

# 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 2023 which are to be presented at the Annual General Meeting to be held at Meeting Room N101 (Expo Drive Entrance) as the principal meeting place and Hall 1A (Expo Drive Entrance) as the additional meeting venue, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 4th June 2024.

## 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 the Chinese mainland. Particulars of the principal subsidiaries of the Company are shown from pages 178 to 195 of this Annual Report. Revenue and contribution to operating profit are mainly derived from activities carried out in Hong Kong and the Chinese mainland.

## Results and Appropriations

The results of the Group for the year ended 31st December 2023 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 87 and 88 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 8th September 2023 and the Directors recommend a final dividend of HK23 cents per share payable on 24th June 2024 to shareholders whose names are on the register of members of the Company on 13th June 2024.

## Business Review

A review of the business of the Group during the year is provided from pages 2 to 55 of this Annual Report, with particulars of important events affecting the Group that have occurred since the end of the year ended 31st December 2023, an analysis of the Group’s performance using financial key performance indicators, and a discussion of the Group’s future business development plans. A description of the possible risks and uncertainties that the Group faces are set out from pages 47 to 49. The Group’s approach to financial risk management can be found in Note 3 to the consolidated financial statements. In addition, discussions of the Group’s relationships with its key stakeholders, environmental policies and performance, and compliance with relevant laws and regulations that have a significant impact on the Group can be found from pages 24 to 46 and pages 65 to 80, respectively.

The Group complies with all relevant laws and regulations in all material respects in both Hong Kong and the Chinese mainland that have a significant impact on the businesses or operations of the Group’s core business segments, including those related to business ethics, health and safety, employees, customers, and the environment, which are the basic requirements 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 the Hong Kong gas business, the gas safety requirements are covered by the Gas Safety Ordinance (Cap. 51 of the Laws of Hong Kong), with which the Group complies fully 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 its 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 personal data to the Group 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 has established a Personal Data Privacy Policy that sets out its 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 all anti-bribery laws, which include zero tolerance towards corruption and related malpractice. The Group complies with the Prevention of Bribery Ordinance. The Group adopts its Code of Conduct and is not aware of any incidents within the Group which contravenes the anti-bribery requirements set out in the Code of Conduct. Moreover, an Anti-fraud Policy is in place to promote integrity as a core company value. The Group further insists that all 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, government 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 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 any developments that could have an adverse effect on the Group.

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.

The Group requires its businesses on the Chinese mainland to abide by the laws and regulations of the Chinese mainland in the process of their development and operation. Major areas include foreign investment access, corporate governance, taxation, labour contracts and social insurance, land administration, environmental protection, work safety, anti-monopoly and anti-unfair competition, intellectual property, price control, administration of urban gas, administration of urban water supply, administration of distributed PV power generation, administration of internet and telecommunications, internet security, data and privacy protection, and administration of mineral resources. The Group has set up legal and compliance departments in various business segments in the Chinese mainland to assist and monitor their compliance with laws and regulations that may significantly impact their operations. During the year 2023, the Group's core business segments have complied with, in all material respects, these relevant laws and regulations.

## **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 54 and 55 of this Annual Report.

## **Distributable Reserves**

The distributable reserves of the Company as at 31st December 2023 amounted to HK\$9,365 million (2022: HK\$10,862 million) before the proposed final dividend for the year ended 31st December 2023.

## **Shares Issued**

Details of the shares issued by the Company are set out in Note 35 to the consolidated financial statements. There were no movements during the year.

## **Bank Loans, Guaranteed Notes, Medium Term Note Programmes and Convertible Bonds**

Particulars of bank loans, guaranteed notes, Medium Term Note Programmes and convertible bonds of the Company and the Group as at 31st December 2023 are set out in Note 32 to the consolidated financial statements on pages 161 to 163 and Financial Resources Review on pages 50 to 51, respectively.

## **Charitable Donations**

During the year, the Group made charitable donations amounting to approximately HK\$4.1 million (2022: HK\$8.6 million).

