港華燃氣有限公司
Towngas China Company Limited

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

2019 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales volume of the Group grew steadily by 11% to 11.12 billion cubic metres.
- Profit after taxation attributable to shareholders of the Company (excluding impairment provision of goodwill) rose by 19% to HK$1,456 million. After deducting the one-off impairment provision of goodwill, profit after taxation attributable to shareholders of the Company amounted to HK$1,308 million, an increase of 7%.
- 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 2019.

The audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures of 2018 are as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019** **HK$'000**	2018 *HK$'000*
Revenue	*2*	**12,924,371**	11,787,002
Total operating expenses	*3*	**(11,168,806)**	(10,189,627)
		1,755,565	1,597,375
Other losses, net		**(85,330)**	(59,524)
Share of results of associates		**359,313**	323,076
Share of results of joint ventures		**383,217**	346,641
Finance costs	*4*	**(398,707)**	(315,438)
Profit before taxation	*5*	**2,014,058**	1,892,130
Taxation	*6*	**(501,485)**	(478,981)
Profit for the year		**1,512,573**	1,413,149
Profit for the year attributable to:			
Shareholders of the Company		**1,308,425**	1,224,274
Non-controlling interests		**204,148**	188,875
		1,512,573	1,413,149
Proposed final dividend of HK fifteen cents (2018: HK fifteen cents) per ordinary share	*7*	**430,603**	421,504
		HK cents	*HK cents*
Earnings per share	*8*		
– Basic		**46.06**	43.89

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**1,512,573**	1,413,149
Other comprehensive income (expense) for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**(365,792)**	(954,982)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**1,965,045**	78,565
Income tax relating to items that will not be reclassified to profit or loss	**(492,232)**	(19,641)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**39,614**	(15,061)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(40,017)**	(1,216)
	1,106,618	(912,335)
Total comprehensive income for the year	**2,619,191**	500,814
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**2,471,357**	436,688
Non-controlling interests	**147,834**	64,126
Total comprehensive income for the year	**2,619,191**	500,814

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**2019** **HK$'000**	2018 HK$'000
Non-current assets			
Property, plant and equipment		**17,219,229**	15,914,048
Right-of-use assets		**799,774**	-
Leasehold land		**-**	638,502
Intangible assets		**465,432**	492,669
Goodwill		**5,297,022**	5,522,253
Interests in associates		**4,263,989**	4,009,196
Interests in joint ventures		**2,756,425**	2,520,858
Loan to an associate		**21,924**	11,159
Loan to a joint venture		**-**	39,854
Equity instruments at fair value through other comprehensive income		**2,399,044**	381,449
Other financial asset		**24,483**	-
		33,247,322	29,529,988
Current assets			
Inventories		**587,262**	575,250
Leasehold land		**-**	25,629
Loan to an associate		**10,962**	-
Loans to joint ventures		**215,759**	240,451
Trade and other receivables, deposits and prepayments	*9*	**1,940,690**	1,833,228
Amounts due from non-controlling shareholders		**192,702**	105,168
Other financial assets		**-**	37,180
Time deposits over three months		**62,752**	56,225
Bank balances and cash		**1,937,437**	1,611,487
		4,947,564	4,484,618
Current liabilities			
Trade and other payables and accrued charges	*10*	**2,215,160**	2,079,926
Contract liabilities		**3,309,677**	3,043,956
Lease liabilities		**21,034**	-
Amounts due to non-controlling shareholders		**64,140**	96,629
Taxation payable		**962,593**	862,740
Borrowings – amounts due within one year		**3,433,529**	2,783,581
Loan from a non-controlling shareholder		**19,485**	-
Loans from joint ventures		**30,370**	24,642
Other financial liabilities		**-**	114,865
		10,055,988	9,006,339
Net current liabilities		**(5,108,424)**	(4,521,721)
Total assets less current liabilities		**28,138,898**	25,008,267

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 31 DECEMBER 2019

	2019	2018
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**35,572**	-
Borrowings – amounts due after one year	**6,805,833**	6,720,751
Deferred taxation	**982,070**	495,900
Other financial liabilities	**15,413**	22,300
	7,838,888	7,238,951
Net assets	**20,300,010**	17,769,316
Capital and reserves		
Share capital	**287,069**	281,003
Reserves	**18,324,987**	15,948,194
Equity attributable to shareholders of the Company	**18,612,056**	16,229,197
Non-controlling interests	**1,687,954**	1,540,119
Total equity	**20,300,010**	17,769,316

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

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

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Except as described below, the application of the new and amendments to HKFRSs and the interpretation 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.

Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$83,466,000 and right-of-use assets of HK$740,781,000 at 1 January 2019.

The net impact on retained earnings on 1 January 2019 was a decrease of approximately HK$9,751,000.

Details of the reclassification and changes in accounting policies will be set out in the annual report.

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, 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 2019	**Sales and distribution of piped gas and related products** *HK$'000*	**Gas connection** *HK$'000*	**Consolidated** *HK$'000*
REVENUE			
External	**10,835,119**	**2,089,252**	**12,924,371**
Segment results	**1,033,527**	**893,605**	**1,927,132**
Other losses, net			**(85,330)**
Unallocated corporate expenses			**(171,567)**
Share of results of associates			**359,313**
Share of results of joint ventures			**383,217**
Finance costs			**(398,707)**
Profit before taxation			**2,014,058**
Taxation			**(501,485)**
Profit for the year			**1,512,573**

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

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).

3. TOTAL OPERATING EXPENSES

	2019	2018
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**8,905,355**	8,098,571
Staff costs	**1,091,156**	969,123
Depreciation and amortisation	**693,254**	608,289
Other expenses	**479,041**	513,644
	11,168,806	10,189,627

4. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**406,640**	326,908
Bank charges	**6,724**	5,778
Interest on lease liabilities	**3,211**	-
	416,575	332,686
Less: amounts capitalised	**(17,868)**	(17,248)
	398,707	315,438

5. PROFIT BEFORE TAXATION

	2019	2018
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**18,712**	19,400
Depreciation of right-of-use assets	**53,912**	-
Release of leasehold land	**-**	19,945
Cost of inventories sold	**9,638,211**	8,754,478
Depreciation of property, plant and equipment	**620,630**	568,944
Operating lease rentals in respect of land and buildings	**-**	36,198
Staff costs	**1,091,156**	969,123
Change in fair value of other financial assets and liabilities	**64,825**	-
Exchange loss	**-**	231,484
Impairment provision of goodwill	**148,000**	-
and after crediting:		
Dividend income from equity instruments at fair value through other comprehensive income	**30,515**	52,227
Gain on disposal of right-of-use assets (leasehold land)/ leasehold land	**2,445**	41,183
Gain on disposal of property, plant and equipment	**3,261**	20,998
Exchange gain	**41,271**	-
Change in fair value of other financial assets and liabilities	**-**	13,304

6. TAXATION

	2019	2018
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**474,665**	446,262
Deferred taxation		
– taxation charge for the year	**26,820**	32,719
	501,485	478,981

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 ranged from 15% to 25% (2018: 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 2018 of HK$421,504,000 (2018: HK$415,303,000 in respect of the year ended 31 December 2017) was recognised as distribution, being HK fifteen cents per ordinary share (2018: HK fifteen cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK fifteen cents (2018: 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:

	2019	2018
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	**1,308,425**	1,224,274

	Number of shares	
	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,840,607**	2,789,529

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019	2018
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**886,834**	871,480
Prepayments	**561,195**	597,090
Other receivables and deposits	**492,661**	364,658
	1,940,690	1,833,228

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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**682,276**	747,436
91 to 180 days	**77,053**	44,553
Over 180 days	**127,505**	79,491
	886,834	871,480

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**1,220,225**	1,248,393
Consideration payable for acquisitions of businesses	**73,724**	75,019
Other payables and accruals	**920,205**	755,590
Amount due to ultimate holding company (note)	**1,006**	924
	2,215,160	2,079,926

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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**706,935**	819,120
91 to 180 days	**122,759**	127,950
181 to 360 days	**172,570**	128,181
Over 360 days	**217,961**	173,142
	1,220,225	1,248,393

FINANCIAL REVIEW

In 2019, total gas sales volume of the Group grew by 11% to 11,120 million cubic metres and total number of customers reached 13.44 million, with 810,000 new customers. Profit after taxation attributable to shareholders of the Company (excluding impairment provision of goodwill) rose by 19% to HK$1,456 million as compared to last year. After deducting the one-off impairment provision of goodwill, profit after taxation attributable to shareholders of the Company amounted to HK$1,308 million, an increase of 7% as compared to last year. Basic earnings per share amounted to HK46.06 cents. Shares of Chengdu Gas Group Corporation Ltd. ("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.

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 and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"). 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.

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.

BUSINESS REVIEW

In 2019, the global geopolitical instability, continued uncertainties in mainland China's macro-economy arising from the China-US trade disputes, as well as the downside pressures faced by the mainland's economic development, especially in terms of reduction in export orders due to adverse external factors affecting the mainland's export manufacturing industry, has had an impact on the growth of Towngas China's gas sales volume.

Although the global economy continues to face challenges, the Chinese Government is determined to promote green development and build a beautiful China. As such, it is actively advancing its "coal-to-gas" conversion policy, targeting to position natural gas as the main source of energy, by continuously promoting to transform the use of energy, and increasing the proportion of natural gas. These moves are bringing ongoing growth opportunities for the pipeline natural gas market.

Throughout the year, the Group closely monitored the new changes and opportunities emerging in the natural gas market in mainland China. While adhering to our market penetration strategies, we provided customers with more efficient energy services with the in-depth development of our integrated energy services and distributed energy projects. The total number of Towngas China's projects has been increased to 127 so far, comprising city-gas supply, distributed energy, gas pipeline network construction, operation of vehicle gas refilling stations, together with the sale of household gas appliances and other extended businesses. The Group's overall gas sales recorded a double-digit increase during the year, up 11% to 11,120 million cubic metres, of which industrial and commercial gas sales accounted for 8,553 million cubic metres, an increase of 12% on 2018. In addition, residential gas sales amounted to 2,489 million cubic metres, and the equivalent of 78 million cubic metres of natural gas sales was recorded for distributed energy projects.

Our vision is to be Asia's leading clean energy supplier and quality service provider, with a focus on innovation and environmental friendliness. Adhering to our mission to improve the environment and provide our customers with reliable, efficient, safe and clean energy, we are committed to ensuring gas supply, improving efficiency, and extending gas applications.

With regard to upstream gas sources, we have been steadily expanding our liquefied natural gas ("LNG") imports. This has given us the opportunity to fully leverage the storage capacity of the Jintan underground gas storage facility owned by our parent company, The Hong Kong and China Gas Company Limited ("HKCG"). It has also provided the supplementary gas supplies necessary for peak-shaving capacity in winter while lowering our gas-sourcing costs. In the midstream sector, we have been aggressively driving construction to facilitate inter-connection between the Jintan underground gas storage facility and the pipeline network of the Group, in addition to expanding investment projects on LNG receiving stations on a continuous basis. In the downstream sector, our industrial and commercial market development strategy has been upgraded with a view to offering a diverse range of energy services and efficient energy utilisation options to customers. Towngas China Energy Investment Limited ("TCEI"), a subsidiary of the Group, also established the "Tsinghua-Towngas China Joint Research Centre for Regional Integrated Energy Planning Technology" in conjunction with Tsinghua University in April 2019. The research centre will help us to maintain and consolidate our leading position in integrated energy services.

In December 2019, the 3,000-kilometre China-Russia East-Route Natural Gas Pipeline commenced its gas transmission operations. According to the National Energy Administration, the first phase of the project will be able to deliver 5 billion cubic metres of gas per year. When the project operates at full capacity in 2023, it will be able to provide 38 billion cubic metres of gas annually. This will greatly facilitate the increase of our upstream gas sources for city-gas projects in northeastern China. Building on this platform, Group companies are making every provision for the transmission of Russian gas to China - these include full penetration of the gas market together with ongoing communications with both existing and new customers. The official transmission of Russian gas to China will facilitate the Group in expanding its customer base while resolving the problem of insufficient gas supply for existing customers. Regional consumption of natural gas is expected to show rapid growth.

Novel Coronavirus Pneumonia Epidemic

An outbreak of coronavirus disease (COVID-19) causing pneumonia, starting in early 2020, is severely impacting the country. Enterprises under the Group are actively responding to full deployment; public utility businesses, in particular, are the most important, with a mission to ensure both supply and provision of services, while making every effort to conduct epidemic prevention and control.

As the outbreak of the coronavirus disease across the country is serious, different kinds of production and business premises nationwide have been closed for some time whilst resumption of work after the Chinese New Year holiday was postponed. Consumers spending and production have shrunk significantly, leading to a drastic fall in demand for gas and water in commercial and industrial sectors. At the same time, local governments on the mainland have launched measures to support the ongoing development of small and medium-sized enterprises in response to the epidemic by requiring public utility enterprises to implement preferential policies such as reducing fees and deferring fee payment, which will, inevitably, impact the results of the Group for the year 2020.

Faced with the dire situation, we have united our staff at all levels to carry on our operations and their work duties in an orderly manner. These include our full range of customer services from our hotline facilities to our maintenance and emergency response and opening an online business hall to provide the various services needed to meet customers' requirements. Group companies also rounded up anti-epidemic and protective supplies such as masks, thermometers and disinfectant, not only working to disinfect office areas and business centres constantly, but Safety and Risk Department also established a monitoring mechanism to better ensure epidemic prevention and control for the safety of our customers and employees while resuming our operations, production and services.

Sales of Piped Gas

In 2019, the Group's total piped gas sales volume grew by 11% to 11,120 million cubic metres. In particular, industrial gas sales increased by 13% to 6,790 million cubic metres, accounting for 61% of total gas sales; commercial gas sales increased by 9% to 1,763 million cubic metres, representing 16% of total gas sales; residential gas sales rose by 5% to 2,489 million cubic metres, accounting for 22% of total gas sales; and the equivalent of 78 million cubic metres of natural gas sales was recorded for distributed energy projects, accounting for 1% of total gas sales. The total number of customers rose to 13.44 million, representing a year-on-year increase of 810,000 in number of customers.

Our business has covered 21 provinces, municipalities and autonomous regions so far. In addition to transmitting and distributing safe and reliable energy, we supported the Government's "coal-to-gas" conversion policy, actively encouraging industrial and commercial customers to adopt natural gas, which is a cleaner option as compared to traditional energy sources. In recent years, we have also made every effort to expand the distributed-energy market. This not only provides industrial and commercial customers with more efficient energy, but also reduces environmental pollution.

Development of New Projects

We added a city gas project in the eastern coastal area of Laoshan district, Qingdao city in Shandong province, to our portfolio during the year. The project, located in an area that is planned for development into an international standard cluster that will integrate healthcare, rehabilitation, leisure, ecological and vocational facilities. Designed to be an international travel destination targeting the Northeast Asian market, it is also being zoned as a clean energy supply area. The project will expand our regional synergies, hand-in-hand with our two other city gas projects located in Qingdao city.

In addition to focusing on the gas business, we continued to actively explore potential business opportunities for "distributed energy". During the year, The Group set up eight additional distributed energy projects, including initiatives in Maanshan Economic and Technological Development Zone South District and the Dangtu Economic Development Zone Northern District in Anhui province; the Fengnan Lingang Economic Development Zone in Tangshan city in Hebei province; the Xinmi Yinji International Tourism Resort, Zhengzhou city in Henan province; Shenzhen Gas Building, Shenzhen city in Guangdong province; Wangcun Industrial Zone in Songyang county, Lishui city in Zhejiang province; the Changzhou Photovoltaic Industrial Park in Jiangsu province; and a sale of electricity and energy project in Anhui province. These projects are expected to generate natural gas consumption of up to 400 million cubic metres in five years' time, creating regional synergies with our gas and distributed energy projects in neighbouring areas with respect to our market, gas sourcing and other strategic policies.

In addition, the Group had also added a distributed energy project in early 2020. The project is located in the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province. This project is the fourth distributed energy project established by the Group in Anhui province, laying a sound foundation for the Group's business development in 2020. Together with our previously established projects, the Group currently holds 19 distributed energy projects.

We also established U-Tech (Guang Dong) Engineering Construction Co., Ltd ("U-Tech Guang Dong"), an engineering construction and project management company, and invested in Liaoning Clean Energy Group Co., Ltd. during the year. Providing a platform for the development of our project work construction business, U-Tech Guang Dong will be able to swiftly integrate resources from among the Group's construction companies whilst speeding up the development of project companies, in addition to also enhancing our efficiencies in construction management.

Employee and Remuneration Policies

As at 31 December 2019, the Group had 22,385 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 and Recognition

The Group once again received numerous industry awards from various organisations in recognition of its ample resources and tireless efforts committed to sectors such as industry development, products and services, sustainable development and community support.

In terms of industry development, the Group's brilliant achievements are demonstrated by the "Most Outstanding Contributor Award" given by *China Energy News* and China Institute of Energy Economics Research during the year in recognition of its outstanding performance in clean energy promotion and technological innovation. The Group won two other awards in 2019 as well in recognition of its unremitting efforts in promoting environmental, social and governance ("ESG") developments: "ESG Leading Enterprises 2019" presented by *Bloomberg Businessweek/Chinese Edition* and Deloitte China, and "Top Ten Green Contributors Among Energy Listed Companies 2019" presented by *Energy*, China Petroleum & Chemical Corporation and CHN Energy Investment Group Co., Ltd.

The Group won eight industry awards during the year for the products and services it provided and the corporate social responsibility ("CSR") projects it organised. Major CSR awards included "Five-Star Chinese Corporate Citizen" and "Chinese Corporate Citizen Public Welfare Project 2019" presented by the Corporate Citizenship Committee of the China Association of Social Workers, as well as "Top 60 Chinese Corporate Citizen Responsibility Brands 2019" given by the Organising Committee of the Summit on China's Brands of Corporate Citizenship Responsibility. Bauhinia, the Group's gas appliances brand which is popular with our customers, was once again named the "Hong Kong Brand" by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong during the year.

Corporate Social Responsibility

As a public utility, Towngas China's business is closely linked to people's daily lives. Committed to ensuring safe gas supply in line with the highest industry standards and being responsible to customers, we provide support to disadvantaged groups in an effort to shoulder our corporate social responsibilities. Under this initiative, we hope to turn our CSR spirit into reality by actively participating in public welfare activities to contribute to our community, protecting our environment and contributing to society.

In 2018, our Environmental, Social and Governance Committee consisting of our senior management members was formed. The committee monitors the performance and effectiveness of our participation in public welfare programmes and environmentally friendly activities, in order to turn "contributing to society" into an intrinsic part of our corporate culture whilst also making the best use of resources for the maximum benefit of the beneficiaries.

In 2019, our "Gentle Breeze Movement" programme carried out educational support activities in Pingchang county in Sichuan province and Qiqihar city in Heilongjiang province. Jianshan Primary School and Pingchang Deaf-Mute School in Pingchang county in Sichuan province are both located in remote areas and lack education facilities. As such, we funded the renovation of the canteen at Jianshan Primary School together with the building of new awnings and a new "Towngas China Charity Library". In May, we also mobilised corporate volunteers to deliver teaching materials to the campus, in a bid to improve learning conditions for the students.

Another initiative was taken at Qiankule Primary School in Fularji district, Qiqihar city in Heilongjiang province. The Group's volunteers built two "Towngas China Charity Libraries" for the school and donated a series of teaching supplies. Corporate volunteers also expanded and renovated a guard room to help the school strengthen its safety management and improve teaching facilities. Exhaust fans and vents were also installed in laboratories to cope with the extreme weather conditions in northern China. These efforts have greatly improved the overall school environment.

As an advocate of green culture, we regularly carry out a series of annual activities to alleviate environmental issues to encourage staff to make improvements in their daily lives and to take part in volunteer activities during leisure time to contribute to environmental protection. In 2019, "Plastic Reduction Campaign" was organised with four major programmes, namely, "Towngas China Plantation Day", "Earth Hour", "Plastic Reduction Movement" and "Environmental Creative Show". Over 80 project companies took part in this year's campaign, with more than 2,200 corporate volunteers working together to plant approximately 6,000 tree seedlings.

As part of our efforts to protect the environment with concrete action, our "Plastic Reduction Movement" encourages employees to reduce the use of plastic in addition to recruiting volunteers to clean up plastic waste. We also held workshops to educate our staff members on how to recycle waste plastic, echoing our development strategy of "turning waste into treasure".

Adhering to the tradition of our parent company HKCG, we invite our corporate volunteers to purchase ingredients for making rice dumplings every year during Dragon Boat Festival. Following that, we work together to prepare rice dumplings for the elderly and those in need in our community using open-flame cooking appliances. In 2019, over 70 project companies participated in the activity, contributing 36,700 rice dumplings to the underprivileged.

Long-Term Development Strategy

Looking back on mainland China's "13th Five-Year Plan for Energy Development", the goals of expanding the supply and use of natural gas and promoting the orderly development of the natural gas industry have by and large been achieved. In signing "The Paris Agreement" in 2016, China joined hands with other countries to work on the issues of climate change. It is believed that the Chinese Government's determination to conserve energy and reduce emissions remains steadfast. Moreover, the China-Russia East-Route Natural Gas Pipeline, which came into operation at the end of 2019, provides solid support for China's natural gas reserves. Driven by these strong tailwinds, the proportion of natural gas in the country's overall energy consumption is expected to go up, further driving the growth of the city-gas industry.

In the "Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2019)", the National Development and Reform Commission of the PRC announced their efforts to promote the further opening-up of the service industry. The reform included the removal of the restriction that gas and heat supply pipelines in cities with a population of more than 500,000 must be controlled by Chinese enterprises. This encourages foreign investment in the city-gas industry and Towngas China will enjoy greater flexibility and opportunities in project investment. Furthermore, the establishment of the China Oil & Gas Piping Network Corporation, which put the piped business into independent operation, will fuel the long-term development of the oil and gas industry. Downstream city-gas companies like Towngas China will thus have access to adequate supply of gas. As a result, this will generate growth momentum to the Group's future development.

Towngas China supports the national policy by promoting "coal-to-gas" projects. Since 2016, we have actively developed distributed-energy projects with high energy efficiencies. This included the establishment of TCEI to invest in such projects. These efforts have proven effective and have provided strong impetus for the growth of the Group's industrial and commercial segments. In the residential market segment, we will keep abreast of the big data trend, leverage our breakthrough launch of "smart gas appliances" in 2019, and continue to integrate technological solutions into our products and service platforms, such as the Virtual Customer Centre ("VCC") platform, to provide customers with friendly and professional service.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's 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 2019.

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 2019.

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 3 March 2020 to review the Group's audited consolidated financial statements for the year ended 31 December 2019 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 Thursday, 21 May 2020. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about Wednesday, 15 April 2020.

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 (2018: HK fifteen cents per share) to shareholders whose names are on the register of members on 29 May 2020, 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 2020.

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 6 July 2020.

Closure of Register of Members

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

(1) from 18 May 2020 to 21 May 2020, 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 2020 to 29 May 2020, 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 2020 and 26 May 2020 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, 16 March 2020

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