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香港中華煤氣有限公司
THE HONG KONG AND CHINA GAS COMPANY LIMITED
(Incorporated in Hong Kong under the Companies Ordinance with limited liability)
(Stock Code: 3)

PRELIMINARY ANNOUNCEMENT OF 2019 ANNUAL RESULTS

CHAIRMEN'S STATEMENT

THE YEAR'S RESULTS

Under the impact of global economic weakness and trade disputes between mainland China and the United States (the "US"), the mainland's economic growth slowed in 2019 compared to 2018 and the renminbi weakened. Hong Kong also faced instability caused by social conflict incidents during the second half of 2019 arising from opposition towards the proposed amendments to the Fugitive Offenders Ordinance. Despite these setbacks, the Group's businesses in mainland China and Hong Kong maintained stable development with a slight decrease in profit of the Group's overall recurrent businesses in 2019.

The Group's profit after taxation for the year (exclusive of the Group's share of a revaluation surplus from an investment property, the International Finance Centre complex) amounted to HK\$6,766 million, a decrease of HK\$517 million, down by approximately 7 per cent compared to 2018. Inclusive of the Group's share of the revaluation surplus from the investment property, profit after taxation attributable to shareholders of the Group for the year amounted to HK\$6,966 million, a decrease of HK\$2,347 million, down by approximately 25 per cent, compared to 2018. Earnings per share for the year amounted to HK41.2 cents.

During the year under review, the Group invested HK\$7,053 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

TOWN GAS BUSINESS IN HONG KONG

The overall global economic environment and uncertainties over trade tariffs between mainland China and the US led to a downturn in Hong Kong's import and export sectors and logistics businesses in 2019. Coupled with a drastic fall in the number of inbound tourists resulting from social conflict incidents during the second half of 2019, local spending declined; restaurant, retail and hotel sectors were severely impacted, thus adversely affecting commercial and industrial gas sales. Additionally, as the average temperature in Hong Kong during 2019 was higher than 2018, residential gas sales also declined. Overall, total volume of gas sales in Hong Kong for 2019 was 28,712 million MJ, a decrease of 2.8 per cent, in contrast to over 290,000 units of appliances sold, an increase of 2.4 per cent, both compared to 2018.

As at the end of 2019, the number of customers was 1,933,727, an increase of 25,216 compared to 2018, up slightly by 1.3 per cent.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during 2019. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 265 projects on the mainland, as at the end of 2019, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, environmentally-friendly energy and efficient energy applications, water sectors and waste processing, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses, through ECO Environmental Investments Limited ("ECO"), include coalbed methane liquefaction, clean coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations. With a number of achieved results from research and development gradually being applied commercially, it is expected this will contribute to the long-term business growth of the Group.

Diversification and an increase in the number of projects have gradually transformed the Group from a locally-based company in Hong Kong centred on a single town gas business into a sizeable and nationwide utility and a multi-business corporation focused on environmentally-friendly energy ventures.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses on the mainland are progressing well. As at the end of 2019, inclusive of Towngas China, the Group had a total of 132 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2019 was approximately 25,550 million cubic metres, an increase of 11 per cent over 2018. As at the end of 2019, the Group's mainland gas customers stood at approximately 29.78 million, an increase of 8 per cent over 2018. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

2019 was the 25th anniversary of the Group entering into the mainland city-gas market. The Group's city-gas businesses, benefiting from the country's environmental protection policy and migration of population to cities, are continuing sustainable development. In 2019, China-US trade disputes brought uncertainties over tariffs on goods being exported to the US which adversely impacted export-oriented manufacturing enterprises on the mainland, some of which started to move their production lines to Southeast Asian countries in view of this unfavourable business environment. The mainland's economic growth therefore slowed in 2019 compared to 2018. Growth in demand for energy also slowed. Mainland China and US trade negotiators reached a phase one trade deal in December 2019 and an agreement was signed on 15th January 2020, expecting to help release tariff pressure faced by the mainland's manufacturing industries which export to the US.

In the long term, the Group's city-gas businesses continue to benefit from the country's environmental protection policy of speeding up the use of natural gas to replace coal across the country in order to reduce carbon emissions and improve smoggy atmospheric conditions. Substituting piped natural gas for bottled petroleum gas is also being encouraged in mainland cities, aimed at lowering safety risks. In addition, greater use of household heating in the Yangtze River Basin is raising residential gas sales there. The government is also promoting distributed energy systems by advocating partial replacement of coal-fired power with natural gas. The Group is also actively developing intelligent integrated energy system businesses, combining power, natural gas, renewable energy and power storage functions. Coupled with application of big data, artificial intelligence, the Internet, etc. to strengthen the management of energy use, the Group is endeavouring to achieve energy conservation and emission reduction, whilst also generating economic value.

The Chinese government has been making strong efforts to drive market-oriented reforms for natural gas and city-gas industries in recent years with several new policies announced, including:

- With effect from 30th July 2019, a national policy to remove the requirement for Chinese partners to hold a majority stake in certain industries, including city-gas and thermal pipeline networks, in cities with populations of more than 500,000, so as to help open up related markets. This will benefit the Group's sustainable development of its city-gas businesses.
- The "Guiding Opinions on Strengthening Gas Distribution Price Regulation" and the "Guiding Opinions on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" published in 2017 and June 2019 respectively which set out proposed return rates for both gas distribution and gas facility installation businesses of city-gas enterprises. In future, the Group's city-gas companies may face the risk of having to adjust their natural gas selling prices and gas facility installation fees accordingly which is creating uncertainties for the Group both operationally and financially. In view of the above, management is actively monitoring changes as a result of these policies and will take appropriate measures to address as necessary.

Nevertheless, as natural gas is being promoted as a major clean energy on the mainland, long-term and steady growth in market demand is anticipated. In view of this, the country is striving to maintain an ample supply of natural gas which is now becoming abundant with a gradual increase in imported piped natural gas from Central Asia and Myanmar and a rise in the sources of imported liquefied natural gas ("LNG"), both to the benefit of market development. In addition, Russia's Siberian east-route pipeline, which was commissioned in early December 2019, is expected to increase upstream gas sources for the Group's city-gas projects in northeastern and northern China. A number of mainland provinces and cities are also gradually implementing gas storage facilities to help boost supply capacity over winter alongside the construction of coastal LNG receiving stations to increase import channels. All these projects will contribute to a stable supply of natural gas, helping the Group's mainland city-gas businesses continue to thrive in the future.