## 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)  
Dr. Lee Ka-shing (Chairman)  
Dr. Colin Lam Ko-yin  
Mr. Andrew Fung Hau-chung

### Independent Non-executive Directors

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

### Executive Directors

Mr. Peter Wong Wai-yee  
Mr. Yeung Lui-ming  
*(appointed on 1st January 2024)*  
Mr. John Ho Hon-ming  
*(retired on 1st January 2024)*

At the Annual General Meeting held on 7th June 2023, Dr. Lee Ka-kit, Dr. the Hon. Sir David Li Kwok-po, Mr. Andrew Fung Hau-chung and Mr. Peter Wong Wai-yee were re-elected as Directors of the Company. Dr. Lee Ka-shing, Dr. Colin Lam Ko-yin, Dr. the Hon. Moses Cheng Mo-chi, Prof. the Hon. Poon Chung-kwong, and Mr. John Ho Hon-ming (who retired as Executive Director with effect from 1st January 2024) held office throughout the year.

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. Lee Ka-shing, Dr. Colin Lam Ko-yin and Prof. the Hon. Poon Chung-kwong 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. Yeung Lui-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 18 to 22 of this Annual Report.

## Disclosure of Interests

### A. Directors

As at 31st December 2023, 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 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			Interest in Underlying Shares Pursuant to Share Options	Aggregate Interests	%*
		Personal Interests	Corporate Interests	Other Interests			
The Hong Kong and China Gas Company Limited	Dr. Lee Ka-kit			7,748,692,715 (Note 2)		7,748,692,715	41.53
	Dr. Lee Ka-shing			7,748,692,715 (Note 2)		7,748,692,715	41.53
	Dr. the Hon. Sir David Li Kwok-po	61,000,000				61,000,000	0.33
	Prof. the Hon. Poon Chung-kwong	243,085 (Note 4)				243,085	0.00
	Mr. John Ho Hon-ming (retired on 1st January 2024)	55,710				55,710	0.00
Lane Success Development Limited	Dr. Lee Ka-kit			9,500 (Note 5)		9,500	95
	Dr. Lee Ka-shing			9,500 (Note 5)		9,500	95
Yieldway International Limited	Dr. Lee Ka-kit			2 (Note 6)		2	100
	Dr. Lee Ka-shing			2 (Note 6)		2	100
Towngas Smart Energy Company Limited ("Towngas Smart Energy")	Dr. Lee Ka-kit			2,255,481,423 (Note 7)		2,255,481,423	67.24
	Dr. Lee Ka-shing			2,255,481,423 (Note 7)		2,255,481,423	67.24
	Mr. Peter Wong Wai-yee	7,139,000			1,800,000 (Note 8)	8,939,000	0.27
	Mr. John Ho Hon-ming (retired on 1st January 2024)	2,933,862			900,000 (Note 8)	3,833,862	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)

#### Options to Subscribe for Shares of Towngas Smart Energy (Long Positions)

Pursuant to the share option scheme of Towngas Smart Energy (the "TSEL Share Option Scheme"), a listed subsidiary of the Company, certain Directors of the Company (who are also directors of Towngas Smart Energy) have been granted options to subscribe for the shares of Towngas Smart Energy, details of which as at 31st December 2023 were as follows:

Name of Company	Name of Director	Date of Grant	Exercise Period	Vesting Date	Exercise Price (HK\$)	Number of Shares of Towngas Smart Energy Subject to Outstanding Options as at 01.01.2023	Number of Shares of Towngas Smart Energy Subject to Outstanding Options as at 31.12.2023
Towngas Smart Energy	Mr. Peter Wong Wai-yee	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	1,800,000	1,800,000
	Mr. John Ho Hon-ming (retired on 1st January 2024)	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	900,000	900,000

Save as mentioned above, as at 31st December 2023, 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 2023, 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	%*
<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)	Dr. the Hon. Lee Shau-kee (Note 3)	7,748,692,715	41.53
	Disralei Investment Limited (Note 1)	4,313,717,809	23.12
	Timpani Investments Limited (Note 1)	5,989,193,083	32.10
	Faxson Investment Limited (Note 1)	7,748,692,715	41.53
	Henderson Land Development Company Limited (Note 1)	7,748,692,715	41.53
	Henderson Development Limited (Note 1)	7,748,692,715	41.53
	Hopkins (Cayman) Limited (Note 2)	7,748,692,715	41.53
	Riddick (Cayman) Limited (Note 2)	7,748,692,715	41.53
	Rimmer (Cayman) Limited (Note 2)	7,748,692,715	41.53
<b>Persons other than Substantial Shareholders</b>	Macrostar Investment Limited (Note 1)	1,759,499,632	9.43
	Chelco Investment Limited (Note 1)	1,759,499,632	9.43
	Medley Investment Limited (Note 1)	1,675,475,274	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 2023, 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.

