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 2018 ANNUAL RESULTS

CHAIRMAN'S STATEMENT

THE YEAR'S RESULTS

The Group's town gas business in Hong Kong maintained stable development in 2018. Concurrently, the Group's city-gas businesses in mainland China and emerging environmentally-friendly energy businesses progressed well, thus bringing good growth to the Group's overall recurrent businesses during the year.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK$9,313 million, an increase of HK$1,088 million, up by 13.2 per cent, compared to 2017. Earnings per share for the year amounted to HK60.5 cents. Exclusive of the Group's share of a revaluation surplus from the International Finance Centre complex, the Group's profit after taxation for the year was HK$7,283 million, an increase of HK$275 million, up by approximately 4 per cent compared to 2017 mainly attributable to the growth of the Group's local and mainland businesses.

During the year under review, the Group invested HK$6,746 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 local economy maintained moderate growth in 2018. Favourable overall employment conditions and growth in the number of inbound visitors, driven by the commissioning of cross-boundary infrastructure, helped gas business development in the restaurant and hotel sectors. Benefiting from a rise in residential, commercial and industrial gas sales, total volume of gas sales in Hong Kong for 2018 reached 29,550 million MJ, an increase of 1.7 per cent compared to 2017, whilst total number of appliances sold in 2018 was over 283,000 units, an increase of 3 per cent compared to 2017.

As at the end of 2018, the number of customers was 1,908,511, an increase of 25,104 compared to 2017, up slightly by 1.3 per cent.

BUSINESS DEVELOPMENT IN MAINLAND CHINA

The Group's mainland businesses continued to progress steadily during 2018. Overall, inclusive of projects of the Group's subsidiary, Towngas China Company Limited ("Towngas China"; stock code: 1083.HK), the Group had 254 projects on the mainland, as at the end of 2018, nine more than at the end of 2017, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

The Group's development of emerging environmentally-friendly energy businesses in mainland China, including coalbed methane liquefaction, coal chemicals, conversion and utilisation of biomass, utilisation of industrial and agricultural waste as well as natural gas refilling stations, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily. Benefiting from international oil prices maintained at a relatively good level during the first three quarters of 2018, ECO recorded stable profit growth during the year. ECO's in-house research and development of innovative technologies is also progressing well with a number of achieved results gradually being applied commercially. Gradual commissioning and development of related projects are expected to 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 a number of years ago into a sizable, nationwide, multi-business corporation focused on environmentally-friendly energy ventures and utility sectors.

UTILITY BUSINESSES IN MAINLAND CHINA

The Group's city-gas businesses are progressing well. As at the end of 2018, inclusive of Towngas China, the Group had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2018 was approximately 23,000 million cubic metres, an increase of 18 per cent over 2017. As at the end of 2018, the Group's mainland gas customers stood at approximately 27.54 million, an increase of 9 per cent over 2017. The Group continues to have a good reputation as a large-scale city-gas enterprise with outstanding overall performance on the mainland.

The mainland's economic growth slowed in 2018 compared to 2017 under the impact of international trade tensions. In addition, the exchange rate risk arising from devaluation of the renminbi during the second half of 2018 also created challenges for the Group's mainland businesses. Nevertheless, despite this adverse international business environment, the mainland's volume of exports increased in 2018 compared to 2017. Rising per capita income of urban and rural residents also drove domestic consumer spending during the year, helping to sustain a stable industrial manufacturing base thus boosting the country's demand for energy, including electricity, petroleum and natural gas. In the medium to long term, the Chinese government advocates the use of natural gas to reduce air pollution and improve smoggy atmospheric conditions. To this end, a natural gas utilisation policy has been formulated to strengthen preventative measures to combat air pollution and speed up the use of natural gas to replace coal ("coal-to-gas") across the country so as to minimise buildup of smog. Using piped natural gas instead of bottled petroleum gas is also being encouraged nationwide, thus enhancing sales of the former, whilst 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. This favourable momentum will continue to benefit the Group's city-gas and natural gas businesses in the future.

As natural gas is a major clean energy being promoted 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. With a gradual increase in imported piped natural gas from Central Asia and Myanmar, together with a scheduled supply of piped natural gas from Russia and a rise in the sources of imported liquefied natural gas ("LNG"), supply of natural gas will gradually become sufficient, which will benefit market development. In addition, a number of mainland provinces and cities are laying plans to develop gas storage facilities to boost natural gas storage capacity over winter alongside the development of LNG receiving stations. All these projects will help maintain a stable supply of natural gas, helping the Group's mainland city-gas businesses to continue to thrive in the future.