The Group is actively enhancing its own gas storage capacity on the mainland. Construction of the Group's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project is the first of its kind built by a city-gas enterprise on the mainland. Phase one involves the construction of 10 wells; the first three wells were commissioned at the end of October 2018. Phase two involves the construction of 15 wells. Upon completion, total storage capacity of the whole facility will reach 1.1 billion standard cubic metres, enabling the Group to supplement and regulate gas supply during the peak winter period for a number of its city-gas projects in eastern China. In the longer term, it is planned that this facility will supply gas to the Group's city-gas projects in other regions through interconnected upstream pipeline networks, thus assisting the Group's business development in downstream city-gas markets.

The Group has been in the mainland water market, under the brand name "Hua Yan Water", for over 14 years and currently invests in, and operates, seven water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a water services joint venture project in Foshan city, Guangdong province through investment in Foshan Water Environmental Protection Co., Ltd., being the Group's first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, given food waste processing and utilisation is also a sizeable environmentally-friendly industry, the Group has constructed a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand; trial production formally commenced in mid-February 2019 and is the Group's first project converting municipal environmental and sanitary waste into value-added products. This type of business is targeted to be gradually extended to other affluent mainland regions.

Operation and management of businesses encompassing city-gas, midstream natural gas, city-water and municipal environmental and sanitary waste processing and utilisation projects are creating ever-greater synergy and mutual advantages. Furthermore, these businesses generate stable incomes and provide good environmental benefits. The Group will therefore keep on looking for opportunities to invest in high-quality utility projects on the mainland.

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. Consumer spending and manufacturing 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.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas (“LPG”) vehicular refilling stations and landfill gas utilisation projects – are all operating well, contributing to ECO's steady profit growth. ECO's landfill gas utilisation projects in the North East New Territories and the South East New Territories generate noticeable environmental benefits by avoiding in-situ burning and emission of landfill gas whilst enabling partial replacement of fossil fuels, thus increasing the Group's contribution to energy conservation and emission reduction in Hong Kong.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, and clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, are operating well. However, both projects were severely impacted by a significant fall in the selling prices of LNG, methanol and ethylene glycol caused by a reversal of the economic environment and weak consumer spending on the mainland as a result of ongoing China-US trade disputes, coupled with a warmer winter affecting peak demand for LNG. Nevertheless, the business environment is expected to improve following the recent signing of the China-US phase one economic and trade agreement.

ECO's project which processes inedible bio-grease feedstock into hydro-treated vegetable oil (“HVO”), located in Zhangjiagang city, Jiangsu province, is in the trial production stage. The “International Sustainability and Carbon Certification” (ISCC) gained by this project successfully established the advance nature and viability of ECO's self-developed patented technology. On this basis, ECO is constructing phase two of this project to enhance production capacity to 250,000 tonnes per annum; commissioning is expected in mid-2020. This project is expected to generate promising economic benefits, and will be a key business for ECO to develop.

Mainland China is a sizeable agricultural production country generating a large quantity of agricultural waste every year. Apart from using a small portion of this in fields or for power generation, there are currently no effective measures to make good use of the rest of this waste. ECO has entered into a stage of industrial application of its research and development results focused on the effective use of agricultural and forestry waste. A pilot project, located in Tangshan city, Hebei province, is expected to enter into trial production during the first half of 2020, yielding furfural and paper pulp, helping to ascertain the feasibility of ECO's self-developed patented technology. In addition, ECO has commenced another pilot project in Cangzhou city, Hebei province, utilising agricultural and forestry waste by further processing decomposed cellulose into cellulosic ethanol. As an advanced biofuel that can be added to gasoline, cellulosic ethanol will help ECO meet its target to replace fossil fuels whilst generating good economic value.

ECO continues to march along its well-defined new energy business strategy, developing in-house technology and integrating the application of existing technology. On this basis, ECO selects research and development results with higher economic and environmental protection value for commercialisation.

TELECOMMUNICATIONS BUSINESSES

The Group is developing telecommunications businesses through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"). As a Hong Kong fixed network service provider and industry-leading telecommunications infrastructure enabler, TGT is committed to providing connectivity, data centres and diversified telecommunications services to Hong Kong, mainland China and international telecommunications providers, operators and enterprises. TGT's businesses are progressing steadily, with seven data centres currently located in Hong Kong and mainland China. TGT is strengthening its foundations to cater for data transmission, processing and storage needs as well as swifter market development in the future.

TGT's world-class data centre located in Tseung Kwan O, Hong Kong, records promising rental. TGT is also proactively promoting business development in mainland China. Shenzhen Internet Exchange Co., Ltd., an associated company of TGT, has been granted several valued-added telecommunications service licences to provide services related to the Internet and data centre businesses in Shenzhen city. In addition, TGT has formed a new joint venture company with a strategic partner in Beijing for the development of connectivity, data centre and fog computing (small-scale data centre) businesses on the mainland. TGT is also planning to expand its telecommunications services business to other regions in Asia.

As demand for telecommunications services is rapidly progressing, coupled with the strategic location of the Guangdong-Hong Kong-Macao Greater Bay Area, TGT, possessing data centres in Hong Kong and mainland China, together with communication channels connecting mainland China, Hong Kong and overseas, is expected to exhibit greater room for development in the future.

TOWNGAS CHINA COMPANY LIMITED (STOCK CODE: 1083.HK)

Towngas China, a subsidiary of the Group, maintained stable business growth in 2019. Compared to 2018, profit after taxation attributable to shareholders (excluding impairment provision of goodwill) for the year rose by 19 per cent to HK\$1,456 million. After deducting the one-off impairment provision of goodwill, profit after taxation attributable to shareholders for the year amounted to HK\$1,308 million, an increase of 7 per cent compared to 2018. As at the end of December 2019, the Group held approximately 1,945 million shares in Towngas China, representing approximately 67.76 per cent of Towngas China's total issued shares.

