Financial Review

In 2018, total gas sales volume of the Group grew strongly by **19%** to **10,004** million cubic metres.

Total number of customers reached **12.63** million, with **860,000** new customers.

Profit after taxation attributable to shareholders of the Company amounted to HK$ **1,224** million. Excluding the one-off gain of HK$209 million contributed from the deemed partial disposal of interest in Foshan Gas Group Co., Ltd. ("Foshan Gas") upon its listing on Shenzhen Stock Exchange in 2017, profit after taxation attributable to shareholders of the Company increased 6% as compared to last year.

Basic earnings per share amounted to HK **43.89** cents.

Revenue

Revenue from the sales of piped gas and related products increased 39% from HK$6,996 million in 2017 to HK$9,755 million in 2018. 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 3,046 million cubic metres, representing an increase of 29% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$2,032 million, up 15% as compared to 2017, with approximately 430,000 consolidated new household connections being made in 2018.

Total Operating Expenses

Total operating expenses in 2018 amounted to HK$10,190 million, an increase of 36% as compared to HK$7,470 million in 2017. 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$8,099 million, while that was HK$5,552 million in 2017. 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 6% and 13%, respectively. At the same time, an increase of HK$66 million in overheads was due to the inclusion of new subsidiaries in 2018.

Finance Costs

Finance costs in 2018 amounted to HK$315 million, a rise of 20% as compared to 2017. 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 ("FVTOCI")

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"), which contributed dividends to the Group during the year. Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised to other comprehensive income ("OCI") during the year.

Financial Review

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 2018, the Group's bank loans and other loans amounted to HK$9,504 million, of which HK$2,784 million represented bank loans and other loans due within 1 year, HK$6,702 million represented bank loans and other loans due between 1 to 5 years, and HK$18 million represented bank loans and other loans due over 5 years. Other than the HK$3,624 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 are 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 loss of HK$231 million caused by the fluctuations of Renminbi exchange rate in 2018. The Group's borrowings denominated in Renminbi amounted to HK$5,077 million and the remaining HK$4,427 million borrowings were denominated mainly in Hong Kong dollars and United States dollars as at the end of the year. Cross currency swap contracts, cross currency interest rate swaps contracts and foreign currency forward contracts were made to hedge foreign currency risk for most of non-Renminbi denominated bank 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 amounting to HK$25 million from joint ventures on a fixed interest rate basis. The gain resulting from change in fair value of other financial assets and liabilities in 2018 was HK$13 million. As at 31 December 2018, 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 32.6%.

As at 31 December 2018, the Group's cash and cash equivalents together with time deposits amounted to HK$1,668 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2018, the Group's unutilised available facilities amounted to HK$4,860 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 2018.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2018 of HK fifteen cents per share (2017: 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.