## Disclosure of Interests (Continued)

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

Notes:

1. These 7,748,692,715 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.
2. These 7,748,692,715 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 Dr. 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.
3. These 7,748,692,715 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.
4. These 243,085 shares were jointly held by Prof. the Hon. Poon Chung-kwong and his spouse.
5. 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 Dr. 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.
6. 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 Dr. 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.
7. These 2,255,481,423 shares in Towngas Smart Energy representing approximately 67.24% of the total number of issued shares in Towngas Smart Energy were beneficially owned by Hong Kong & China Gas (China) Limited (as to 2,061,193,504 shares), Planwise Properties Limited (as to 191,037,247 shares) and Superfun Enterprises Limited (as to 3,250,672 shares), wholly-owned subsidiaries of the Company. Dr. Lee Ka-kit and Dr. 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.
8. These options represent personal interests held by the Directors.

## 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

### A. Share Option Scheme of Towngas Smart Energy

Pursuant to the resolution passed by the shareholders of Towngas Smart Energy at the annual general meeting of Towngas Smart Energy held on 26th May 2022 and the resolution passed by the shareholders of the Company at the annual general meeting held on 6th June 2022, the TSEL Share Option Scheme was adopted by Towngas Smart Energy.

As at 31st December 2023, the details of the number of outstanding share options of Towngas Smart Energy granted under the TSEL Share Option Scheme to the two directors of the Company, namely Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming (who retired as Executive Director with effect from 1st January 2024), are set out in “Disclosure of Interests” in this report.

### B. Share Award Scheme of Towngas Smart Energy

Pursuant to the share award scheme adopted by Towngas Smart Energy on 17th August 2021 (the “TSEL Share Award Scheme”) and the subsequent conditional share award notice dated 15th August 2023 sent by Towngas Smart Energy to the two directors of the Company, namely Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming (who retired as Executive Director with effect from 1st January 2024) respectively, 1,800,000 and 900,000 shares of Towngas Smart Energy were respectively awarded and accepted by Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming on 15th August 2023. The relevant shares had been vested on 18th September 2023 pursuant to the terms and conditions of the TSEL Share Award Scheme and fulfilment of the relevant vesting conditions.

Save as mentioned above, 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 2023 and as at 31st December 2023 were as follows:

Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming (who retired as Executive Director with effect from 1st January 2024), Directors of the Company, held directorships in companies engaged in the same businesses of production, distribution and marketing of gas in the Chinese mainland 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**

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 Listed Securities**

During the year ended 31st December 2023, the trustee of the TSEL Share Award Scheme, pursuant to the terms of the rules and trust deed of the TSEL Share Award Scheme, purchased on the Exchange a total of 950,000 shares of Towngas Smart Energy at a total consideration of approximately HK\$3,172,000.

Saved as mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2023.

## **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.

## **Employees and Productivity**

As at the end of 2023, the number of employees engaged in the town gas business in Hong Kong was 2,135 (2022 year end: 2,110), the number of customers was 2,019,656, and each employee served the equivalent of 946 customers. Inclusive of employees engaged in businesses such as telecommunications and contractual engineering works, the total number of employees engaged in businesses in Hong Kong was 2,364 as at the end of 2023 compared to 2,352 as at the end of 2022. Related manpower costs amounted to HK\$1,278 million for 2023, an increase of HK\$21 million compared to 2022. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to enhance the quality of the Group's customer services constantly.

Exclusive of businesses in Hong Kong, the total number of the Group's employees on the Chinese mainland and other places outside Hong Kong was approximately 54,080 as at the end of 2023, an increase of approximately 210 compared to 2022.

## Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report from pages 65 to 80 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*

Hong Kong, 20th March 2024

**Lee Ka-shing**

*Chairman*