Project development progressed well in 2019 with Towngas China adding 11 new projects to its portfolio, comprising U-Tech (Guang Dong) Engineering Construction Co., Ltd., a piped city-gas project in Laoshan district, Qingdao city, Shandong province, and Liaoning Clean Energy Group Co., Ltd., as well as eight distributed energy projects located in Fengnan Ligang Economic Development Zone, Tangshan city, Hebei province; in the Maanshan Economic and Technological Development Zone South District, Anhui province; in Dangtu Economic Development Zone North District, Anhui province; in Anhui province (developing sales of power); in Changzhou Photovoltaic Industrial Park, Jiangsu province; in Wangcun Industrial Zone, Songyang county, Lishui city, Zhejiang province; in the Xinmi Yinji International Tourism Resort, Zhengzhou city, Henan province; and in Shenzhen city, Guangdong province.

As mainland China is accelerating the restructuring of green and efficient energy consumption, continuously augmenting the share of natural gas in primary energy consumption, and is increasingly focused on improving energy efficiency to reduce carbon emissions, Towngas China expects to see more growth in natural gas sales in the coming years. In response to changes in the economic environment and industrial development, Towngas China is continuing to strengthen its upstream, midstream and downstream coverage, by enhancing its gas supply capacity during peak seasons, reducing cost of gas sources and striving to provide customers with clean energy and quality services. In addition, Towngas China will continue to develop coal-fired boilers and coal-to-gas conversion projects for industrial kilns to increase gas sales to industrial and commercial customers. Towngas China is also proactively exploring commercial integrated and distributed energy services business opportunities in sales of goods and services including hot water, washing, steam and heating, aiming to save customer costs through appropriate energy solutions. In respect of extended businesses, Towngas China is seeking to make strategic cooperative arrangements, under the Group brand name “Towngas Lifestyle”, to increase sales of gas insurance and “Mia Cucina” kitchen cabinets, and to provide customers with intelligent living services through an online customer centre platform. As there are increasing opportunities for developing these types of new businesses, Towngas China is confident it can maintain high quality and sustainable growth through innovative development.

FINANCING PROGRAMMES

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Medium term notes totalling HK\$858 million, with a tenor of 30 years, were issued during 2019. In line with the Group’s long-term business investments, as at 31st December 2019, the nominal amount of medium term notes issued had reached HK\$14.8 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.4 per cent per annum and an average tenor of 16 years. The Group updated the programme during 2019 and increased the issue size by US\$1 billion to US\$3 billion, introducing more flexibility for future financing.

In January 2014, the Group issued its first perpetual subordinated guaranteed capital securities (the “Perpetual Securities”), amounting to US\$300 million, through Towngas (Finance) Limited, a wholly-owned subsidiary of the Group. These Perpetual Securities were redeemed in January 2019. Since Perpetual Securities have no fixed maturity date, they are accounted for as equity instead of borrowings in financial statements, which also helps to strengthen the Group to maintain its high investment grade credit ratings. Therefore, the Group issued US\$300 million new Perpetual Securities again in February 2019 and the proceeds are mainly used to refinance the redeemed Perpetual Securities. The newly issued Perpetual Securities keep the coupon interest rate at 4.75 per cent per annum for the first five years. The Perpetual Securities are redeemable, at the option of the Group, in February 2024 or thereafter every six months on the coupon payment date. This issuance of the Perpetual Securities, rated A3 and BBB+ by international rating agencies Moody’s Investors Service and Standard and Poor’s Rating Services respectively, received an overwhelming response from investors and were more than 14 times oversubscribed. The Perpetual Securities, guaranteed by the Company, were listed on The Stock Exchange of Hong Kong Limited on 13th February 2019 (stock code: 5749.HK).

EMPLOYEES AND PRODUCTIVITY

As at the end of 2019, the number of employees engaged in the town gas business in Hong Kong was 2,096 (2018 year end: 2,052), the number of customers was 1,933,727, and each employee served the equivalent of 923 customers. Inclusive of employees engaged in local businesses such as telecommunications, LPG vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,474 as at the end of 2019 compared to 2,418 as at the end of 2018. Related manpower costs amounted to HK\$1,201 million for 2019. In 2019, there was an approximately 4.5 per cent average increase in remuneration over 2018. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of the Group's customer services.

Exclusive of businesses in Hong Kong, the total number of the Group's employees in mainland China and other places outside Hong Kong was approximately 50,410 as at the end of 2019, an increase of approximately 710 compared to 2018.

On behalf of the Board of Directors, we would like to thank all our employees for their dedication and hard work in creating value for shareholders and customers.

BONUS ISSUE OF SHARES

The Directors propose to make a bonus issue of one new share for every twenty existing shares held by shareholders whose names are on the Register of Members of the Company as at 15th June 2020. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 5th June 2020, and if passed, share certificates will be posted on 23rd June 2020.

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 15th June 2020. Including the interim dividend of HK12 cents per share paid on 2nd October 2019, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2020 after bonus share issue shall not be less than the interim and final dividends for 2019.

BUSINESS OUTLOOK FOR 2020

The Company predicts steady growth in its number of customers in Hong Kong during 2020. Although local social conflict incidents, lasting for several months, have now eased slightly, the spread of the coronavirus disease from mainland China to Hong Kong in late January this year, with confirmed cases continuing to rise, coupled with related epidemic prevention measures, has decreased the number of inbound visitors significantly and weakened consumer sentiment, strongly hitting retail, tourism, restaurant and hotel sectors and leading to a rise in unemployment. The local economy is therefore expected to decline further this year. Facing this challenging business environment in Hong Kong, the Group is adopting measures to broaden sources of revenue and cut expenditure and costs. The Company continues to promote smart innovation to enhance customer services and operational efficiency so as to maintain stable development of its gas business in the territory. The Company's increase in the standard gas tariff effective from 1st August 2019 is also helping to offset some of its rising operating costs. In the long term, the Group's gas business in Hong Kong will benefit from the efforts of the Government of the Hong Kong Special Administrative Region to increase land and housing supply which should help maintain stable and good growth in the Group's number of gas customers over the next few years.