In line with the Chinese government's policy of advocating faster development of gas storage capacity, the Group is actively enhancing 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, with storage capacity of approximately 460 million standard cubic metres; the first three wells were commissioned at the end of October 2018. Phase two, wholly-owned by the Group, involves the construction of 12 wells with storage capacity of 560 million standard cubic metres. Upon completion, total storage capacity of the whole facility will be over 1 billion standard cubic metres, helping the Group 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, there are also plans to supply gas from this facility to the Group's city-gas projects in other regions through interconnected upstream pipeline networks, facilitating 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 13 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 new water services joint venture project in Foshan city, Guangdong province added in the fourth quarter of 2018 through investment in Foshan Water Environmental Protection Co., Ltd. The major businesses of this company encompass tap water supply, wastewater treatment and municipal engineering. This is the Group's first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In tandem with the country's promotion of the development of the Greater Bay Area, investment in this project is expected to provide opportunities for the Group to develop water services and environmental protection businesses within the region. In addition, given food waste processing and utilisation is also a sizable 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 waste into valuable products. Projects of this kind will gradually be extended to other affluent mainland regions.

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

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. With a total turnover of approximately 6.76 million tonnes of aviation fuel in 2018, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five dedicated LPG vehicular refilling stations also operated smoothly in 2018, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas utilisation projects are generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories has now been in operation for one year and is further helping to raise the proportion of landfill gas used by the Group, thus increasing its contribution to energy conservation and emission reduction in Hong Kong.

With the mainland's growing concern for greater environmental protection, "coal-to-gas" conversion is still prevailing thus generating a significant demand for LNG as a gas supplement during winter. In relation to this, ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly. However, due to tight upstream gas sources in 2018, output from the project decreased during the year compared to 2017.

Conversion of biomass into clean energy and chemical products is one of ECO's major business strategies, which is also in line with the policy direction of mainland China. To this end, ECO has successfully put into trial operation for one year, using its self-developed technology, an integrated processing project located in Zhangjiagang city, Jiangsu province, to process inedible bio-grease feedstock into hydro-treated vegetable oil (HVO). A total of approximately 7,000 tonnes of HVO, which has gained "International Sustainability and Carbon Certification" (ISCC), was produced and exported to European markets last year. On this basis, ECO has commenced phase two of this project to enhance production capacity to 180,000 tonnes per annum. HVO, as an advanced biofuel, can be added to diesel directly in order to reduce emissions, thus contributing to the mitigation of climate change.

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 commenced construction of a pilot project in Tangshan city, Hebei province, to apply self-developed hydrolysis technology to break down agricultural straw into hemicellulose, cellulose and lignin to yield furfural and paper pulp, both used for chemical feedstock and basic materials with noticeable economic and environmental benefits. This pilot project is expected to be commissioned in late 2019 and, if successful, will drive ECO to cultivate a broad green and low-carbon eco-system business.

The operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, remained positive during 2018. Additionally, trial production of a facility to convert a portion of the project's syngas into 120,000 tonnes of ethylene glycol annually was started in 2018, and has successfully produced high-quality ethylene glycol, representing a key step to further expanding ECO's syngas upgrading businesses.

ECO's scientific research, focusing on the extraction of high-quality carbon materials from the pitch portion of high-temperature coal tar oil, has achieved promising results, successfully producing high-quality activated carbon and hydrogenated pitch. High-quality activated carbon can be used for making super capacitors, whereas hydrogenated pitch can be used as a raw material for carbon fibre or as an anode material for batteries. Given the prevailing trend for promoting new energy electric vehicles and rail transport electrification in mainland China, prospects for these new carbon materials are promising. ECO's first pilot project of this kind in Ordos city, Inner Mongolia Autonomous Region, is now at the preparatory stage; construction work is expected to commence within 2019.

ECO continues to march along its well-defined new energy business development strategy by strengthening its capabilities in developing innovative technologies, and, with that, building up its key businesses relating to low-carbon and clean-coal chemicals, efficient conversion and utilisation of agricultural straw, preparation of high-quality carbon materials, hydrogenation and upgrading of bio-grease, and utilisation of unconventional gas resources, etc. In so doing, ECO is gradually migrating from its original business strategy focusing on fuel substitutes to one encompassing higher value-added chemical and advanced materials. Related key technologies have already achieved a number of breakthroughs and some have already been granted the intellectual property rights. As these projects begin to show significant economic and environmental benefits, they are expected to become the basis of ECO's core business in the future.

TELECOMMUNICATIONS BUSINESSES

The Group's development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local internet service providers, telecommunications operators as well as large corporations, through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries, is progressing steadily. The company is strengthening its foundations to cater for data transmission, processing and storage needs as well as swifter market development in the future.

