 2021.

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 2020 (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 2 to 63 of this Annual Report. Description of the possible risks and uncertainties that the Group may be facing are set out from pages 56 to 57. 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 20 to 55 and pages 72 to 84.

The Group complies with all major local laws and regulations, including business ethics, health and safety, employees, customers, and the environment, as the basic requirement of how we operate.

Preventing gas leakages or explosions in our production and storage facilities, pipelines and networks is a top priority for the Group. In Hong Kong gas business, the gas safety requirements are covered by the Gas Safety Ordinance (Cap. 51 of the Laws of Hong Kong), which the Group complies fully with at all times. The Group conducts regular reviews of all operating procedures to mitigate these risks and implements targeted strategies for addressing them. The Group also manages our assets according to international standards and external certifications, and maintains insurance coverage against any property damage or financial loss.

The Group collects and keeps customers’ personal data necessary for the provision of the Group’s services. Customers are required to supply the Group with personal data in connection with the opening or operation of gas accounts, and when the Group provides other related facilities and services. The Group takes every step necessary to protect its customers’ data and established a Privacy Policy Statement that sets out our standards for handling customer information. The Group complies with the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong).

Business Review (Continued)

The Group is governed by the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong) and any anti-bribery laws, which include zero tolerance towards corruption and related malpractice. The Group complies with the Prevention of Bribery Ordinance and the Code of Conduct and an Anti-fraud Policy of the Group are in place to promote integrity as a core company value. The Group insists our staff and business partners adhere to both the letter and the spirit of the law during the course of business. All employees are strictly forbidden from giving or accepting bribes and must never offer an advantage to, or ask for an advantage from, customers, suppliers, contractors, regulators and legislators, authorities or other business partners.

The Group sets out its commitment to comply with the laws and regulations pertaining to anti-competitive practices, in line with the Group's nine core values. Guidance is provided for staff on understanding the requirements and importance of compliance, as well as the disciplinary actions and possible liabilities they will be subject to in cases of non-compliance. Additionally, the Group closely monitors the Competition Ordinance (Cap. 619 of the Laws of Hong Kong) and reports to the management on any developments that could have a significant impact.

The Company has complied with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance") and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") including but not limited to the disclosure of information and corporate governance practices.

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 62 and 63 of this Annual Report.

Distributable Reserves

The distributable reserves of the Company as at 31st December 2020 amounted to HK\$13,773,000,000 (2019: HK\$14,442,000,000) before the proposed final dividend for the year ended 31st December 2020.

Shares Issued

During the year, the Company issued 846,252,612 bonus shares without consideration on the basis of one bonus share for every twenty 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.

Bank Loans, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans, guaranteed notes and Medium Term Note Programme of the Company and the Group as at 31st December 2020 are set out in note 32 to the consolidated financial statements on pages 161 and 162 and Financial Resources Review on pages 58 and 59, respectively.

Charitable Donations

During the year, the Group made charitable donations amounting to approximately HK\$7,900,000 (2019: HK\$7,200,000).

Directors

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

Non-executive Directors

Dr. Lee Ka-kit (Chairman)
Mr. Lee Ka-shing (Chairman)
Dr. Colin Lam Ko-yin

Independent Non-executive Directors

Dr. the Hon. Sir David Li Kwok-po
Prof. Poon Chung-kwong
Dr. Moses Cheng Mo-chi

Executive Directors

Mr. Alfred Chan Wing-kin
Mr. Peter Wong Wai-yee
Mr. John Ho Hon-ming*

* *Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.*

At the Annual General Meeting held on 5th June 2020, Dr. Lee Ka-kit, Dr. the Hon. Sir David Li Kwok-po and Mr. Alfred Chan Wing-kin were re-elected as Directors of the Company. Mr. Lee Ka-shing, Dr. Colin Lam Ko-yin, Prof. Poon Chung-kwong, Dr. Moses Cheng Mo-chi and Mr. Peter Wong Wai-yee held office throughout the year. Mr. John Ho Hon-ming was appointed as Executive Director with effect from 1st October 2020.

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, Mr. Lee Ka-shing, Prof. Poon Chung-kwong 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, Mr. John Ho Hon-ming, 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 kept at the Company’s registered office and available for inspection by shareholders during office hours.

Biographical Details of Directors

The biographical details of Directors and senior management who are also executive directors are set out from pages 14 to 18 of this Annual Report.

Disclosure of Interests

A. Directors

As at 31st December 2020, 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 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. Lee Ka-kit			7,379,707,351 (Note 2)	7,379,707,351	41.53
	Mr. Lee Ka-shing			7,379,707,351 (Note 2)	7,379,707,351	41.53
	Dr. the Hon. Sir David Li Kwok-po	54,569,414			54,569,414	0.31
	Mr. Alfred Chan Wing-kin	338,831 (Note 5)			338,831	0.00
	Prof. Poon Chung-kwong	231,510 (Note 4)			231,510	0.00
	Mr. John Ho Hon-ming	53,058			53,058	0.00
Lane Success Development Limited	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. Lee Ka-kit			2 (Note 7)	2	100
	Mr. Lee Ka-shing			2 (Note 7)	2	100
Towngas China Company Limited (“Towngas China”)	Dr. Lee Ka-kit			2,025,099,415 (Note 8)	2,025,099,415	68.21
	Mr. Lee Ka-shing			2,025,099,415 (Note 8)	2,025,099,415	68.21
	Mr. Alfred Chan Wing-kin	4,041,693			4,041,693	0.14
	Mr. Peter Wong Wai-yee	3,201,000			3,201,000	0.11
	Mr. John Ho Hon-ming	1,133,862			1,133,862	0.04

* 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.

