

The Directors have pleasure in submitting to shareholders their Report and the audited financial statements for the year ended 31st December 2015 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, 7th June 2016.

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 170 to 180 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 2015 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 86 and 87 of this Annual Report respectively.

An interim dividend of HK12 cents per share was paid to shareholders on 2nd October 2015 and the Directors recommend a final dividend of HK23 cents per share payable on 24th June 2016 to shareholders whose names are on the register of members of the Company on 16th June 2016.

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 16th June 2016. 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, 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 6 to 63 of this Annual Report. Description of the possible risks and uncertainties facing the Group can be found on page 58. Also, 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 57 and pages 74 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 62 and 63 of this Annual Report.

Distributable Reserves

The distributable reserves of the Company as at 31st December 2015 amounted to HK\$12,830,500,000 (2014: HK\$10,412,600,000) before the proposed final dividend for the year ended 31st December 2015.

Shares Issued

During the year, the Company issued 1,051,208,955 bonus shares without consideration on the basis of one bonus share for every ten shares held.

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\$7,100,000 (2014: HK\$34,200,000).

Directors

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

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
 Dr. the Hon. David LI Kwok Po
 Professor POON Chung Kwong

Executive Directors

Mr. Alfred CHAN Wing Kin
 Mr. Peter WONG Wai Yee

At the annual general meeting held on 1st June 2015 (the "2015 AGM"), Dr. the Hon. Lee Shau Kee, Professor Poon Chung Kwong and Mr. Alfred Chan Wing Kin were re-elected as Directors of the Company. Mr. Leung Hay Man, Dr. Colin Lam Ko Yin, Dr. the Hon. David Li Kwok Po, Dr. Lee Ka Kit, Mr. Lee Ka Shing and Mr. Peter Wong Wai Yee 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, Mr. Leung Hay Man, Dr. Colin Lam Ko Yin and Mr. Lee Ka Shing 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.

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 (www.towngas.com/Eng/Corp/IR/CorpGovn/DirectorsList.aspx).

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 2015, 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		4,800,418,503 (Note 3)		4,800,418,503	41.52
	Dr. the Hon. David Li Kwok Po	32,242,410			32,242,410	0.28
	Dr. Lee Ka Kit			4,800,418,503 (Note 2)	4,800,418,503	41.52
	Mr. Alfred Chan Wing Kin	220,408 (Note 5)			220,408	0.00
	Mr. Lee Ka Shing			4,800,418,503 (Note 2)	4,800,418,503	41.52
	Professor Poon Chung Kwong	150,596 (Note 4)			150,596	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		1,666,590,813 (Note 8)		1,666,590,813	62.53
	Dr. Lee Ka Kit			1,666,590,813 (Note 8)	1,666,590,813	62.53
	Mr. Lee Ka Shing			1,666,590,813 (Note 8)	1,666,590,813	62.53
	Mr. Alfred Chan Wing Kin	3,618,000			3,618,000	0.14
	Mr. Peter Wong Wai Yee	3,015,000			3,015,000	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)

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 2015 were as follows:

Name of Company	Name of Director	Date of Grant	Exercise Period	Exercise Price (HK\$)	Number of Shares of Towngas China Subject to Outstanding Options as at 01.01.2015*	Number of Shares of Towngas China Subject to Outstanding Options as at 31.12.2015*
Towngas China	Mr. Alfred Chan Wing Kin	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,085,400	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	1,085,400	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,447,200	–
	Total				3,618,000	–
	Mr. Peter Wong Wai Yee	16.03.2007	16.03.2008 – 27.11.2015	3.811	904,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	904,500	–
16.03.2007		16.03.2010 – 27.11.2015	3.811	1,206,000	–	
Total				3,015,000	–	