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

Towngas China, a subsidiary of the Group, maintained stable business growth in 2018. Profit after taxation attributable to its shareholders for the year amounted to HK$1,224 million, a decrease of approximately 10 per cent compared to 2017. Exclusive of the one-off profit of HK$209 million for Towngas China resulting from the listing of Foshan Gas Group Co., Ltd. in 2017, profit after taxation attributable to shareholders increased by approximately 6 per cent compared to 2017. As at the end of December 2018, the Group held approximately 1,895 million shares in Towngas China, representing approximately 67.45 per cent of Towngas China's total issued shares.

In respect of project development, 11 new projects were added to Towngas China's portfolio in 2018, including a city-gas project in Liujiang district, Liuzhou city, Guangxi Zhuang Autonomous Region; a midstream natural gas pipeline network and city gate station project in Chiping county, Liaocheng city, Shandong province; Towngas Natural Gas Sales Co., Ltd.; and eight distributed energy projects located in Jiawang district, Xuzhou city, Jiangsu province; in Xuzhou Biomedical Industrial Park, Jiangsu province; in Jimo Chuangzhi new district, Qingdao city, Shandong province; in Yangxin Economic and Technological Development Zone and Boxing Economic Development Zone, both in Binzhou city, Shandong province; in Changchun city, Jilin province; in Chengnan Economic Development Zone, Tangshan city, Hebei province; and in Guilin city, Guangxi Zhuang Autonomous Region respectively.

Besides developing existing markets and proactively investing in commercial and industrial distributed energy and “coal-to-gas” conversion projects in tandem with the country’s policy of advocating environmental protection, Towngas China will also continue to research and develop high-quality gas accessory products and explore extended businesses so as to provide customers with one-stop household products and services for purchase. Towngas China will also continue to seize opportunities to explore more environmental protection projects, striving for the best interest and returns for its investors and shareholders.

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$1,027 million, with a maturity ranging from 3 to 30 years, were issued during 2018. In line with the Group’s long-term business investments, as at 31st December 2018, the amount of medium term notes issued had reached HK$14.4 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rate with an average of 3.5 per cent per annum and with an average tenor of 15 years.

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. This helps to strengthen the Group to maintain its high investment grade credit ratings. Therefore, the Group issued new Perpetual Securities again in February 2019 and the proceeds are mainly used to refinance the redeemed US$300 million Perpetual Securities. The newly issued US$300 million Perpetual Securities will keep a coupon interest rate of 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 A- 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 2018, the number of employees engaged in the town gas business in Hong Kong was 2,052 (2017 year end: 2,022), the number of customers was 1,908,511, and each employee served the equivalent of 930 customers, a similar level to 2017. 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 2,418 as at the end of 2018 compared to 2,388 as at the end of 2017. Related manpower costs amounted to HK$1,139 million for 2018. In 2018, there was an approximately 4 per cent average increase in remuneration over 2017. 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 49,700 as at the end of 2018, an increase of approximately 2,700 compared to 2017.

On behalf of the Board of Directors, I 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 ten existing shares held by shareholders whose names are on the Register of Members of the Company as at 5th June 2019. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 28th May 2019, and if passed, share certificates will be posted on 13th June 2019.

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 5th June 2019. Including the interim dividend of HK12 cents per share paid on 2nd October 2018, the total dividend payout for the whole year shall be HK35 cents per share.

Barring unforeseen circumstances, the forecast dividends per share for 2019 after bonus share issue shall not be less than the interim and final dividends for 2018.

BUSINESS OUTLOOK FOR 2019

The Company predicts steady growth in its number of customers in Hong Kong during 2019. Favourable employment conditions and thriving inbound tourism are helping to stimulate domestic demand and consumer spending. The Group's gas business in Hong Kong is also benefiting 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 number of gas customers in the next few years. Additionally, town gas as an energy resource, combining both environmental and economic advantages, is creating a competitive edge fostering development of the Company's commercial and industrial energy markets. Nevertheless, the external environment is complex and fast-changing. Coupled with increasing local manpower costs and operating expenses leading to rising costs for businesses in Hong Kong generally, the local business environment is full of challenges. The Company will, however, continue to encourage smart innovation to enhance operational efficiency so as to maintain stable development of its gas business in the territory.

