Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

2018 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales volume of the Group grew strongly by 19% to over 10 billion cubic metres.
- Profit after taxation attributable to shareholders of the Company amounted to HK$1,224 million, an increase of 6% excluding the one-off gain contributed from the listing of Foshan Gas in 2017.
- A final dividend of HK fifteen cents per share is proposed.

RESULTS

The board of directors (the "Board") of Towngas China Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

The audited consolidated results of the Group for the year ended 31 December 2018 together with the comparative figures of 2017 are as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*2*	**11,787,002**	8,759,783
Total operating expenses	*3*	**(10,189,627)**	(7,470,483)
		1,597,375	1,289,300
Other (losses) gains, net		**(59,524)**	257,363
Share of results of associates		**323,076**	341,922
Share of results of joint ventures		**346,641**	291,394
Finance costs	*4*	**(315,438)**	(262,325)
Profit before taxation	*5*	**1,892,130**	1,917,654
Taxation	*6*	**(478,981)**	(405,373)
Profit for the year		**1,413,149**	1,512,281
Profit for the year attributable to:			
Shareholders of the Company		**1,224,274**	1,365,385
Non-controlling interests		**188,875**	146,896
		1,413,149	1,512,281
Proposed final dividend of HK fifteen cents (2017: HK fifteen cents) per ordinary share	*7*	**421,504**	415,303
		HK cents	*HK cents*
Earnings per share	*8*		
– Basic		**43.89**	49.87

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**1,413,149**	1,512,281
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences arising on translation to presentation currency	**(954,982)**	1,113,010
Fair value change on investments in equity instruments at fair value through other comprehensive income	**78,565**	-
Income tax relating to items that will not be reclassified to profit or loss	**(19,641)**	-
Items that may be reclassified subsequently to profit or loss		
Fair value change on available-for-sale investment	**-**	(25,994)
Cash flow hedge:		
Fair value change on derivative instrument designated as cash flow hedge recorded in hedge reserve	**(15,061)**	-
Reclassification of fair value change on derivative instrument designated as cash flow hedge to profit or loss	**(1,216)**	-
	(912,335)	1,087,016
Total comprehensive income for the year	**500,814**	2,599,297
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**436,688**	2,394,997
Non-controlling interests	**64,126**	204,300
Total comprehensive income for the year	**500,814**	2,599,297

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**15,914,048**	15,059,560
Leasehold land		**638,502**	613,218
Intangible assets		**492,669**	523,472
Goodwill		**5,522,253**	5,824,172
Interests in associates		**4,009,196**	3,935,115
Interests in joint ventures		**2,520,858**	2,407,197
Loan to an associate		**11,159**	-
Loans to joint ventures		**39,854**	24,024
Equity instruments at fair value through other comprehensive income		**381,449**	-
Available-for-sale investments		**-**	225,415
		29,529,988	28,612,173
Current assets			
Inventories		**575,250**	636,619
Leasehold land		**25,629**	27,450
Loan to an associate		**-**	11,772
Loans to joint ventures		**240,451**	286,298
Loan to a non-controlling shareholder		**-**	17,417
Trade and other receivables, deposits and prepayments	*9*	**1,833,228**	1,393,144
Amounts due from non-controlling shareholders		**105,168**	63,847
Other financial assets		**37,180**	-
Time deposits over three months		**56,225**	120,790
Bank balances and cash		**1,611,487**	1,605,300
		4,484,618	4,162,637
Current liabilities			
Trade and other payables and accrued charges	*10*	**2,079,926**	5,173,019
Contract liabilities		**3,043,956**	-
Amounts due to non-controlling shareholders		**96,629**	115,546
Taxation		**862,740**	800,443
Borrowings – amount due within one year		**2,783,581**	3,707,803
Loans from joint ventures		**24,642**	49,172
Other financial liabilities		**114,865**	76,172
		9,006,339	9,922,155
Net current liabilities		**(4,521,721)**	(5,759,518)
Total assets less current liabilities		**25,008,267**	22,852,655

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Borrowings – amount due after one year	**6,720,751**	5,071,862
Deferred taxation	**495,900**	454,100
Other financial liabilities	**22,300**	128,877
	7,238,951	5,654,839
Net assets	**17,769,316**	17,197,816
Capital and reserves		
Share capital	**281,003**	276,869
Reserves	**15,948,194**	15,568,164
Equity attributable to shareholders of the Company	**16,229,197**	15,845,033
Non-controlling interests	**1,540,119**	1,352,783
Total equity	**17,769,316**	17,197,816

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied for the first time in the current year the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard, if any, recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of piped gas (mainly natural gas) and gas related household appliances
- Construction of gas pipeline networks under gas connection contracts