Save as mentioned above, as at 31st December 2020, 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 2020, 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 Individual / 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)	Dr. the Hon. Lee Shau-kee (Note 3)	7,379,707,351	41.53
	Disralei Investment Limited (Note 1)	4,108,302,676	23.12
	Timpani Investments Limited (Note 1)	5,703,993,415	32.10
	Faxson Investment Limited (Note 1)	7,379,707,351	41.53
	Henderson Land Development Company Limited (Note 1)	7,379,707,351	41.53
	Henderson Development Limited (Note 1)	7,379,707,351	41.53
	Hopkins (Cayman) Limited (Note 2)	7,379,707,351	41.53
	Riddick (Cayman) Limited (Note 2)	7,379,707,351	41.53
	Rimmer (Cayman) Limited (Note 2)	7,379,707,351	41.53
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	1,675,713,936	9.43
	Chelco Investment Limited (Note 1)	1,675,713,936	9.43
	Medley Investment Limited (Note 1)	1,595,690,739	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 2020, 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 7,379,707,351 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 7,379,707,351 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 7,379,707,351 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 231,510 shares were jointly held by Prof. Poon Chung-kwong and his spouse.
- These 338,831 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. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 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. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in HLD and the Company as set out in Notes 1 and 2 by virtue of Part XV of the SFO.
- These 2,025,099,415 shares in Towngas China representing approximately 68.21% of the total number of issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,850,656,677 shares), Planwise Properties Limited (as to 171,524,099 shares) and Superfun Enterprises Limited (as to 2,918,639 shares), wholly-owned subsidiaries of the Company. Dr. Lee Ka-kit and Mr. Lee Ka-shing were taken to be interested in the Company as set out in Notes 1 and 2 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 Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended 31st December 2020 and as at 31st December 2020 were as follows:

Mr. Alfred Chan Wing-kin, Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming (appointed with effect from 1st October 2020), 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, the Company had the following connected transactions, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules since each of the applicable percentage ratios was less than 5%:

1. As disclosed in an announcement dated 27th March 2020, Alpha Idea International Limited ("Alpha Idea"), a wholly-owned subsidiary of the Company, had by signing and returning to Hongkong Island Construction Properties Co., Limited ("Hongkong Island Construction"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD") on 27th March 2020: (a) a letter of award successfully tendered for a sub-contract for the carrying out of the design, supply and installation works of kitchen cabinets at the sum of HK\$28,959,000; and (b) a letter of acceptance in respect of the engagement for the carrying out of the town gas installation works at the sum of HK\$27,471,000, both at the residential development situated at New Kowloon Inland Lot No. 6565 at Kai Tak, Kowloon, Hong Kong for Hongkong Island Construction. As Hongkong Island Construction is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, Hongkong Island Construction is a connected person of the Company under the Listing Rules and the aforesaid transactions therefore constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

Connected Transactions (Continued)

2. As disclosed in an announcement dated 28th August 2020, Alpha Idea had by signing and returning to Denco Properties Limited (“Denco”), a wholly-owned subsidiary of HLD on 28th August 2020: (a) a letter of acceptance in respect of the engagement for the carrying out of the town gas installation works at the sum of HK\$17,243,400; and (b) a letter of award successfully tendered for a sub-contract for the carrying out of the design, supply and installation works of kitchen cabinets at the maximum aggregate amount of not exceeding HK\$23,718,011, both at the residential development situated at New Kowloon Inland Lot No. 6562 at Kai Tak, Kowloon, Hong Kong for Denco. As Denco is a wholly-owned subsidiary of HLD, which in turn is a controlling shareholder of the Company, Denco is a connected person of the Company under the Listing Rules and the aforesaid transactions therefore constituted connected transactions for the Company under Chapter 14A of the Listing Rules.
3. As disclosed in the announcements dated 28th August 2020 and 25th September 2020, U-Tech Engineering Company Limited, a wholly-owned subsidiary of the Company, had by signing and returning to Sky Rainbow Development Limited (“Sky Rainbow”), wholly owned by a joint venture company which is indirectly owned as to 65% by HLD and as to 35% by New World Development Limited, a letter of nomination on 28th August 2020 successfully tendered for a sub-contract for the carrying out of the supply and installation of electrical equipment and the testing and commissioning of electrical systems at the redevelopment project situated at 4A-4P Seymour Road, Hong Kong at the maximum aggregate amount of not exceeding HK\$91,035,000 for Sky Rainbow. As Sky Rainbow is an associate of HLD (a controlling shareholder of the Company), Sky Rainbow is a connected person of the Company under the Listing Rules and the aforesaid transaction therefore constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The related party transactions set out in Note 40 to the consolidated financial statements include transactions that constitute connected transactions or continuing connected transactions under the Listing Rules for which the disclosure requirements in accordance with Chapter 14A of the Listing Rules had been met.

Directors’ Material Interests in Transactions, Arrangements or Contracts

Except for the “Connected Transactions” as disclosed in this report, no other 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) 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.

Controlling Shareholders’ Interests in Significant Contracts

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries 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, 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 Ka-kit

Chairman

Lee Ka-shing

Chairman

Hong Kong, 19th March 2021