Given the international political environment and the world economy face a number of uncertainties, this will continue to impact economic development on the mainland, particularly that associated with export manufacturing industries. Under these circumstances, the Group's mainland businesses inevitably also face challenges with respect to growth in the near term. Despite this, as domestic consumer spending is making an ever-increasing contribution to the mainland's economic growth, aided by the Chinese government continually striving to expand domestic demand in order to offset some of the impact resulting from the uncertain prospects of export manufacturing industries. Additionally, export of mainland products to countries and regions along the "Belt and Road Initiative" routes shows growth potential and will help to facilitate the development of manufacturing industries. In the long term, the Chinese government's move to improve smoggy atmospheric conditions by tightening supervision and administration of related measures will be progressive. On 1st January 2018, the Implementing Regulations for the Environmental Protection Tax Law became effective alongside the Environmental Protection Tax Law, aiming to further promote corporate initiatives to enhance environmental protection levels by charging taxes in accordance with the quantity of pollutants discharged; this is helping the development of natural gas markets. The Chinese government is also increasing its efforts to reduce carbon emissions by encouraging the use of clean energy, creating good opportunities for natural gas to replace coal in industrial production, as well as in boilers, power generation, distributed energy, household heating, etc. In addition, increasing upstream gas supplies, expanding and improving pipeline networks and rapid urbanisation, leading to a continuous rise in demand for utility facilities and energy, are all favourable to the downstream gas market and the healthy development of the natural gas business sector in general. As a result, the Group's gas sales volumes are expected to show promising growth in the future.

In respect of emerging environmentally-friendly energy businesses, following the Chinese government's move towards greater energy diversification, environmental protection and recycling of materials, the Group is continuing to develop and apply new technologies for conserving energy and reducing pollutant emissions. There is also a growing trend for greater use of low-sulfur, high-quality oil, electricity and natural gas as fuels for vehicles and vessels to reduce atmospheric pollution. ECO is additionally moving towards production of high-quality chemical products which are less sensitive to international oil prices, taking this as a guide for future business development; some associated projects will be commissioned within this year. As ECO's in-house research and development of a number of technologies is gradually achieving results, which are being put into commercial production, emerging environmentally-friendly energy businesses will ignite a new light for the Group, illuminating the way for long-term development and medium-to-long term business growth strategies.

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, corporate brand names and sales channels built there over 20 years alongside society's growing concern over air quality, it is anticipated that there will be ever-rising demand for clean energy and the Group's mainland businesses will have further prosperous development. According to mainland China's Thirteenth Five-Year Plan, the share of natural gas in the country's total energy mix is set to increase from approximately 8 per cent currently to 10 per cent by year 2020, thus creating huge market potential for clean energy. In addition, given that the number of piped-gas customers in Hong Kong and mainland China is rising, the Group foresees that this sizeable customer base will create a promising platform for expansion of various new 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.

Despite a number of projected global economic uncertainties in 2019, the continuing optimisation of mainland China's economic structure, which the government has been implementing for a number of years, together with a rising middle-class population, will also help maintain stable economic growth and sustain keen demand for clean energy. The Group will continue to formulate, and is gradually implementing, plans in accordance with the country's energy and environmental protection policies. Overall, with society's growing aspiration for more environmental protection, demand for natural gas, as well as environmentally-friendly and renewable energy, will increase. Furthermore, the Group is actively promoting technological research and new product development, and related work is being effectively and gradually implemented, thus continuously injecting new impetus to foster business growth. In addition, with sizeable customer base resources built up after years of operating urban utilities, the Group anticipates an ever broader and brighter development for its various businesses in the future.

CONSIDERATION TO STEP DOWN AS CHAIRMAN

I, being advanced in age, am considering to step down from the position of Chairman of the Company after the conclusion of the forthcoming annual general meeting and to propose to the Board to appoint Dr. Lee Ka-kit and Mr. Lee Ka-shing as Joint Chairmen. Details of my decision and future arrangements will be announced on the date of the annual general meeting, 28th May 2019.

I would like to express my heart-felt gratitude to our shareholders for their confidence and unfailing support to me as Chairman over the past decades.

Lee Shau-kee
Chairman
Hong Kong, 20th March 2019

The Board of Directors has pleasure in presenting a summary of results of the Group for the year ended 31st December 2018 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December 2018

	Note	**2018 HK$ Million**	2017 HK$ Million
Revenue	4	**39,073.0**	32,476.5
Total operating expenses	5	**(30,689.8)**	(24,845.2)
		8,383.2	7,631.3
Other gains, net	6	**20.0**	630.1
Interest expense		**(1,176.6)**	(1,256.9)
Share of results of associates		**3,589.5**	2,604.3
Share of results of joint ventures		**1,523.4**	1,487.9
Profit before taxation		**12,339.5**	11,096.7
Taxation	7	**(1,907.6)**	(1,749.8)
Profit for the year		**10,431.9**	9,346.9
Attributable to:			
Shareholders of the Company		**9,312.8**	8,225.3
Holders of perpetual capital securities		**107.4**	111.2
Non-controlling interests		**1,011.7**	1,010.4
		10,431.9	9,346.9
Dividends	8	**5,385.3**	4,895.7
Earnings per share – basic and diluted, HK cents	9	**60.5**	53.5*

* *Adjusted for the bonus share issue in 2018*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2018

	2018 HK$ Million	2017 HK$ Million
Profit for the year	**10,431.9**	9,346.9
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss:		
Movement in reserve of equity investments at fair value through other comprehensive income	**6.7**	-
Remeasurements of retirement benefit	**(73.4)**	124.1
Items that may be reclassified subsequently to profit or loss:		
Movement in reserve of debt investments at fair value through other comprehensive income	**(20.9)**	-
Movement in reserve of available-for-sale financial assets	**-**	(120.5)
Change in fair value of cash flow hedges	**(88.7)**	(117.5)
Share of other comprehensive income/(loss) of an associate	**3.6**	(2.9)
Exchange differences	**(2,699.7)**	3,614.4
Other comprehensive (loss)/income for the year, net of tax	**(2,872.4)**	3,497.6
Total comprehensive income for the year	**7,559.5**	12,844.5
Total comprehensive income attributable to:		
Shareholders of the Company	**6,818.3**	11,137.0
Holders of perpetual capital securities	**107.4**	111.2
Non-controlling interests	**633.8**	1,596.3
	7,559.5	12,844.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st December 2018

	Note	**2018 HK$ Million**	2017 HK$ Million
Assets			
Non-current assets			
Property, plant and equipment		**57,978.8**	55,827.4
Investment property		**778.0**	764.0
Leasehold land		**2,214.5**	2,229.3
Intangible assets		**5,682.1**	5,883.6
Associates		**26,314.1**	23,393.4
Joint ventures		**10,950.3**	10,889.2
Available-for-sale financial assets		**-**	4,289.9
Financial assets at fair value through other comprehensive income		**1,127.0**	**-**
Financial assets at fair value through profit or loss		**3,506.7**	-
Derivative financial instruments		**55.4**	269.9
Retirement benefit assets		**-**	60.4
Other non-current assets		**3,474.0**	3,089.0
		112,080.9	106,696.1
Current assets			
Inventories		**2,480.7**	2,578.3
Trade and other receivables	10	**7,615.9**	7,512.0
Loan and other receivables from associates		**356.9**	241.4
Loan and other receivables from joint ventures		**822.6**	939.7
Loan and other receivables from non-controlling shareholders		**155.0**	103.1
Financial assets at fair value through profit or loss		**303.5**	42.1
Derivative financial instruments		**38.2**	119.6
Time deposits over three months		**338.6**	2,071.0
Time deposits up to three months, cash and bank balances		**8,500.8**	10,758.6
		20,612.2	24,365.8
Current liabilities			
Trade and other payables and contract liabilities	11	**(13,929.4)**	(14,269.8)
Amounts due to joint ventures		**(1,049.5)**	(1,137.9)
Loan and other payables due to non-controlling shareholders		**(148.0)**	(175.3)
Provision for taxation		**(496.8)**	(531.9)
Borrowings		**(8,062.7)**	(15,757.0)
Redeemable perpetual securities		**(2,349.6)**	-
Derivative financial instruments		**(114.9)**	(76.2)
		(26,150.9)	(31,948.1)
Total assets less current liabilities		**106,542.2**	99,113.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 31st December 2018

	2018 HK$ Million	2017 HK$ Million
Non-current liabilities		
Deferred taxation	**(6,099.1)**	(5,723.1)
Borrowings	**(27,609.3)**	(21,161.8)
Asset retirement obligations	**(48.6)**	(46.9)
Derivative financial instruments	**(558.9)**	(604.5)
Retirement benefit liabilities	**(23.8)**	-
Other non-current liabilities	**(2,009.2)**	(1,331.6)
	(36,348.9)	(28,867.9)
Net assets	**70,193.3**	70,245.9
Capital and reserves		
Share capital	**5,474.7**	5,474.7
Reserves	**56,926.0**	54,964.1
Shareholders' funds	**62,400.7**	60,438.8
Perpetual capital securities	**-**	2,354.1
Non-controlling interests	**7,792.6**	7,453.0
Total equity	**70,193.3**	70,245.9

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 2018 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 2018 and 2017 included in this preliminary announcement of 2018 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 2017 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 2018 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 which are effective for the Group's financial year beginning 1st January 2018 and relevant to the Group.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)- Interpretation 22	Foreign Currency Transactions and Advance Consideration

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

Save as mentioned above, the HKICPA has issued the following new or amendments to standards which are effective for accounting period beginning 1st January 2018, with the impact of the adoption of these standards and the new accounting policies being disclosed in note 2(a) below:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarification to HKFRS 15

2. Changes in accounting policies (Continued)

(a) Impact on adoption of new accounting standards

(i) Impact on adoption – HKFRS 9

HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated statement of financial position as at 31st December 2017, but are recognised in the opening consolidated statement of financial position on 1st January 2018.

The adoption of HKFRS 9 resulting in increase in net assets value and reserves attributable to shareholders of the Company as at 1st January 2018 by HK$279.3 million and HK$254.5 million respectively, primarily due to increase in fair value of available-for-sale financial assets (now classified as financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss ("FVPL")) previously measured at cost less impairment, offset by increase in provision for trade receivables upon adoption of expected credit loss model.

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

(ii) Impact on adoption - HKFRS 15

The Group has adopted HKFRS 15 from 1st January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The adoption of HKFRS 15 has no material impact to financial results and financial position of the Group for the year ended 31st December 2018.

Revenues are recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. In summary, revenue from gas sales, water sales, oil and coal related sales and equipment sales is recognised at a point in time. Revenue from maintenance services is recognised over time. Other sales include rental income and finance income which are excluded from the scope of HKFRS 15. The remaining revenue streams within other sales are either recognised overtime or at a point in time. Revenue from connection income may recognise over time or at a point in time depending on the terms of the contracts and actual work performed.

The adoption of HKFRS 15 resulted in changes in certain terminology used. Contract liabilities in relation to advance received from customers were previously presented as receipt in advance within trade and other payables.

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

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 2018 and 2017.

	Level 1		**Level 2**		**Level 3**		**Total**	
HK$ Million	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Assets								
Financial assets at fair value through profit or loss								
- Equity securities	**264.1**	42.1	**39.4**	-	**3,506.7**	-	**3,810.2**	42.1
Derivative financial instruments	**-**	-	**93.6**	157.6	**-**	231.9	**93.6**	389.5
Financial assets at fair value through other comprehensive income								
- Debt securities	**204.6**	-	**-**	-	**-**	-	**204.6**	-
- Equity investment	**348.3**	-	**-**	-	**574.1**	-	**922.4**	-
Available-for-sale financial assets								
- Debt securities	**-**	461.8	**-**	-	**-**	-	**-**	461.8
- Equity investment	**-**	273.4	**-**	39.6	**-**	2,976.1	**-**	3,289.1
Total assets	**817.0**	777.3	**133.0**	197.2	**4,080.8**	3,208.0	**5,030.8**	4,182.5
Liabilities								
Other payables	**-**	-	**-**	-	**154.0**	154.0	**154.0**	154.0
Derivative financial instruments	**-**	-	**673.8**	680.7	**-**	-	**673.8**	680.7
Total liabilities	**-**	-	**673.8**	680.7	**154.0**	154.0	**827.8**	834.7

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 determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value.

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$3.1 billion of an unlisted equity investment and its related derivative, which are considered entirely as FVPL. 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 12.6 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$0.4 billion, the fair values of which are determined based on the attributable net assets values or attributable net asset value after taking into account estimated fair value-to-book ratio and marketability discount. The significant unobservable input includes attributable net asset value and the estimated fair value-to-book ratio and marketability discount. The fair value increases with the increase in the attributable net asset values or fair value-to-book ratio or the decrease in marketability discount.

- 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 4.0 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.

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 2018 and 2017.

HK$ Million	**Financial assets** **2018**	2017	**Financial liabilities** **2018**	2017
At 1st January	**4,150.4**	3,057.4	**154.0**	154.0
Change in fair value	**176.1**	(77.8)	**9.8**	(11.3)
Exchange differences	**(245.7)**	228.4	**(9.8)**	11.3
At 31st December	**4,080.8**	3,208.0	**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:

	2018 HK$ Million	2017 HK$ Million
Gas sales before fuel cost adjustment	**27,922.4**	22,865.8
Fuel cost adjustment	**1,025.1**	649.4
Gas sales after fuel cost adjustment	**28,947.5**	23,515.2
Connection income	**3,292.7**	2,922.2
Equipment sales and maintenance services	**2,801.2**	2,634.6
Water and related sales	**1,365.8**	1,249.7
Oil and coal related sales	**1,338.2**	989.0
Other sales	**1,327.6**	1,165.8
	39,073.0	32,476.5

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 assessses 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.

4. Segment information (Continued)

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

2018 HK$ Million	Gas, water and related businesses Hong Kong	Gas, water and related businesses Mainland China	New Energy	Property	Other segments	Total
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**
	10,081.7	**24,991.4**	**3,109.8**	**66.1**	**824.0**	**39,073.0**
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)**
						8,383.2
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						**12,339.5**
Taxation						**(1,907.6)**
Profit for the year						**10,431.9**

Share of results of associates includes HK$2,030.0 million (2017: HK$1,217.0 million) being the Group's share of change in valuation of investment properties at the International Finance Centre (the "IFC") complex for the year.

