

Financial Review



In 2019, total gas sales volume of the Group grew steadily by **11%** to **11,120 million cubic metres**.

Profit after taxation attributable to shareholders of the Company amounted to

HK\$ 1,308 million.

Excluding the one-off impairment provision of goodwill, profit after taxation attributable to shareholders of the Company amounted to HK\$1,456 million, an increase of 19% as compared to last year.



Total number of customers reached **13.44 million**, with **810,000** new customers.



Basic earnings per share amounted to

HK 46.06 cents.



Revenue

Revenue from the sales of piped gas and related products increased 11% from HK\$9,755 million in 2018 to HK\$10,835 million in 2019. This growth was primarily attributable to the increase in the volume of gas sold and higher average gas sale prices. The total consolidated volume of gas sold during the year amounted to 3,395 million cubic metres, representing an increase of 11% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK\$2,089 million, up 3% as compared to 2018, with approximately 450,000 consolidated new household connections being made in 2019.

Total Operating Expenses

Total operating expenses in 2019 amounted to HK\$11,169 million, an increase of 10% as compared to HK\$10,190 million in 2018. The increase was mainly due to the Group's business development together with inflation. The cost of gas fuel, stores and materials used amounted to HK\$8,905 million, while that was HK\$8,099 million in 2018. The increase in expenses was mainly attributable to the increase in the volume of gas sold during the year. Staff costs and depreciation and amortisation expenses rose by 13% and 14%, respectively. At the same time, an increase of HK\$19 million in overheads was due to the inclusion of new subsidiaries in 2019.

Finance Costs

Finance costs in 2019 amounted to HK\$399 million, a rise of 26% as compared to 2018. This rise in finance costs reflected the increase in loans mainly due to the acquisition and set-up of new projects and business development.

Equity Instruments at Fair Value through Other Comprehensive Income

Equity instruments at fair value through other comprehensive income mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"). Shares of Chengdu Gas in which the Group holds 11.7% equity interest were listed on the Shanghai Stock Exchange in December 2019. The principal activities of Chengdu Gas are city gas transportation and distribution, sales, gas engineering construction and gas meter sales in Chengdu city and its peripheral areas. Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised to other comprehensive income during the year. Shares of Chengdu Gas were publicly listed during the year and the subsequent revaluation with reference to stock price caused a major change in fair value as compared to last year.

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Financial Position

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 31 December 2019, the Group's bank loans and other loans amounted to HK\$10,239 million, of which HK\$3,433 million represented bank loans and other loans due within 1 year, HK\$6,790 million represented bank loans and other loans due between 1 to 5 years, and HK\$16 million represented bank loans and other loans due over 5 years. Other than the HK\$6,876 million in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group recorded an exchange gain of HK\$41 million caused by the fluctuations of Renminbi exchange rate in 2019. The Group's borrowings denominated in Renminbi amounted to HK\$8,495 million and the remaining HK\$1,744 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-Renminbi denominated loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK\$30 million from joint ventures on a fixed interest rate basis. The loss resulting from change in fair value of other financial assets and liabilities in 2019 was HK\$65 million. As at 31 December 2019, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt to equity attributable to shareholders of the Company plus net debt) of 30.8%.

As at 31 December 2019, the Group's cash and cash equivalents together with time deposits amounted to HK\$2,000 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2019, the Group's unutilised available credit facilities amounted to HK\$6,369 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and we have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.



Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas China at "BBB+" and its rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2019.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2019 of HK fifteen cents per share (2018: HK fifteen cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