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue in the current year and retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
		HK$'000	*HK$'000*	*HK$'000*
Current liabilities				
Trade and other payables and accrued charges	(a)	5,173,019	(3,092,720)	2,080,299
Contract liabilities	(a)	-	3,092,720	3,092,720

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

(a) As at 1 January 2018, receipt in advance of HK$3,092,720,000 previously included in trade and other payables and accrued charges were reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade and other payables and accrued charges	2,079,926	3,043,956	5,123,882
Contract liabilities	3,043,956	(3,043,956)	-

HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 *HK'000* *(Audited)*	HKFRS15 *HK'000*	HKFRS9 *HK'000*	1 January 2018 *HK'000* *(Restated)*
Non-current assets				
Interests in associates	3,935,115	-	22,106	3,957,221
Interests in joint ventures	2,407,197	-	(7,910)	2,399,287
Available-for-sale investments	225,415	-	(225,415)	-
Equity instruments at fair value through other comprehensive income	-	-	322,859	322,859
Current asset				
Trade and other receivables, deposits and prepayments	1,393,144	-	(5,641)	1,387,503
Current liabilities				
Trade and other payables and accrued charges	5,173,019	(3,092,720)	-	2,080,299
Contract liabilities	-	3,092,720	-	3,092,720
Non-current liability				
Deferred taxation	454,100	-	22,951	477,051
Equity attributable to shareholders of the Company	15,845,033	-	83,500	15,928,533
Non-controlling interests	1,352,783	-	(452)	1,352,331

2. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products, and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	–	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contributed to less than 5% of the Group's total revenue.

Segments results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other (losses) gains, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Information regarding these segments is presented below:

For the year ended 31 December 2018	**Sales and distribution of piped gas and related products** *HK$'000*	**Gas connection** *HK$'000*	**Consolidated** *HK$'000*
REVENUE			
External	**9,754,895**	**2,032,107**	**11,787,002**
Segment results	**874,492**	**885,923**	**1,760,415**
Other losses, net			**(59,524)**
Unallocated corporate expenses			**(163,040)**
Share of results of associates			**323,076**
Share of results of joint ventures			**346,641**
Finance costs			**(315,438)**
Profit before taxation			**1,892,130**
Taxation			**(478,981)**
Profit for the year			**1,413,149**

For the year ended 31 December 2017	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
REVENUE			
External	6,995,858	1,763,925	8,759,783
Segment results	632,642	806,844	1,439,486
Other gains, net			257,363
Unallocated corporate expenses			(150,186)
Share of results of associates			341,922
Share of results of joint ventures			291,394
Finance costs			(262,325)
Profit before taxation			1,917,654
Taxation			(405,373)
Profit for the year			1,512,281

The reportable segments have been prepared on the historical cost basis. The accounting policies of the reportable segments are the same as the Group's accounting policies.

All of the Group's revenue was generated in the People's Republic of China (the "PRC") (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group had contributed sales of over 10% of the total revenue of the Group for the years ended 31 December 2018 and 2017.

3. TOTAL OPERATING EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**8,098,571**	5,552,365
Staff costs	**969,123**	913,713
Depreciation, amortisation and release of leasehold land	**608,289**	540,491
Other expenses	**513,644**	463,914
	10,189,627	7,470,483

4. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on:		
– bank and other borrowings wholly repayable within five years	**326,321**	275,861
– bank and other borrowings not wholly repayable within five years	**587**	514
Bank charges	**5,778**	5,289
	332,686	281,664
Less: amounts capitalised	**(17,248)**	(19,339)
	315,438	262,325

5. PROFIT BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**19,400**	18,822
Release of leasehold land	**19,945**	19,957
Cost of inventories sold	**8,754,478**	6,146,570
Depreciation of property, plant and equipment	**568,944**	501,712
Operating lease rentals in respect of land and buildings	**36,198**	31,541
Staff costs	**969,123**	913,713
Loss on disposal of leasehold land	**-**	322
Change in fair value of other financial assets and liabilities	**-**	364,376
Exchange loss	**231,484**	-
and after crediting:		
Dividend income from		
– available-for-sale investments	**-**	91,156
– equity instruments at fair value through other comprehensive income	**52,227**	-
Gain on disposal of leasehold land	**41,183**	-
Gain on disposal of property, plant and equipment	**20,998**	5,376
Exchange gain	**-**	231,254
Change in fair value of other financial assets and liabilities	**13,304**	-
Gain on deemed partial disposal of interest in an associate	**-**	209,390

6. TAXATION

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**446,262**	373,461
Deferred taxation		
– taxation charge for the year	**32,719**	31,912
	478,981	405,373

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The EIT rates applicable for the Group’s PRC subsidiaries range from 15% to 25% (2017: 15% to 25%).

