Financial Review

Growing for Sustainable Future

In 2016, total gas sales volume of the Group grew steadily by 9% to 7,120 million cubic metres. Profit after taxation attributable to shareholders of the Company amounted to HK$974 million, an increase of 21% as compared to last year. Basic earnings per share amounted to HK36.26 cents, representing an increase of 19% compared to 2015.

Turnover

Turnover from the sales of piped gas and related products declined 8% from HK$6,011 million in 2015 to HK$5,518 million in 2016 mainly due to devaluation of Renminbi and downward adjustments to the natural gas price as made by the Chinese government in November 2015. The total consolidated volume of gas sold during the year amounted to 1,890 million cubic metres, representing an increase of 10% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$1,663 million, a decrease of 3% compared to 2015, mainly due to devaluation of Renminbi. Approximately 400,000 consolidated new household connections were made in 2016.

Gas Fuel, Stores and Materials Used

The cost of gas fuel, stores and materials used amounted to HK$4,312 million in 2016, while that was HK$4,936 million in 2015. The decrease in expenses was mainly attributable to the downward adjusted purchase price of natural gas and the devaluation of Renminbi during the year.

Overhead Costs

Overhead costs in 2016 amounted to HK$1,847 million, up 5% as compared to HK$1,765 million in 2015. The increase was mainly due to the Group's business development together with escalations in inflation. Staff costs were on a par with last year while depreciation and amortisation expenses rose by 7%. At the same time, an increase of HK$20 million in overheads was due to the inclusion of new subsidiaries in 2016.

Finance Costs

Finance costs in 2016 amounted to HK$251 million, an increase of 39% as compared to 2015. The Group replaced the Hong Kong dollar-denominated loans with the Renminbi-denominated loans, which resulted in a rise in finance costs.

Available-for-sale Investments

Available-for-sale investments mainly consisted of the Group's investment in Chengdu City Gas Co., Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"), which contributed dividends to the Group. Chengdu Gas was stated at cost while Nanjing Public was stated at fair value and no impairment provision was required during the year.

Financial Review

Financial Position

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

As at 31 December 2016, the Group's total borrowings amounted to HK$7,837 million, of which HK$2,653 million represented bank loans and other loans due within 1 year, HK$5,137 million represented bank loans and other loans due between 1 to 5 years, and HK$47 million represented bank loans and other loans due over 5 years. Other than the HK$4,380 million in bank loans and other borrowings 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$259 million caused by the fluctuations of Renminbi exchange rate in 2016. Therefore, the Group raised the proportion of borrowings denominated in Renminbi to the total borrowings which amounted to HK$4,815 million and the remaining HK$3,022 million borrowings were denominated mainly in Hong Kong dollars and United States dollars. 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 change in fair value of other financial assets in 2016 was HK$168 million. As at 31 December 2016, 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 31.7%.

As at 31 December 2016, the Group's cash and cash equivalents together with time deposits amounted to HK$1,579 million, of which 97% are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2016, the Group's unutilised available facilities amounted to HK$2,923 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

In 2016, 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 2016.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2016 of HK twelve cents per share (2015: HK ten 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.