2017 HK$ Million	Gas, water and related businesses Hong Kong	Gas, water and related businesses Mainland China	New Energy	Property	Other segments	Total
Revenue	9,386.1	19,680.2	2,658.5	66.3	685.4	32,476.5
Adjusted EBITDA	4,648.9	4,916.1	843.7	42.1	181.1	10,631.9
Depreciation and amortisation	(734.3)	(1,126.6)	(407.5)	-	(86.3)	(2,354.7)
Unallocated expenses						(645.9)
						7,631.3
Other gains, net						630.1
Interest expense						(1,256.9)
Share of results of associates	-	831.7	(0.9)	1,768.0	5.5	2,604.3
Share of results of joint ventures	-	1,479.6	1.0	9.0	(1.7)	1,487.9
Profit before taxation						11,096.7
Taxation						(1,749.8)
Profit for the year						9,346.9

4. **Segment information (Continued)**

The segment assets at 31st December 2018 and 2017 are as follows:

2018 **HK$ Million**	**Gas, water and related businesses** **Hong Kong**	 **Mainland China**	**New Energy**	**Property**	**Other segments**	**Total**
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						**132,693.1**

Note

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

2017 HK$ Million	Gas, water and related businesses Hong Kong	 Mainland China	New Energy	Property	Other segments	Total
Segment assets	17,335.7	65,453.5	17,898.4	13,924.8	3,897.5	118,509.9
Unallocated assets:						
Available-for-sale financial assets						4,289.9
Financial assets at fair value through profit or loss						42.1
Time deposits, cash and bank balances excluded from segment assets						7,031.1
Others (Note)						1,188.9
Total assets						131,061.9

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2018 is HK$11,521.5 million (2017: HK$10,721.3 million), and the revenue from external customers in mainland China and other geographical locations is HK$27,551.5 million (2017: HK$21,755.2 million).

At 31st December 2018, the total of non-current assets other than financial instruments located in Hong Kong is HK$30,437.3 million (2017: HK$27,772.0 million), and the total of non-current assets other than financial instruments located in mainland China and other geographical locations is HK$74,092.4 million (2017: HK$71,760.5 million).

5. Total operating expenses

	2018 **HK$ Million**	2017 HK$ Million
Stores and materials used	**20,597.9**	15,691.9
Manpower costs	**3,295.1**	3,034.9
Depreciation and amortisation	**2,537.2**	2,374.8
Other operating items	**4,259.6**	3,743.6
	30,689.8	24,845.2

6. Other gains, net

	2018 **HK$ Million**	2017 HK$ Million
Net investment gains	**230.0**	729.7
Fair value gain on investment property	**12.5**	33.6
Gain on deemed disposal of partial interest in associates	**-**	253.4
Gain on disposal of associates	**-**	23.8
Project research and development costs	**(28.3)**	(46.9)
Provision for assets	**(200.0)**	(365.1)
Ineffective portion on cash flow hedges	**5.8**	2.0
Others	**-**	(0.4)
	20.0	630.1

7. Taxation

The amount of taxation charged to the income statement represents:

	2018 **HK$ Million**	2017 HK$ Million
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year	**713.6**	727.5
Current taxation - provision for other countries income tax at the prevailing rates on the estimated assessable profits for the year	**822.0**	707.1
Current taxation - over provision in prior years	**(4.5)**	(94.4)
Deferred taxation - origination and reversal of temporary differences	**287.5**	290.5
Withholding tax	**89.0**	119.1
	1,907.6	1,749.8

The prevailing tax rates of mainland China and Thailand range from 15 per cent to 25 per cent (2017: 15 per cent to 25 per cent) and 50 per cent (2017: 50 per cent) respectively.

8. Dividends

	2018 **HK$ Million**	2017 HK$ Million
Interim, paid of HK12 cents per ordinary share (2017: HK12 cents per ordinary share)	**1,846.4**	1,678.5
Final, proposed of HK23 cents per ordinary share (2017: HK23 cents per ordinary share)	**3,538.9**	3,217.2
	5,385.3	4,895.7

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$9,312.8 million (2017: HK$8,225.3 million) and the weighted average of 15,386,411,131 shares (2017: 15,386,661,131 shares*) in issue during the year.

As there were no diluted potential ordinary shares outstanding during the year (2017: nil), the diluted earnings per share for the year ended 31st December 2018 is the same as the basic earnings per share.