China-US trade tensions eased following the signing of the phase one economic and trade agreement in mid-January this year, bringing an initial turnaround to the mainland's export manufacturing sector. However, since early 2020, the outbreak of the coronavirus disease has significantly affected various business sectors on the mainland creating a severely challenging business environment. Nevertheless, once commercial and industrial sectors fully resume operations after the epidemic eases at some time in the future, demand for gas will gradually return to normal levels. In the long term, the Chinese government's efforts to promote reduction of carbon emissions and use of clean energy are helping the development of natural gas markets. In addition, increasing upstream gas supplies, expansion and improvement of pipeline networks and the Chinese government's formation of a national pipeline company in December 2019 to advocate natural gas market reforms, together with rapid urbanisation, all favour the development of the downstream gas market and a healthy natural gas business sector in general.

With the Group's solid foundation in Hong Kong and its diverse business sectors spread across extensive areas on the mainland, together with its established operational base, successful technical experience, human resources, corporate brand names and sales channels built there in the past 25 years, alongside society's growing concern over environmental protection, it is anticipated that there will be ever-rising demand for clean energy and good potential for growth in the natural gas market. The Group is also developing intelligent integrated energy system businesses on the mainland, coupled with a diversified energy mix, energy storage facilities and application of technologies including big data and the Internet, with the aim to enhance energy efficiency and achieve energy conservation and emission reduction. The Group's mainland businesses are therefore expected to further prosper and diversify. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that a sizeable customer base will create a promising platform for expansion of various extended businesses. Furthermore, in line with the country's development plan for the Guangdong-Hong Kong-Macao Greater Bay Area, the Group is seizing investment opportunities to explore environmental protection projects in the Pearl River Delta region.

The impact of the coronavirus disease on the mainland economy for the whole of 2020 is still uncertain; it will, however, be relatively significant during the first quarter. The recent spread of the coronavirus disease to various countries and regions worldwide, coupled with future development of China-US trade relations and a sharp fall in international oil prices, are creating a number of uncertainties for the global economic and business outlook. In Hong Kong, while social conflict incidents lasting for several months have already adversely impacted retail, tourism, restaurant and hotel sectors, the outbreak of the coronavirus disease has further hit related business sectors which is, inevitably, unfavourably affecting commercial and industrial gas sales in the short term. With public utilities as its core business, the Group has a relatively strong resilience to the impact of economic downturns, given its continuing efforts to broaden sources of revenue and cut expenditure and operating costs. It is expected that when the epidemic is over, the Group's businesses will return to normal within a relatively short period of time. Overall, with society's growing aspiration for more environmental protection, demand for natural gas and renewable energy will increase. The Group will continue to formulate, and is gradually implementing, plans in accordance with mainland China's energy and environmental protection policies. In addition, with sizeable customer base resources built up after years of operating urban utilities, alongside the development of various value-added services, the Group anticipates an ever-broader development for its various businesses in the future.

Lee Ka-kit
Chairman

Lee Ka-shing
Chairman

Hong Kong, 19th March 2020

The Board of Directors has pleasure in presenting a summary of results of the Group for the year ended 31st December 2019 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December 2019

	Note	2019 HK\$ Million	2018 HK\$ Million
Revenue	4	40,628.1	39,073.0
Total operating expenses	5	(32,604.4)	(30,689.8)
		<u>8,023.7</u>	<u>8,383.2</u>
Other gains, net	6	1,048.7	20.0
Interest expense		(1,230.4)	(1,176.6)
Share of results of associates		1,820.4	3,589.5
Share of results of joint ventures		741.5	1,523.4
		<u>10,403.9</u>	<u>12,339.5</u>
Profit before taxation		10,403.9	12,339.5
Taxation	7	(2,289.6)	(1,907.6)
		<u>8,114.3</u>	<u>10,431.9</u>
Profit for the year		<u>8,114.3</u>	<u>10,431.9</u>
Attributable to:			
Shareholders of the Company		6,965.7	9,312.8
Holders of perpetual capital securities		98.6	107.4
Non-controlling interests		1,050.0	1,011.7
		<u>8,114.3</u>	<u>10,431.9</u>
Dividends	8	5,923.8	5,385.3
Earnings per share – basic and diluted, HK cents	9	41.2	55.0*

* Adjusted for the bonus share issue in 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2019

	2019	2018
	HK\$	HK\$
	Million	Million
Profit for the year	8,114.3	10,431.9
Other comprehensive income:		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Movement in reserve of equity investments at fair value through other comprehensive income	1,490.7	6.7
Remeasurements of retirement benefit	102.1	(73.4)
Share of other comprehensive income of associates	71.0	-
Exchange differences	(74.8)	-
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Movement in reserve of debt investments at fair value through other comprehensive income	14.7	(20.9)
Change in fair value of cash flow hedges	(15.2)	(88.7)
Share of other comprehensive income of an associate	10.8	3.6
Exchange differences	(777.0)	(2,699.7)
Other comprehensive income/(loss) for the year, net of tax	822.3	(2,872.4)
Total comprehensive income for the year	8,936.6	7,559.5
Total comprehensive income attributable to:		
Shareholders of the Company	7,388.1	6,818.3
Holders of perpetual capital securities	98.6	107.4
Non-controlling interests	1,449.9	633.8
	8,936.6	7,559.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st December 2019

	Note	2019 HK\$ Million	2018 HK\$ Million
Assets			
Non-current assets			
Property, plant and equipment		61,082.7	57,978.8
Investment property		830.0	778.0
Right-of-use assets		2,725.2	-
Leasehold land		-	2,214.5
Intangible assets		5,291.1	5,682.1
Associates		27,475.5	26,314.1
Joint ventures		10,613.5	10,950.3
Financial assets at fair value through other comprehensive income		3,141.9	1,127.0
Financial assets at fair value through profit or loss		5,030.6	3,506.7
Derivative financial instruments		354.1	55.4
Retirement benefit assets		66.3	-
Other non-current assets		3,729.8	3,474.0
		<u>120,340.7</u>	<u>112,080.9</u>
Current assets			
Inventories		2,363.7	2,480.7
Trade and other receivables	10	8,001.2	7,615.9
Loan and other receivables from associates		526.7	356.9
Loan and other receivables from joint ventures		800.4	822.6
Loan and other receivables from non-controlling shareholders		240.0	155.0
Financial assets at fair value through profit or loss		188.5	303.5
Derivative financial instruments		1.4	38.2
Time deposits over three months		158.6	338.6
Time deposits up to three months, cash and bank balances		7,848.9	8,500.8
		<u>20,129.4</u>	<u>20,612.2</u>
Current liabilities			
Trade payables and other liabilities	11	(14,718.0)	(13,929.4)
Amounts due to joint ventures		(943.2)	(1,049.5)
Loan and other payables due to non-controlling shareholders		(100.4)	(148.0)
Provision for taxation		(1,165.3)	(496.8)
Borrowings		(9,240.6)	(8,062.7)
Redeemable perpetual securities		-	(2,349.6)
Derivative financial instruments		-	(114.9)
		<u>(26,167.5)</u>	<u>(26,150.9)</u>
Total assets less current liabilities		<u>114,302.6</u>	<u>106,542.2</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 31st December 2019

	2019 HK\$ Million	2018 HK\$ Million
Non-current liabilities		
Deferred taxation	(7,180.5)	(6,099.1)
Borrowings	(28,695.6)	(27,609.3)
Asset retirement obligations	(78.1)	(48.6)
Derivative financial instruments	(571.0)	(558.9)
Retirement benefit liabilities	-	(23.8)
Other non-current liabilities	(2,380.7)	(2,009.2)
	<u>(38,905.9)</u>	<u>(36,348.9)</u>
Net assets	<u>75,396.7</u>	<u>70,193.3</u>
Capital and reserves		
Share capital	5,474.7	5,474.7
Reserves	58,734.7	56,926.0
	<u>64,209.4</u>	<u>62,400.7</u>
Shareholders' funds	64,209.4	62,400.7
Perpetual capital securities	2,384.2	-
Non-controlling interests	8,803.1	7,792.6
	<u>75,396.7</u>	<u>70,193.3</u>
Total equity	<u>75,396.7</u>	<u>70,193.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Hong Kong and China Gas Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) have been diversified into different fields of businesses and principally engage in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the People’s Republic of China (the “PRC”). The Group is also engaged in property development and investment activities in Hong Kong.

The financial figures in respect of the preliminary announcement of the Group’s result for the year ended 31st December 2019 have been agreed by the Company’s auditor, PricewaterhouseCoopers Hong Kong (“PwC”), to the amount set out in the Group’s audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and consequently no assurance has been expressed by PwC on this announcement.

The financial information relating to the years ended 31st December 2019 and 2018 included in this preliminary announcement of 2019 annual results does not constitute the Group’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “Companies Ordinance”) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31st December 2019 in due course.

The Company’s auditor has reported on the consolidated financial statements of the Group for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. Changes in accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to both years presented, unless otherwise stated.

The Group has adopted the following amendments to standards and new interpretation which are effective for the Group’s financial year beginning 1st January 2019 and relevant to the Group.

Amendments to HKAS 19	Employee Benefits, Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements Projects	HKASs and HKFRSs 2015 – 2017 cycle
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of the amendments to standards and new interpretation has no significant impact on the Group’s results and financial position or any substantial changes in Group’s accounting policies.

The HKICPA has also issued HKFRS 16 Leases (“HKFRS 16”) which is effective for accounting period beginning 1st January 2019, and the impact of the adoption and the new accounting policies are disclosed in note 2(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Changes in accounting policies (Continued)

(a) Impact on adoption of new accounting standards

Impact on adoption – HKFRS 16 Leases

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases (“HKAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1st January 2019. While for right-of-use assets, the Group has elected to measure the right-of-use assets as if HKFRS 16 had been applied since the commencement date of a lease using the same incremental borrowing rate.

The recognised right-of-use assets relate to the following types of assets:

	31st December 2019 HK\$M	1st January 2019 HK\$M
Prepaid leasehold land	2,418.3	2,214.5
Buildings, plant and equipment and others	306.9	401.3
Total right-of-use assets	<u>2,725.2</u>	<u>2,615.8</u>

The change in accounting policies affected the following items in the consolidated statement of financial position as at 1st January 2019:

- Associates – decrease by HK\$2.4 million
- Joint ventures – decrease by HK\$9.9 million
- Right-of-use assets – increase by HK\$401.3 million
- Deferred taxation – decrease by HK\$5.7 million
- Lease liabilities – increase by HK\$432.4 million

The net impact on retained profits and non-controlling interests on 1st January 2019 were a decrease of HK\$30.6 million and a decrease of HK\$6.1 million respectively.

The adoption of HKFRS 16 resulted in changes in certain terminology used. The right-of-use assets in relation to prepaid leasehold land were previously presented as leasehold land.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management and fair value estimation of financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31st December 2019 and 2018.

HK\$ Million	Level 1		Level 2		Level 3		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Financial assets at fair value through profit or loss								
- Equity securities	2,236.3	264.1	50.5	39.4	2,932.3	3,506.7	5,219.1	3,810.2
Derivative financial instruments	-	-	90.4	93.6	265.1	-	355.5	93.6
Financial assets at fair value through other comprehensive income								
- Debt securities	213.9	204.6	-	-	-	-	213.9	204.6
- Equity investment	2,606.2	348.3	-	-	321.8	574.1	2,928.0	922.4
Total assets	5,056.4	817.0	140.9	133.0	3,519.2	4,080.8	8,716.5	5,030.8
Liabilities								
Other payables	-	-	-	-	154.0	154.0	154.0	154.0
Derivative financial instruments	-	-	571.0	673.8	-	-	571.0	673.8
Total liabilities	-	-	571.0	673.8	154.0	154.0	725.0	827.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management and fair value estimation of financial instruments (Continued)

There are no changes in valuation techniques during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting year. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swaps is calculated as the present value of the estimated future cash flows based on observable foreign exchange rates and yield curves.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is calculated as the present value of future cash flows based on the forward exchange rates at the end of the reporting period.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

- Financial assets include a total of HK\$2.9 billion of an unlisted equity investment and its related derivative, which are considered entirely as financial assets at fair value through profit or loss. In respect of this unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 13.0 per cent, sales price, sales volume and expected free cash flows of the investee. The fair value decreases with the increase in the discount rate, and increases with the increase in the sales price, sales volume or expected free cash flows of the investee. In respect of the related derivative, the fair value is determined based on the binomial and black scholes models. The significant unobservable inputs, except for those included in the fair value of the unlisted equity investment, mainly include expected volatility of the fair value of the unlisted equity investment. The fair value increases with the increase in the volatility.
- Financial assets also include unlisted equity investments of HK\$0.3 billion, the fair values of which are determined based on the attributable net assets value, being significant unobservable input. The fair value increases with the increase in the attributable net assets value.
- Financial assets also include derivative financial instrument of HK\$0.3 billion, the fair value is determined based on the binomial model. The significant unobservable inputs include discount rate of 10.1 per cent and stock price expected volatility of the fair value of the underlying equity instrument of 31.7 per cent. The fair value increases with the decrease in discount rate and increase in stock price volatility or decrease with the increase in the discount rate and decrease in stock price volatility.
- Financial liability represents contingent consideration which is generated from the further acquisition of a subsidiary in 2015 under other payables in level 3. The fair value is determined based on discounted cash flow model. The significant unobservable inputs include discount rate of 3.1 per cent and the rate of probability on the outflow of resources will be required to settle the obligation. The fair value decreases with the increase in the discount rate, and increases with the increase in the rate of probability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Financial risk management and fair value estimation of financial instruments (Continued)

The following table presents the changes in level 3 instruments of the Group at 31st December 2019 and 2018.

HK\$ Million	Financial assets		Financial liabilities	
	2019	2018	2019	2018
At 1st January	4,080.8	4,150.4	154.0	154.0
Additions	349.0	-	-	-
Change in fair value	(35.8)	176.1	-	9.8
Exchange differences	(82.8)	(245.7)	-	(9.8)
Reclassification to level 1 instruments	(792.0)	-	-	-
At 31st December	3,519.2	4,080.8	154.0	154.0

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

4. Segment information

The Group's principal activities are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses ("New Energy") in Hong Kong and mainland China. The revenue comprises the following:

	2019 HK\$ Million	2018 HK\$ Million
Gas sales before fuel cost adjustment	29,632.9	27,922.4
Fuel cost adjustment	771.9	1,025.1
Gas sales after fuel cost adjustment	30,404.8	28,947.5
Connection income	3,253.2	3,292.7
Equipment sales and maintenance services	2,950.2	2,801.2
Water and related sales	1,314.3	1,365.8
Oil and coal related sales	961.8	1,338.2
Other sales	1,743.8	1,327.6
	40,628.1	39,073.0

The chief operating decision-maker has been identified as the executive committee members (the "ECM") of the Company. The ECM reviews the Group's internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance of (a) gas, water and related businesses; (b) New Energy and (c) property business. Gas, water and related businesses are further evaluated on a geographic basis (Hong Kong and mainland China).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the "adjusted EBITDA"). Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

The segment information provided to the ECM for the reportable segments is as follows:

2019 HK\$ Million	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
Revenue recognised at a point in time	9,798.5	26,114.9	2,298.1	-	228.0	38,439.5
Revenue recognised over time	-	1,001.4	-	-	716.4	1,717.8
Finance and rental income	-	-	413.0	57.8	-	470.8
	<u>9,798.5</u>	<u>27,116.3</u>	<u>2,711.1</u>	<u>57.8</u>	<u>944.4</u>	<u>40,628.1</u>
Adjusted EBITDA	4,764.5	5,919.2	614.5	30.2	165.3	11,493.7
Depreciation and amortisation	(828.2)	(1,410.5)	(337.8)	-	(149.4)	(2,725.9)
Unallocated expenses						(744.1)
						<u>8,023.7</u>
Other gains, net						1,048.7
Interest expense						(1,230.4)
Share of results of associates	-	1,135.8	(72.7)	753.3	4.0	1,820.4
Share of results of joint ventures	-	730.5	1.1	9.3	0.6	741.5
Profit before taxation						<u>10,403.9</u>
Taxation						(2,289.6)
Profit for the year						<u>8,114.3</u>

Share of results of associates includes HK\$199.7 million (2018: HK\$2,030.0 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year and HK\$69.0 million (2018: nil) being provision for assets for the piped city-gas associate.

Share of results of joint ventures includes HK\$581.0 million (2018: nil) being provision for assets for the piped city-gas joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

2018 HK\$ Million	<u>Gas, water and related businesses</u> <u>Hong Kong</u>	<u>Gas, water and related businesses</u> <u>Mainland China</u>	<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
Revenue recognised at a point in time	10,081.7	23,974.6	2,715.5	-	270.2	37,042.0
Revenue recognised over time	-	1,016.8	-	-	553.8	1,570.6
Finance and rental income	-	-	394.3	66.1	-	460.4
	<u>10,081.7</u>	<u>24,991.4</u>	<u>3,109.8</u>	<u>66.1</u>	<u>824.0</u>	<u>39,073.0</u>
Adjusted EBITDA	4,769.2	5,673.4	945.8	41.6	137.8	11,567.8
Depreciation and amortisation	(747.4)	(1,302.6)	(354.7)	-	(109.8)	(2,514.5)
Unallocated expenses						(670.1)
						<u>8,383.2</u>
Other gains, net						20.0
Interest expense						(1,176.6)
Share of results of associates	-	951.5	32.4	2,599.2	6.4	3,589.5
Share of results of joint ventures	-	1,513.9	1.2	9.2	(0.9)	1,523.4
Profit before taxation						<u>12,339.5</u>
Taxation						(1,907.6)
Profit for the year						<u>10,431.9</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

The segment assets at 31st December 2019 and 2018 are as follows:

2019 HK\$ Million	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
Segment assets	17,358.7	71,570.4	17,756.7	16,165.4	4,588.2	127,439.4
Unallocated assets:						
Financial assets at fair value through other comprehensive income						3,141.9
Financial assets at fair value through profit or loss						5,219.1
Time deposits, cash and bank balances excluded from segment assets						3,423.9
Others (Note)						1,245.8
Total assets						<u>140,470.1</u>
2018 HK\$ Million	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Mainland China</u>				
Segment assets	17,278.3	67,989.8	17,579.3	15,899.2	4,194.1	122,940.7
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,127.0
Financial assets at fair value through profit or loss						3,810.2
Time deposits, cash and bank balances excluded from segment assets						3,973.1
Others (Note)						842.1
Total assets						<u>132,693.1</u>

Note

Other unallocated assets mainly include other receivables other than those included under segment assets, retirement benefit assets, derivative financial instruments and loan and other receivables from non-controlling shareholders.

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2019 is HK\$11,333.5 million (2018: HK\$11,521.5 million), and the revenue from external customers in mainland China and other geographical locations is HK\$29,294.6 million (2018: HK\$27,551.5 million).

At 31st December 2019, the total of non-current assets other than financial instruments located in Hong Kong is HK\$31,014.8 million (2018: HK\$30,437.3 million), and the total of non-current assets other than financial instruments located in mainland China and other geographical locations is HK\$77,782.9 million (2018: HK\$74,092.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Total operating expenses

	2019 HK\$ Million	2018 HK\$ Million
Stores and materials used	21,803.8	20,597.9
Manpower costs	3,485.2	3,295.1
Depreciation and amortisation	2,753.5	2,537.2
Other operating items	4,561.9	4,259.6
	<u>32,604.4</u>	<u>30,689.8</u>

6. Other gains, net

	2019 HK\$ Million	2018 HK\$ Million
Net investment gains	2,228.0	230.0
Fair value gain on investment property	16.0	12.5
Provision for assets (Note)	(1,184.9)	(200.0)
Ineffective portion on cash flow hedges	0.2	5.8
Others	(10.6)	(28.3)
	<u>1,048.7</u>	<u>20.0</u>

Note

The amount included an impairment provision of HK\$560.0 million (2018: HK\$200.0 million) in relation to mining and oil properties under new energy business segment and HK\$380.0 million (2018: nil) in relation to goodwill and property, plant and equipment in relation to individual city-gas projects in mainland China.

7. Taxation

The amount of taxation charged to the income statement represents:

	2019 HK\$ Million	2018 HK\$ Million
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year	703.0	713.6
Current taxation - provision for other countries income tax at the prevailing rates on the estimated assessable profits for the year	867.2	822.0
Current taxation - under/(over) provision in prior years	1.1	(4.5)
Deferred taxation - origination and reversal of temporary differences	603.7	287.5
Withholding tax	114.6	89.0
	<u>2,289.6</u>	<u>1,907.6</u>

The prevailing tax rates of mainland China and Thailand range from 15 per cent to 25 per cent (2018: 15 per cent to 25 per cent) and 50 per cent (2018: 50 per cent) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Dividends

	2019 HK\$ Million	2018 HK\$ Million
Interim, paid of HK12 cents per ordinary share (2018: HK12 cents per ordinary share)	2,031.0	1,846.4
Final, proposed of HK23 cents per ordinary share (2018: HK23 cents per ordinary share)	3,892.8	3,538.9
	<u>5,923.8</u>	<u>5,385.3</u>

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$6,965.7 million (2018: HK\$9,312.8 million) and the weighted average of 16,925,052,244 shares (2018: 16,925,052,244 shares*) in issue during the year.

As there were no diluted potential ordinary shares outstanding during the year (2018: nil), the diluted earnings per share for the year ended 31st December 2019 is the same as the basic earnings per share.

* Adjusted for the bonus share issue in 2019

10. Trade and other receivables

	2019 HK\$ Million	2018 HK\$ Million
Trade receivables (Note)	3,819.8	3,563.5
Payments in advance	1,735.9	1,581.5
Other receivables	2,445.5	2,470.9
	<u>8,001.2</u>	<u>7,615.9</u>

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. As at 31st December 2019, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	2019 HK\$ Million	2018 HK\$ Million
0 - 30 days	3,408.5	3,106.9
31 - 60 days	90.4	107.7
61 - 90 days	100.4	126.4
Over 90 days	220.5	222.5
	<u>3,819.8</u>	<u>3,563.5</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade payables and other liabilities

	2019 HK\$ Million	2018 HK\$ Million
Trade payables (Note a)	3,006.5	3,078.1
Other payables and accruals (Note b)	4,289.7	4,225.5
Contract liabilities (Note c)	7,310.3	6,625.8
Lease liabilities (Notes d and e)	111.5	-
	<u>14,718.0</u>	<u>13,929.4</u>

Notes

(a) At 31st December 2019, the aging analysis of the trade payables is as follows:

	2019 HK\$ Million	2018 HK\$ Million
0 - 30 days	1,292.7	1,404.7
31 - 60 days	499.2	399.3
61 - 90 days	304.5	300.0
Over 90 days	910.1	974.1
	<u>3,006.5</u>	<u>3,078.1</u>

(b) The balances mainly represent accrual for services or goods received from suppliers.

(c) The balances mainly represent non-refundable advance received from customers for utility connection services, provision of gas and provision of maintenance service.

(d) As at 31st December 2019, the contractual maturities of the Group's lease liabilities were as follows:

	HK\$ Million
Less than 1 year	111.5
Over 1 year [#]	226.9
	<u>338.4</u>

[#] Non-current lease liabilities are included in other non-current liabilities.

(e) The interest expense on lease liabilities for the year amounting to HK\$16.3 million is included in the profit or loss.

12. Event after the reporting period

The outbreak of the Coronavirus Disease 2019 (the "COVID-19") causing pneumonia has been expanded across China and globally after the year end of 2019. While the impact of the COVID-19 on the mainland economy for the whole of 2020 is still uncertain; it will inevitably, unfavorably affect commercial and industrial gas sales in the short term. With public utilities as its core business, the Group has a relatively strong resilience to the impact of economic downturns, given its continuing efforts to broaden sources of revenue and cut expenditure and operating costs. It is expected that when the epidemic is over, the Group's businesses will return to normal within a relatively short period of time. Meanwhile, management will continue to assess the impact on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the coronavirus pneumonia epidemic.

DIVIDEND AND BONUS SHARE ISSUE

The Board now recommends a final dividend of HK23 cents per share payable to shareholders of the Company whose names are on the register of members of the Company on 15th June 2020. The Board also recommends the issue of bonus shares on the basis of one bonus share for every twenty existing shares held by shareholders registered as such on the register of members of the Company on 15th June 2020. The necessary resolutions will be proposed at the forthcoming Annual General Meeting on 5th June 2020, and if passed, dividend warrants and share certificates will be posted on 23rd June 2020.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of shareholders to the right to attend and vote at the forthcoming Annual General Meeting (or any adjournment thereof), the register of members of the Company will be closed from Tuesday, 2nd June 2020 to Friday, 5th June 2020, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 1st June 2020.

In order to determine shareholders who qualify for the proposed issue of bonus shares and final dividend, the register of members of the Company will be closed from Thursday, 11th June 2020 to Monday, 15th June 2020, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration no later than 4:30 p.m. on Wednesday, 10th June 2020.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 5th June 2020. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Wednesday, 22nd April 2020.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 31st December 2019, the Group had a net current borrowings position of HK\$1,233 million (31st December 2018: HK\$1,573 million) and long-term borrowings of HK\$28,696 million (31st December 2018: HK\$27,609 million). In addition, banking facilities available for use amounted to HK\$15,700 million (31st December 2018: HK\$13,300 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, debt and equity financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Financing structure

In May 2009, the Group established a US\$1 billion Medium Term Note Programme (the “Programme”) which gives the Group the flexibility to issue notes at favourable terms and timing. In July 2019, the Programme was updated with the size increased to US\$3 billion. Up to 31st December 2019, the Group issued notes in the total nominal amount of HK\$14,756 million (31st December 2018: HK\$14,398 million) with maturity terms of 3 years, 10 years, 12 years, 15 years, 30 years and 40 years in Renminbi, Australian dollar, Japanese yen and Hong Kong dollar under the Programme (the “MTNs”). The carrying value of the issued MTNs as at 31st December 2019 was HK\$14,049 million (31st December 2018: HK\$13,708 million).

As at 31st December 2019, the Group’s borrowings amounted to HK\$37,936 million (31st December 2018: HK\$38,022 million). While the notes mentioned above together with the bank and other loans of HK\$6,862 million (31st December 2018: HK\$3,624 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK\$9,759 million (31st December 2018: HK\$12,453 million) were long-term bank loans and HK\$7,266 million (31st December 2018: HK\$5,887 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2019, the maturity profile of the Group’s borrowings was 24 per cent within 1 year, 15 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 25 per cent over 5 years (31st December 2018: 27 per cent within 1 year, 5 per cent within 1 to 2 years, 44 per cent within 2 to 5 years and 24 per cent over 5 years).

The RMB, AUD and JPY notes issued are hedged to Hong Kong dollars by currency swaps. Except for some borrowings of certain subsidiaries are arranged in or hedged to their functional currency in Renminbi, the Group’s borrowings are primarily denominated in Hong Kong dollars and local currency of subsidiaries in mainland China. The Group therefore has no significant exposure to foreign exchange risk.

In January 2014, the Group issued its first Perpetual Subordinated Guaranteed Capital Securities (the “Perpetual Capital Securities”) amounting to US\$300 million with distribution rate of 4.75 per cent per annum for the first five years and thereafter at floating distribution rate. On 28th January 2019, the “First Call Date”, all of the Perpetual Capital Securities were redeemed at their principal amount. In February 2019, the Group issued new perpetual capital securities of US\$300 million and the proceeds were mainly used to refinance the Perpetual Capital Securities redeemed in January 2019. The newly issued perpetual capital securities are able to keep a distribution rate of 4.75 per cent per annum for the first five years and thereafter at fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, and these perpetual capital securities are redeemable at the Group’s option on or after 12th February 2024, they are accounted for as equity in the financial statements. The new perpetual capital securities are guaranteed by the Company. The issuance helps strengthen the Group’s financial position, improve its financing maturity profile and diversify its funding sources.

The gearing ratio [net borrowing / (shareholders’ funds + perpetual capital securities + net borrowing)] for the Group as at 31st December 2019 remained healthy at 31 per cent (31st December 2018: 29 per cent).

Contingent liabilities

As at 31st December 2019 and 31st December 2018, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency profile

The Group's operations and activities are predominantly based in Hong Kong and mainland China. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollars, Renminbi or United States dollars, whereas borrowings for the Group's subsidiaries, associates and joint ventures in mainland China are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's financial investments in securities

Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 31st December 2019, the relevant investments in securities amounted to HK\$705 million (31st December 2018: HK\$812 million). The performance of the Group's financial investments in securities was satisfactory.

CORPORATE GOVERNANCE

During the year ended 31st December 2019, the Company complied with all 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 Board Audit and Risk Committee has reviewed the Group's consolidated financial statements for the year ended 31st December 2019, including the accounting principles and practices adopted by the Group, in conjunction with the Group's internal auditor and PricewaterhouseCoopers, the Group's external auditor.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Saved as redemption of perpetual securities in January 2019 as detailed in "Financing structure" section, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

By Order of the Board

John Ho Hon-ming

Chief Financial Officer and Company Secretary

Hong Kong, 19th March 2020

As at the date of this announcement, the Board of the Company comprises:

Non-executive Directors: Dr. Lee Ka-kit (Chairman), Mr. Lee Ka-shing (Chairman) and Dr. Colin Lam Ko-yin

Independent Non-executive Directors: Dr. the Hon. Sir David Li Kwok-po, Prof. Poon Chung-kwong and Dr. Moses Cheng Mo-chi

Executive Directors: Mr. Alfred Chan Wing-kin and Mr. Peter Wong Wai-ye