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

Save as mentioned above, as at 31st December 2015, 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 2015, 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	%*
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)	2,672,405,723	23.12
	Timpani Investments Limited (Note 1)	3,710,385,009	32.09
	Faxson Investment Limited (Note 1)	4,800,418,503	41.52
	Henderson Land Development Company Limited (Note 1)	4,800,418,503	41.52
	Henderson Development Limited (Note 1)	4,800,418,503	41.52
	Hopkins (Cayman) Limited (Note 2)	4,800,418,503	41.52
	Riddick (Cayman) Limited (Note 2)	4,800,418,503	41.52
	Rimmer (Cayman) Limited (Note 2)	4,800,418,503	41.52
Persons other than Substantial Shareholders	Macrostar Investment Limited (Note 1)	1,090,033,494	9.43
	Chelco Investment Limited (Note 1)	1,090,033,494	9.43
	Medley Investment Limited (Note 1)	1,037,979,286	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 2015, 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 4,800,418,503 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 4,800,418,503 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 4,800,418,503 shares are duplicated in the interests described in Notes 1 and 2. Dr. the Hon. Lee Chau 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 150,596 shares were jointly held by Professor Poon Chung Kwong and his spouse.
- These 220,408 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 Chau 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.
- 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 Chau 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.
- These 1,666,590,813 shares in Towngas China representing 62.53% of the total issued shares in Towngas China were beneficially owned by Hong Kong & China Gas (China) Limited (as to 1,619,638,376 shares), Planwise Properties Limited (as to 44,398,131 shares) and Superfun Enterprises Limited (as to 2,554,306 shares), wholly-owned subsidiaries of the Company. Dr. the Hon. Lee Chau 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.

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.

The 2005 Main Board Scheme ended on 27th November 2015, and no further options would be offered or granted after that date. As at the date of this report, no share of Towngas China in respect of which options had been granted under the 2005 Main Board Scheme was outstanding (2014: 11,015,800), representing 0% (2014: approximately 0.42%) of the total number of issued shares 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 01.01.2015	Exercised during the Year	Number of Shares of Towngas China Subject to Outstanding Options as at 31.12.2015	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	–	8.73
			16.03.2007	16.03.2009 – 27.11.2015	3,811	1,085,400	1,085,400	–	8.73
			16.03.2007	16.03.2010 – 27.11.2015	3,811	1,447,200	1,447,200	–	8.73
Mr. Peter Wong Wai Yee	Options	2007	16.03.2007	16.03.2008 – 27.11.2015	3,811	904,500	904,500	–	8.54
			16.03.2007	16.03.2009 – 27.11.2015	3,811	904,500	904,500	–	8.54
			16.03.2007	16.03.2010 – 27.11.2015	3,811	1,206,000	1,206,000	–	8.54
A director of Towngas China	Options	2007	16.03.2007	16.03.2008 – 27.11.2015	3,811	904,500	904,500	–	8.54
			16.03.2007	16.03.2009 – 27.11.2015	3,811	904,500	904,500	–	8.54
			16.03.2007	16.03.2010 – 27.11.2015	3,811	1,206,000	1,206,000	–	8.54
Total for Category 1					9,648,000	9,648,000	–		
Category 2:									
Employees of Towngas China									
Options	2006	03.10.2006	04.10.2007 – 27.11.2015	2,796	120,600	120,600	–	6.92	
		03.10.2006	04.04.2008 – 27.11.2015	2,796	523,600	523,600	–	6.48	
		03.10.2006	04.10.2008 – 27.11.2015	2,796	723,600	723,600	–	6.49	
Total for Category 2					1,367,800	1,367,800	–		
All categories					11,015,800	11,015,800	–		

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no share option was cancelled or had lapsed.
3. During the year, no new option was granted.

Equity-linked Agreements

Other than the share option scheme of Towngas China as disclosed above, no equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

Arrangements to Purchase Shares or Debentures

Other than the share option scheme of Towngas China as disclosed 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 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 2015 and as at 31st December 2015 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 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

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 41 to the consolidated financial statements constituted a discloseable connected transaction under Chapter 14A of the Listing Rules.

Directors' Material Interests in Transactions, Arrangements or Contracts

Other than the transactions disclosed under the heading "Connected Transactions" above, 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 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

During the year, the Company bought back 2,351,000 shares on the Exchange at an aggregate consideration of HK\$35,872,760 before expenses. The shares bought back were subsequently cancelled. The buy-backs were effected by the Directors for the enhancement of shareholders' value in the long term. Details of the shares bought back are as follows:

Month of Buy-backs	Number of Shares Bought Back	Price per Share		Aggregate Consideration Paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
July 2015	1,361,000	15.60	15.56	21,213,160
October 2015	990,000	14.86	14.76	14,659,600
Total	2,351,000			35,872,760

Save 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.

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 judgment 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.

The Company has maintained appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Major Customers and Suppliers

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 22 per cent and 36 per cent respectively during the year. None of the Directors, their close associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's issued shares) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers was 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 from pages 74 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 reappointment at a fee to be agreed by the Board.

On behalf of the Board

LEE Shau Kee

Chairman

Hong Kong, 18th March 2016