Following the Catalogue of Encouraged Industries in Western Region which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China were granted a concessionary tax rate of 15% by the local tax bureau.

7. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2017 of HK$415,303,000 (2017: HK$325,392,000 in respect of the year ended 31 December 2016) was recognised as distribution, being HK fifteen cents per ordinary share (2017: HK twelve cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK fifteen cents (2017: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the shareholders of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	**1,224,274**	1,365,385

	Number of shares	
	2018	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,789,529**	2,737,878

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**871,480**	710,349
Prepayments	**597,090**	461,746
Other receivables and deposits	**364,658**	221,049
	1,833,228	1,393,144

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case by case basis. The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**747,436**	551,597
91 to 180 days	**44,553**	45,781
Over 180 days	**79,491**	112,971
	871,480	710,349

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**1,248,393**	1,197,993
Receipt in advance	**-**	3,092,720
Consideration payable for acquisitions of businesses	**75,019**	100,591
Other payables and accruals	**755,590**	780,852
Amount due to the ultimate holding company (note)	**924**	863
	2,079,926	5,173,019

Note: The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**819,120**	775,346
91 to 180 days	**127,950**	139,989
181 to 360 days	**128,181**	137,281
Over 360 days	**173,142**	145,377
	1,248,393	1,197,993

FINANCIAL REVIEW

In 2018, total gas sales volume of the Group grew strongly by 19% to 10,004 million cubic metres and 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. Taking out 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 HK43.89 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

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 during the year.

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 amounted 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.

BUSINESS REVIEW

Towngas China actively explored new business opportunities and continued to expand our existing markets in 2018, thereby achieving major breakthroughs and gained significant growth momentum for our future development. As of today, our business portfolio grew to include 116 project companies, comprising city gas supply, gas pipelines construction, the operation of vehicle gas refilling stations and the sale of household gas appliances, as well as other extended businesses. The Group recorded a remarkable growth of 19% in total gas sale volume, growing strongly to 10,004 million cubic metres, with the industrial and commercial sectors showing a significant increase to 7,626 million cubic metres, a surge of 21% compared to 2017.

China's "13th Five-Year Plan for Energy Development" proposes that the proportion of natural gas consumption should account for 10% of the national primary energy consumed by 2020, increasing further to 15% by 2030. In response to this national development strategy, we are actively developing environmentally friendly businesses while also pushing forward coal-to-gas conversion projects. A Sustainability Committee, consisting of Peter Wong Wai-yee, an Executive Director and the Chief Executive Officer of Towngas China, as well as other senior management members was thus set up during the year to drive these goals and enhance corporate governance. The committee is responsible for advancing and monitoring the Group's sustainable development strategies which cover not only environmental protection issues, but also health and safety, business processes, community engagement as well as innovation and environmentally friendly activities that will both enhance business values and help to build sustainable communities.

The Hong Kong and China Gas Company Limited ("HKCG"), the Group's parent company, became China's first city gas enterprise to construct an underground salt-cavern gas storage facility. The project is divided into three phases with a total investment of RMB1.2 billion and a total gas storage capacity of 1 billion cubic metres. The first phase of the project has been completed, with three wells constructed to provide a maximum daily gas capacity of 5 million cubic metres. The contract for the second phase of the project was also signed in November 2018. As urbanisation speeds up in China, there is increase in the market demand for natural gas and Towngas China is no exception. Riding this wave, our construction of peak-shaving gas storage facilities provide a continuous supply of clean energy by storing excess supply of natural gas which is relatively cheaper during the summer months to meet the demand of gas companies when gas price is higher during the winter months, thereby benefiting the community and creating greater economic value for the Group.

Sales of Piped Gas

In 2018, the Group's total piped gas sale volumes grew strongly by 19% to 10,004 million cubic metres. The total number of customers rose to 12.63 million, representing a year-on-year increase of 860,000 customers. In particular, industrial gas sales increased by 24% to 6,008 million cubic metres, accounting for 60% of total gas sales; commercial gas sales increased by 11% to 1,618 million cubic metres, representing 16% of total gas sales; and residential gas sales rose by 12% to 2,378 million cubic metres, accounting for 24% of total gas sales.

Cementing the solid foundations laid by our city gas business in mainland China, our business now spans 20 provinces, municipalities and autonomous regions, providing a reliable and stable supply of clean energy. Together with our ancillary gas products and extended businesses, we are seizing the opportunities brought about by the country's national coal-to-gas conversion projects to become not only an industry leader but also one of the largest businesses to provide clean energy and quality services in mainland China.