* Adjusted for the bonus share issue in 2018

10. Trade and other receivables

	2018 **HK$ Million**	2017 HK$ Million
Trade receivables (Note)	**3,563.5**	3,734.5
Payments in advance	**1,581.5**	1,659.0
Other receivables	**2,470.9**	2,118.5
	7,615.9	7,512.0

Note

The Group has established credit policies for different types of customers. The credit period offered for trade receivables, which subject to periodic review by management, ranges 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 2018, the aging analysis of the trade receivables, net of impairment provision, is as follows:

	2018 **HK$ Million**	2017 HK$ Million
0 - 30 days	**3,106.9**	3,293.5
31 - 60 days	**107.7**	119.0
61 - 90 days	**126.4**	41.5
Over 90 days	**222.5**	280.5
	3,563.5	3,734.5

11. Trade and other payables and contract liabilities

	2018 **HK$ Million**	2017 HK$ Million
Trade payables (Note a)	**3,078.1**	2,977.2
Other payables and accruals (Note b)	**4,225.5**	4,723.3
Contract liabilities/receipt in advance (Note c)	**6,625.8**	6,569.3
	13,929.4	14,269.8

Notes

(a) At 31st December 2018, the aging analysis of the trade payables is as follows:

	2018 **HK$ Million**	2017 HK$ Million
0 - 30 days	**1,404.7**	1,340.0
31 - 60 days	**399.3**	488.0
61 - 90 days	**300.0**	298.0
Over 90 days	**974.1**	851.2
	3,078.1	2,977.2

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

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

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 5th June 2019. The Board also recommends the issue of bonus shares on the basis of one bonus share for every ten existing shares held by shareholders registered as such on the register of members of the Company on 5th June 2019. The necessary resolutions will be proposed at the forthcoming Annual General Meeting on 28th May 2019, and if passed, dividend warrants and share certificates will be posted on 13th June 2019.

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 Thursday, 23rd May 2019 to Tuesday, 28th May 2019, 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 Wednesday, 22nd May 2019.

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 Monday, 3rd June 2019 to Wednesday, 5th June 2019, 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 Friday, 31st May 2019.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Tuesday, 28th May 2019. 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 Tuesday, 23rd April 2019.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 31st December 2018, the Group had a net current borrowings position of HK$1,573 million (31st December 2017: HK$2,927 million) and long-term borrowings of HK$27,609 million (31st December 2017: HK$21,162 million). In addition, banking facilities available for use amounted to HK$13,300 million (31st December 2017: HK$13,200 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 May 2012, the Programme was updated with the size increased to US$2 billion. Up to 31st December 2018, the Group issued notes in the total amount of HK$14,398 million (31st December 2017: HK$13,371 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 2018 was HK$13,708 million (31st December 2017: HK$12,748 million).

As at 31st December 2017, the outstanding principal amount of the 10-year US dollar Guaranteed Notes (the "Guaranteed Notes") issued in August 2008 at a fixed coupon rate of 6.25 per cent per annum was US$995 million and the carrying value was HK$7,734 million. The Guaranteed Notes were matured and fully repaid in August 2018.

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. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, the Perpetual Capital Securities are redeemable at the Group's option on or after 28th January 2019 and were accounted for as equity in the financial statements up to serving of the redemption notice in December 2018. The Perpetual Capital Securities were guaranteed by the Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources. On 17th December 2018, a redemption notice was issued that the issuer would redeem all of the Perpetual Capital Securities on 28th January 2019 (the "First Call Date") at their principal amount together with any distribution accrued to the First Call Date. In such case, the Perpetual Capital Securities at carrying value of HK$2,350 million are reclassified to Redeemable Perpetual Securities under current liabilities as at 31st December 2018.

As at 31st December 2018, the Group's borrowings (including Redeemable Perpetual Securities) amounted to HK$38,022 million (31st December 2017: HK$36,919 million). While the notes and the Redeemable Perpetual Securities mentioned above together with the bank and other loans of HK$3,624 million (31st December 2017: HK$4,003 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$12,453 million (31st December 2017: HK$6,363 million) were long-term bank loans and HK$5,887 million (31st December 2017: HK$6,071 million) had maturities within one year on revolving credit or term loan facilities. As at 31st December 2018, the maturity profile of the Group's borrowings was 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 (31st December 2017: 43 per cent within 1 year, 11 per cent within 1 to 2 years, 21 per cent within 2 to 5 years and 25 per cent over 5 years).

The RMB Note, the AUD Note and JPY Note 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.

The gearing ratio [net borrowing less Redeemable Perpetual Securities / (shareholders' funds + Perpetual Capital Securities + net borrowing)] for the Group as at 31st December 2018 remained healthy at 29 per cent (31st December 2017: 28 per cent).

In February 2019, the Group issued new perpetual capital securities again and the proceeds are mainly used to refinance the Redeemable Perpetual Securities redeemed in January 2019 as mentioned above. The newly issued US$300 million 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, these perpetual capital securities are redeemable at the Group's option on or after 12th February 2024 and are accounted for as equity in the financial statements.

Contingent liabilities

As at 31st December 2018 and 31st December 2017, 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 2018, the relevant investments in securities amounted to HK$812 million (31st December 2017: HK$752 million). The performance of the Group's financial investments in securities was satisfactory.

CORPORATE GOVERNANCE

During the year ended 31st December 2018, 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 2018, 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

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, 20th March 2019

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

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

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