

Financial Review

In 2017, total gas sales volume of the Group rose robustly by **18%** to **8,417** million cubic metres.



Total number of customers reached **11.77** million, with **860,000** new customers.

Profit after taxation attributable to shareholders of the Company amounted to HK\$ **1,365** million, a surge of **40%** as compared to last year. Foshan Gas Group Co., Ltd. ("Foshan Gas"), an associated company of the Group, was listed on the Shenzhen Stock Exchange in November 2017. Such listing has contributed a gain of HK\$209 million to the Group.

Basic earnings per share amounted to HK **49.87** cents, representing a surge of **38%** compared to 2016.

Turnover

Turnover from the sales of piped gas and related products increased 27% from HK\$5,518 million in 2016 to HK\$6,996 million in 2017. 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 2,365 million cubic metres, representing an increase of 25% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK\$1,764 million, up 6% as compared to 2016, with approximately 400,000 consolidated new household connections were made in 2017.

Total operating expenses

Total operating expenses in 2017 amounted to HK\$7,470 million, an increase of 21% as compared to HK\$6,158 million in 2016. 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\$5,552 million, while that was HK\$4,312 million in 2016. 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 7% and 8%, respectively. At the same time, an increase of HK\$20 million in overheads was due to the inclusion of new subsidiaries in 2017.

Finance Costs

Finance costs in 2017 amounted to HK\$262 million, a rise of 5% as compared to 2016. This rise in finance costs reflected the increase in loans mainly due to the acquisition of new projects and business development.

Available-for-sale Investments

Available-for-sale investments 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 was stated at cost while Nanjing Public was stated at fair value and no impairment provision was required during the year.

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Financial Position

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

As at 31 December 2017, the Group's bank loans and other loans amounted to HK\$8,780 million, of which HK\$3,708 million represented bank loans and other loans due within 1 year, HK\$5,051 million represented bank loans and other loans due between 1 to 5 years, and HK\$21 million represented bank loans and other loans due over 5 years. Other than the HK\$4,003 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 gain of HK\$231 million caused by the fluctuations of Renminbi exchange rate in 2017. The Group's borrowings denominated in Renminbi amounted to HK\$5,554 million and the remaining HK\$3,226 million borrowings were denominated mainly in Hong Kong dollars and

United States dollars as at the end of the year. Apart from the borrowings as mentioned above, the Group also has Renminbi short-term loans amounted to HK\$49 million from joint ventures on a fixed interest rate basis. The Group entered into cross currency swap contracts and foreign currency forward transactions during the current year to hedge foreign currency risk for non-Renminbi denominated bank loans. The loss resulting from change in fair value of other financial liabilities in 2017 was HK\$364 million. As at 31 December 2017, 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 31%.

As at 31 December 2017, the Group's cash and cash equivalents together with time deposits amounted to HK\$1,726 million, of which 98% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2017, the Group's unutilised available facilities amounted to HK\$3,546 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 maintained the long-term corporate credit rating of Towngas China at "BBB+" and its long-term Greater China credit rating at "cnA+" and its rating outlook as "stable". These ratings, and the ongoing enhancement in our credit standing in particular, reflect the credit rating agencies' recognition of the Group's sound financial position.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2017.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2017 of HK fifteen cents per share (2016: HK twelve 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.