Development of New Projects

During the year, the Group launched two gas projects, a city gas project in Liujiang District, Liuzhou City in the Guangxi Zhuang Autonomous Region and a midstream natural gas pipeline network and city gate station project in Chiping County, Liaocheng City in Shandong Province. The principal industrial activity in Liuzhou City is the manufacturing of automobile parts and components and mechanical equipment. This project is wholly-owned by the Group. Being our third project in Guangxi, it will generate regional synergies with our other two piped gas projects in Guilin and Fusui (Zhongwei) in the province. The midstream natural gas pipeline network and city gate station project in Chiping County, Liaocheng City in Shandong Province is our fourth midstream pipeline transmission project. Under this project, the "Jinan - Liaocheng" natural gas pipeline and Chiping South city gate station will be constructed. This new venture holds bright prospects for the future with its ample sources for natural gas supply. In addition, we launched a gas-related project to organise the centralised procurement of natural gas sources for the Group's enterprises in 2018.

Apart from our focus on the gas business, we also continue to actively identify potential business opportunities for "distributed energy". In addition to the two distributed energy projects established in the previous year, we added a total of eight new distributed energy projects during the year. These new businesses are located in Jiawang District, Xuzhou City in Jiangsu Province; Jimo Chuangzhi New District, Qingdao City in Shandong Province; the Yangxin Economic & Technological Development Zone of Binzhou City in Shandong Province; Changchun City in Jilin Province; Guilin City in the Guangxi Zhuang Autonomous Region; the Chengnan Economic Development Zone of Tangshan City in Hebei Province; Boxing Economic Development Zone of Binzhou City in Shandong Province and Xuzhou Biomedical Industrial Park in Jiangsu Province. The natural gas consumption of these projects is expected to reach 400 million cubic metres in 5 years. They will also generate regional synergies with our adjacent gas projects in market exploitation and sources of gas supplies etc.

In addition, the Group had added one new distributed energy project at the beginning of 2019. The project is located in the South District of Maanshan Economic and Technological Development Zone in Anhui Province, laying a solid foundation for the Group's business development in 2019. This project is the first distributed energy project in Anhui Province. It is an exemplary project for regional natural gas distributed energy and plays an active role to promote the development of distributed energy projects in Anhui Province.

Employee and Remuneration Policies

As at 31 December 2018, the Group had 22,241 employees, 99% of whom worked in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Awards

Over the years, our rapid development and strong track record in the city gas business, corporate governance, environmental protection, customer service as well as social responsibility have earned Towngas China a number of social and industry recognitions.

In 2018, Alfred Chan Wing-kin, Chairman and Executive Director of the Company, was once again named one of "The 100 Best-Performing CEOs in the World" by Harvard Business Review in recognition of his leadership, the Group’s accomplishments and contributions to environmental, social and corporate governance issues. Mr. Chan is the only corporate management personnel in Hong Kong to have received the distinguished accolade for the past four consecutive years.

Major corporate social responsibility awards received by the Group during the year include the "Green Exemplar Award of the 7th China Charity Festival" presented by the Organising Committee of the 7th China Charity Festival, the "Top 50 Responsible Brands in Corporate Citizenship in China 2018" awarded by the Corporate Citizenship Committee of China Association of Social Workers, CCTV, and Tencent Charity Foundation, the "Best CSR Brand" presented by the Organising Committee of the CSR China Education Awards as well as "Outstanding Charity Project of Corporate Citizens in China 2018" awarded by the Corporate Citizenship Committee of China Association of Social Workers and the Organising Committee of the Annual Conference of Outstanding Corporate Citizens.

Corporate Social Responsibility

We attach great importance to corporate social responsibility and are committed to becoming a green business pioneer. As a public utility organisation, we not only supply safe and reliable energy to customers, but also provide caring and competent services. At the same time, we make every effort to contribute to the environment and strive to give back to the community through the implementation of various community-focused projects. We also advocate low-carbon living, driving this message home through various environmental protection activities. In view of this dedicated commitment, our charity projects have won wide recognition from the community and we have also received positive feedback from employees' families, partners and social welfare organisations.

In 2013, we launched the "Gentle Breeze Movement" programme, embracing every household like a wafting breeze. More than mere suppliers of clean energy, we seek to help the disadvantaged and improve their quality of life. In 2018, the Gentle Breeze Movement carried out activities in Baotou city in the Inner Mongolia Autonomous Region and Changting county in Fujian province. These included renovating classroom buildings and dormitories of local schools, as well as donating libraries and school supplies to local campuses. Since the inception of the Gentle Breeze Movement six years ago, we have donated more than RMB3.5 million in total, aiding 37 schools located in Jiangxi, Anhui, Jiangsu, Shandong, Guizhou and Liaoning provinces in the improvement of their teaching environment.

