The Hong Kong and China Gas Company Limited (HK: 00003)

Overview

The Hong Kong and China Gas Company Limited (HKCG) produces, distributes, and markets gas and gas appliances to residential and industrial customers in Hong Kong and mainland China.

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

BIS has a multi-year engagement history with HKCG, during which we have discussed the company’s approach to corporate strategy, board composition and director independence, as well as the management of business relevant risks and opportunities in support of long-term financial value creation for BlackRock’s clients. In advance of HKCG’s 2023 annual general meeting (AGM), BIS engaged with members of the company’s management team to discuss governance items proposed for a shareholder vote, including the election of directors to the company’s board.

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2 BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% ($2.3 trillion of $4.8 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the $2.3 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of June 30, 2023.

BLACKROCK
Rationale for BlackRock’s vote

Item 3.1: Elect Lee Ka-kit as Director (AGAINST)

Item 3.2: Elect David Li Kwok-po as Director (AGAINST)

BIS did not support management’s recommendation on the elections of the co-chair of the board of directors and nomination committee, and of the chair of the audit and remuneration committees given concerns related to board independence and composition.

As outlined in our Global Principles, the performance of the board of directors is critical to the economic success of a company, and therefore engagement with, and the election of, directors is one of our most important responsibilities. When evaluating the composition of the board of directors, BIS considers a variety of factors that, in our experience, support the board’s performance in overseeing and advising company management. We find long-term shareholders like our clients benefit when companies regularly review the effectiveness of their boards and consider directors’ skillsets, experience, tenure, independence, and diversity, where relevant.

Within APAC, where controlling shareholders are often a common feature, BIS has observed that independent non-executive directors (INEDs) play a key role in the board’s decision making by representing the views of independent or minority shareholders. However, there are certain structural challenges in APAC that may undermine the ability of INEDs to successfully fulfil these responsibilities. This includes long-tenured INEDs being nominated for election by nomination committees that, in BIS’s assessment, do not have sufficient independence.

As we outline in our proxy voting guidelines for Hong Kong securities, we encourage companies in the market to maintain sufficient levels of independence for directors and for the leadership and membership of any board committees that they have established. In our experience, INEDs who have been on the board for 12 years or longer should generally be reclassified as non-independent directors.

At present, HKCG’s board is comprised of nine directors, including three INEDs. We note that the level of independence on HKCG’s board, upon BIS’ reclassification of long-tenured INEDs, remains below what companies often aspire to in the market. Further, one INED nominated for election by HKCG at the 2023 AGM has served on the board of directors since 1984 and currently serves as an executive chairman on the board of a bank that is one of the company’s principal bankers. There are also concerns about the independence of the board’s two other INEDs; one INED has served on the board for 13 years, and the other has served on the board of Towngas Smart Energy, a subsidiary of HKCG, for 16 years.

BIS further notes that HKCG’s co-chairman, who was also up for election, concurrently serves as chair of the board’s nomination committee. As outlined in our proxy voting guidelines for the market, long-term investors tend to benefit when companies’ nomination committees have an independent chairman as it signals that the interests of long-term and minority shareholders are more likely to be considered. In instances at large Hong Kong listed companies where this committee is not chaired by an INED, we may consider not supporting management’s recommendation on the election of the chairman.

In addition, BIS encourages HKCG’s board – which has no female directors – to consider strengthening its diversity of perspectives. In our experience, directors who bring a diversity of perspectives into the boardroom

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3 In Asia, BIS considers INEDs that have served on a board for 12 or more years as long-tenured and non-independent, unless local market regulation has determined a lower limit of nine years.
6 Ibid.
7 Companies in scope refer to constituents of Hang Seng Index.
minimize the risk of group think and contribute to more robust discussions, more innovative decisions, and better long-term economic outcomes for companies and their shareholders. BIS considers diversity broadly and in connection with a company’s business model, strategy, location, and size. As we detail in our proxy voting guidelines for Hong Kong, we generally do not consider boards composed of one gender to have a sufficient level of diversity of perspectives, and in such cases, we may vote not to support management’s recommendation on the election of relevant directors responsible for board composition.

In Hong Kong, we note that issuers with a single gender board will be required to appoint at least one director of a different gender by December 31, 2024, in accordance with the Hong Kong Stock Exchange’s listing rules. As a Hong Kong-listed issuer, HKCG will be required to appoint a female director prior to the end of 2024 to satisfy this mandate. In this context, BIS further encourages HKCG’s nomination committee to take proactive steps towards strengthening the diversity of perspectives on the board in support of long-term financial value creation.

At HKCG’s 2020, 2021 and 2022 AGMs, BIS similarly voted to signal the importance of the independence of both board and committee leadership by not supporting management’s recommendation on the election of directors. As detailed above, we continue to see room to improve board composition to support long-term financial value creation. BIS will continue to engage with HKCG to discuss the company’s approach to these matters and how the board’s decisions to date align with shareholders’ long-term financial interests.

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About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock’s fiduciary duty as an asset manager, BIS’ purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients’ investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public voting guidelines and informed by our analysis of company disclosures and, where relevant, our engagements.9

To support investors’ assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our website. For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship
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9 As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock’s ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a “best-efforts” basis.