A seventh Firefly Centre was established in 2018 at Yumaihong Primary School in Luliang county, Yunnan province. We donated close to RMB200,000 to set up a multi-media classroom equipped with brand-new computers, desks and chairs, and other facilities to enhance the learning environment. Since becoming a partner of the "Shanghai Soong Ching Ling Foundation – BEA Charity Fund" in 2009, we have established seven Firefly Centres in Sichuan, Shandong, Zhejiang, Anhui and Yunnan provinces through the Firefly Project, providing assistance to resource-strapped regions and promoting the comprehensive development of the next generation.

With a focus on innovation and environmental-friendliness, we host activities every year with a view to encouraging our employees to protect and improve the environment. During the year, we launched the "Low-carbon Life" programme together with four different initiatives – "Towngas China Plantation Day", "Earth Hour", "Tips on Clothing, Food, Living and Travel", and "Call for Low-carbon Innovation". Nearly 80 project companies worked together to spread the message of a healthy low-carbon lifestyle and strengthen the sense of responsibility in their respective communities and the general public to maintain a balanced ecology and protect the environment.

We continued to hold our popular charity event, "Rice Dumplings for the Community" in 2018. More than 60 of our project companies and some 1,100 Towngas China volunteers took part in the event, helping to prepare over 30,000 rice dumplings for the underprivileged across the country.

Long-term Development Strategy

With an annual gross domestic product growth of 6.6%, the Chinese market witnessed moderate to high growth in 2018. This market expectation-meeting economic development, along with the positive impact of the country's environmental-protection policies and the high prices of alternative energy, resulted in double-digit growth in natural gas consumption in 2018 as well as the year before, giving our businesses a major boost.

At Towngas China, we make every effort to align ourselves with national environmental-protection policies. As a pioneer and substantial investor in distributed energy for commercial and industrial use and "coal-to-gas" conversion projects, our forward-looking development strategy has started to bear fruit, laying solid foundations for our sustainable and onward growth in the commercial and industrial sectors. We will continue to embrace every opportunity to identify future environmentally friendly projects that will provide both investors and shareholders with value-added returns in their best interest.

Riding on the valuable experience of our parent company, HKCG, which has been running a public utility business for over 150 years, the Group has ventured into developing gas markets in mainland China, while successfully accumulating a huge residential customer base through our safe and stable gas supply. Going forward, we will continue to focus on innovative ideas, particularly in the fields of research and development for quality ancillary gas products and other gas-related extended businesses, to offer one-stop gas solutions to our customers. Furthermore, as the era of big data arrives, we will make better use of electronic platforms such as online customer centres to strengthen our ties with both our customers and our stakeholders.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

Board Audit and Risk Committee

The Company has a board audit and risk committee (the "Board Audit and Risk Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems.

A meeting of the Board Audit and Risk Committee was held on 26 February 2019 to review the Group's audited consolidated financial statements for the year ended 31 December 2018 in conjunction with the Group's internal auditors and Deloitte Touche Tohmatsu, the Group's external auditor.

Annual General Meeting

The Annual General Meeting (the "AGM") will be held on Tuesday, 21 May 2019. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about Monday, 15 April 2019.

Final Dividend

The Board recommended the payment of a final dividend out of the share premium account under reserves of the Company of HK fifteen cents per share (2017: HK fifteen cents per share) to shareholders whose names are on the register of members on 29 May 2019, which is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands.

The proposed final dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid shares in lieu of cash in whole or in part under the scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, rank pari passu in all respects with the existing shares in issue on the date of the allotment and issue of the new shares except that they shall not be entitled to the proposed final dividend. The circular containing details of the Scrip Dividend Scheme and the relevant election form is expected to be sent to shareholders on or about 5 June 2019.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the new shares to be issued under the Scrip Dividend Scheme.

It is expected that the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be sent by ordinary mail to shareholders at their own risk on or about 4 July 2019.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:-

(1) from 16 May 2019 to 21 May 2019, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

(2) from 27 May 2019 to 29 May 2019, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 15 May 2019 and 24 May 2019 respectively.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 19 March 2019

At the date of this announcement, the Board comprises:

Executive Directors:
Alfred Chan Wing-kin *(Chairman)*
Peter Wong Wai-yee *(Chief Executive Officer)*
John Ho Hon-ming *(Company Secretary)*
Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-executive Directors:
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi