ENN 新奧

# 新奧能源控股有限公司
# ENN Energy Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 2688)**

## Annual Results Announcement
## For The Year Ended 31 December 2019

**Annual Results Highlights:**

| | 2019 | 2018 | Increase |
|---|---|---|---|
| Revenue *(RMB million)* | 70,183 | 60,698 | 15.6% |
| Profit attributable to owners of the Company *(RMB million)* | 5,670 | 2,818 | 101.2% |
| Core profit△ *(RMB million)* | 5,278 | 4,474 | 18.0% |
| Operating cash inflow *(RMB million)* | 11,690 | 8,294 | 40.9% |
| Basic earnings per share *(RMB)* | 5.05 | 2.56 | 97.3% |
| Proposed final dividend per ordinary share *(HK$)* | 1.67 | 1.19 | 40.3% |
| Retail gas sales volume# *(million $m^3$)* | 19,924 | 17,370 | 14.7% |
| Sales volume of integrated energy# *(million kWh)* | 6,847 | 2,886 | 137.2% |

△Profit attributable to owners of the Company but stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses.

#The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates.

The Board of Directors (the "**Board**") of ENN Energy Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative audited figures for the corresponding period in 2018. The annual results and the audited consolidated financial statements have been reviewed by the Company's Audit Committee.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2019*

| | *Notes* | **2019** *RMB million* | **2018** *RMB million* |
|---|---|---|---|
| Revenue | 3 | 70,183 | 60,698 |
| Cost of sales | | (58,918) | (51,188) |
| Gross profit | | 11,265 | 9,510 |
| Other income | | 861 | 949 |
| Other gains and losses | 4 | 644 | (1,634) |
| Distribution and selling expenses | | (976) | (790) |
| Administrative expenses | | (3,099) | (2,673) |
| Share of results of associates | | 326 | 275 |
| Share of results of joint ventures | | 547 | 601 |
| Finance costs | | (727) | (637) |
| Profit before tax | | 8,841 | 5,601 |
| Income tax expense | 5 | (1,980) | (1,783) |
| **Profit for the year** | | 6,861 | 3,818 |
| Other comprehensive income (expense) | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Gain on revaluation of properties arising from the transfer to investment properties | | 3 | 6 |
| Fair value loss on equity instruments at fair value through other comprehensive income (“**FVTOCI**”) | | (1) | (7) |
| | | 2 | (1) |
| *Item that have been reclassified or may be reclassified subsequently to profit or loss:* | | | |
| Release of exchange reserve to profit or loss upon disposal of subsidiaries | | 3 | (40) |
| Other comprehensive income (expense) for the year | | 5 | (41) |
| **Total comprehensive income for the year** | | 6,866 | 3,777 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 5,670 | 2,818 |
| Non-controlling interests | | 1,191 | 1,000 |
| | | 6,861 | 3,818 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 5,674 | 2,778 |
| Non-controlling interests | | 1,192 | 999 |
| | | 6,866 | 3,777 |
| | | *RMB* | *RMB* |
| Earnings per share | 7 | | |
| Basic | | 5.05 | 2.56 |
| Diluted | | 5.04 | 2.56 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 DECEMBER 2019*

| | Notes | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | 37,955 | 31,073 |
| Right-of-use assets | | 2,185 | - |
| Prepaid lease payments | | - | 1,401 |
| Investment properties | | 268 | 265 |
| Goodwill | | 2,379 | 2,248 |
| Intangible assets | | 4,175 | 3,037 |
| Interests in associates | | 3,308 | 3,049 |
| Interests in joint ventures | | 3,841 | 3,620 |
| Other receivables | | 48 | 145 |
| Financial assets at fair value through profit or loss ("**FVTPL**") | | 5,169 | 4,845 |
| Equity instruments at FVTOCI | | 123 | 112 |
| Amounts due from associates | | 345 | 353 |
| Amounts due from joint ventures | | 12 | 68 |
| Deferred tax assets | | 1,292 | 1,159 |
| Deposits paid for investments | | 15 | 190 |
| Prepayment and deposits paid for acquisition of property, plant and equipment, land use rights and right of operation | | 169 | 171 |
| Restricted bank deposits | | 446 | 639 |
| | | 61,730 | 52,375 |
| **Current Assets** | | | |
| Inventories | | 1,169 | 1,331 |
| Trade and other receivables | 8 | 7,492 | 8,560 |
| Contract assets | | 757 | 612 |
| Prepaid lease payments | | - | 39 |
| Financial assets at FVTPL | | 361 | 735 |
| Amounts due from associates | | 575 | 523 |
| Amounts due from joint ventures | | 1,058 | 1,523 |
| Amounts due from related companies | | 164 | 231 |
| Restricted bank deposits | | 566 | 62 |
| Cash and cash equivalents | | 7,373 | 7,923 |
| | | 19,515 | 21,539 |
| **Current Liabilities** | | | |
| Trade and other payables | 9 | 7,635 | 7,103 |
| Contract liabilities | | 12,613 | 10,490 |
| Deferred income | | 33 | 25 |
| Amounts due to associates | | 189 | 351 |
| Amounts due to joint ventures | | 785 | 1,693 |
| Amounts due to related companies | | 1,060 | 793 |
| Taxation payables | | 962 | 782 |
| Lease liabilities | | 100 | - |
| Bank and other loans – due within one year | | 7,495 | 8,621 |
| Corporate bonds | | - | 2,497 |
| Unsecured bonds | | - | 443 |
| Financial liabilities at FVTPL | | 416 | 219 |
| | | 31,288 | 33,017 |
| **Net Current Liabilities** | | (11,773) | (11,478) |
| **Total Assets less Current Liabilities** | | 49,957 | 40,897 |

| | | |
|---|---|---|
| **Capital and Reserves** | | |
| Share capital | 116 | 116 |
| Reserves | 25,752 | 21,269 |
| Equity attributable to owners of the Company | 25,868 | 21,385 |
| Non-controlling interests | 5,152 | 4,169 |
| **Total Equity** | 31,020 | 25,554 |
| **Non-current Liabilities** | | |
| Contract liabilities | 3,302 | 3,240 |
| Deferred income | 650 | 520 |
| Amounts due to joint ventures | 735 | 970 |
| Lease liabilities | 450 | - |
| Bank and other loans – due after one year | 2,848 | 2,101 |
| Corporate bonds | 2,094 | - |
| Senior notes | 2,539 | 2,491 |
| Unsecured bonds | 4,169 | 4,096 |
| Financial liabilities at FVTPL | 330 | 924 |
| Deferred tax liabilities | 1,820 | 1,001 |
| | 18,937 | 15,343 |
| | 49,957 | 40,897 |

**Notes:**

## 1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Group's net current liabilities of approximately RMB11,773 million as at 31 December 2019. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million and issued three tranches of three-year corporate bonds amounting to RMB2,100 million in 2019. As at 31 December 2019, the unutilised issuance quota of the corporate bonds is RMB2,900 million. The wholly-owned subsidiary was also approved by the National Development and Reform Commission on 19 January 2020 to issue green bonds amounting to RMB5,000 million. Except for the unutilised issuance quota of the corporate bonds and green bonds, the Group has unutilised credit facilities of approximately RMB13,448 million as at 31 December 2019, which are subject to renewal within twelve months from the end of the reporting period. The Directors are therefore satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2019 have been prepared on a going concern basis.

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

The Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's consolidated financial statements:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

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

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations. The lessor accounting requirements brought forward from HKAS 17 are substantially unchanged.

*As a lessee*

The Group has applied HKFRS 16 using the modified retrospective approach with the cumulative effect recognised at the date of initial application, 1 January 2019. The comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
iii. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in the People's Republic of China (the "**PRC**"). Specifically, discount rate for certain leases of machinery and equipment in the PRC was determined on a portfolio basis; and
iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8 (b) (ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied by the relevant group entities range from 5.03% to 5.22%.

| | **At 1 January 2019**<br>*RMB million* |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 839 |
| Lease liabilities discounted at relevant incremental borrowing rates | 646 |
| Less: Recognition exemption - short-term leases | (14) |
| Lease liabilities as at 1 January 2019 | 632 |
| Analysed as: | |
| Current portion | 96 |
| Non-current portion | 536 |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | **Right-of-use assets** *RMB million* |
|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 632 |
| Reclassified from prepaid lease payments (note a) | 1,440 |
| | 2,072 |
| By class: | |
| Prepaid lease payments | 1,440 |
| Leasehold lands and buildings | 580 |
| Motor vehicles | 48 |
| Equipment | 4 |

Note:

a. Upon initial application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB39 million and RMB1,401 million respectively were reclassified to right-of-use assets.

## 3. SEGMENT INFORMATION

Information reported to the chief operating decision makers, being the chief executive officer of the Company (the "**CEO**"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

During the year, the segment information presented to CEO was regrouped. The "sales of piped gas" and "vehicle gas refuelling stations" were combined into "retail gas sales business", while the sales of gas appliances and material previously stated separately in "sales of gas appliances" and "sales of material" segments, are now combined with various new value added services including the provision of energy saving technology, home energy solutions, etc., into a new segment named "value added business". Accordingly, the Group's operating and reportable segment under HKFRS 8 "Operating Segments" are retail gas sales business, sales of integrated energy and services, wholesale of gas, construction and installation, and value added business. Segment profit reviewed by the CEO represents the gross profit earned by each segment. The Group re-presented the corresponding segment information for the year ended 31 December 2018.

Segment profit represents the profit earned by each segment without allocation of central administration costs, distribution and selling expenses, share of results of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the CEO for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The following is an analysis of the Group's revenue and results by reportable segments which are also the operating segments for the years under review:

**2019**

| | Retail gas sales business<br>*RMB million* | Sales of integrated energy and services<br>*RMB million* | Wholesale of gas<br>*RMB million* | Construction and installation<br>*RMB million* | Value added business<br>*RMB million* | Total<br>*RMB million* |
|---|---|---|---|---|---|---|
| Segment revenue | 54,515 | 3,020 | 33,686 | 8,404 | 7,255 | 106,880 |
| Inter-segment sales | (14,466) | (271) | (15,221) | (1,472) | (5,267) | (36,697) |
| Revenue from external customers | 40,049 | 2,749 | 18,465 | 6,932 | 1,988 | 70,183 |
| Segment profit before depreciation and amortisation | 6,669 | 600 | 171 | 3,991 | 1,239 | 12,670 |
| Depreciation and amortisation | (998) | (127) | (5) | (272) | (3) | (1,405) |
| Segment profit | 5,671 | 473 | 166 | 3,719 | 1,236 | 11,265 |

**2018**

| | Retail gas sales business<br>*RMB million* | Sales of integrated energy and services<br>*RMB million* | Wholesale of gas<br>*RMB million* | Construction and installation<br>*RMB million* | Value added business<br>*RMB million* | Total<br>*RMB million* |
|---|---|---|---|---|---|---|
| Segment revenue | 44,924 | 1,114 | 26,147 | 7,376 | 4,886 | 84,447 |
| Inter-segment sales | (10,652) | (109) | (8,040) | (1,494) | (3,454) | (23,749) |
| Revenue from external customers | 34,272 | 1,005 | 18,107 | 5,882 | 1,432 | 60,698 |
| Segment profit before depreciation and amortisation | 5,962 | 196 | 233 | 3,659 | 550 | 10,600 |
| Depreciation and amortisation | (827) | (53) | (5) | (203) | (2) | (1,090) |
| Segment profit | 5,135 | 143 | 228 | 3,456 | 548 | 9,510 |

## 4. OTHER GAINS AND LOSSES

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Net gain (loss) of: | | |
| - Convertible bonds at FVTPL | - | (249) |
| - Financial assets / liabilities at FVTPL (note a) | 920 | (797) |
| Loss on foreign exchange, net (note b) | (198) | (770) |
| Gain on remeasurement of interests in joint ventures previously held (note c) | 11 | 111 |
| Gain on dilution of equity interests in joint ventures | - | 72 |
| Increase in fair value of investment properties | 6 | 9 |
| Impairment losses recognised (net of reversal) on receivables | (44) | (64) |
| Gain on redemption of convertible bonds at FVTPL | - | 34 |
| Release of exchange reserve to profit or loss upon deregistration / disposal of subsidiaries | (3) | 40 |
| Others | (48) | (20) |
| | 644 | (1,634) |

Notes:

a. Included in the amount for the year are realised settlement gain of RMB178 million (2018: RMB3 million) and unrealised gain of RMB633 million (2018: unrealised loss of RMB748 million) recognised by the Group in relation to commodity derivative contracts.

b. Included in the amount for the year ended 31 December 2019 is an exchange loss of approximately RMB192 million (2018: RMB707 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in USD and HK$ to RMB.

c. Included in the amount for the year is a gain on remeasurement of interests in one joint venture (2018: two) previously held upon acquisition of further 55% (2018: 50%) of the registered capital.

## 5. INCOME TAX EXPENSE

| | **2019** *RMB million* | **2018** *RMB million* |
|---|---|---|
| Current tax | 1,565 | 1,586 |
| Underprovision in prior years | 1 | 9 |
| Withholding tax | 69 | 158 |
| | 1,635 | 1,753 |
| Deferred tax | 345 | 30 |
| | 1,980 | 1,783 |

As the major operating income of the Group are sourced from China, the tax charge substantially represents PRC Enterprise Income Tax for both years. According to the PRC Enterprise Income Tax Law and its implementation regulations, China enterprise is subject to 25% tax rate.

Certain subsidiaries of the Company are qualified as “High and New Tech Enterprise”, which are subject to PRC Enterprise Income Tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and those subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

## 6. DIVIDEND

### (a) Dividend policy

The Company’s dividend policy allows shareholders to share the Company’s profits while reserving sufficient reserves for the Group’s future development. Subject to the financial performance of the Company, the Company intends to share its profits with shareholders in the form of annual dividends. Barring unforeseen circumstances, the Company intends to maintain annual dividends in an amount of no less than 15% of the Group’s annual consolidated net profit attributable to the owners of the Company. Proposed dividends, if any, will be declared at the discretion of the Board and will depend upon, among others things, the Group’s general financial conditions and strategies, expected operating cash flows and capital expenditure needed for future expansion, surplus, contractual restrictions, actual and expected government financial conditions, macroeconomics and such other factors as the Board may deem relevant.

### (b) Dividends recognised and distributed during the year

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| Final dividend declared and paid | 1,176 | 952 |

2018 final dividend of HK$1.19 (equivalent to approximately RMB1.04) per ordinary share or approximately RMB1,176 million in aggregate was paid during the year ended 31 December 2019.

### (c) Proposed final dividend after the end of the reporting period

After the end of the reporting period, the Board has recommended a final dividend of HK$1.67 per ordinary share (equivalent to approximately RMB1.50 per ordinary share) for the year ended 31 December 2019, and is subject to approval by the shareholders in the forthcoming Annual General Meeting ("**AGM**"). The final dividend proposed after the end of the reporting period has not been recognised as a liability in the consolidated financial statements.

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

### (a) Basic earnings per share

Basic earnings per share for the years ended 31 December 2019 and 2018 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2019 | 2018 |
|---|---|---|
| Profit for the year attributable to the owners of the Company (RMB million) | 5,670 | 2,818 |
| Weighted average number of ordinary shares | 1,122,968,436 | 1,099,639,474 |
| Basic earnings per share (RMB) | 5.05 | 2.56 |

### (b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2019 and 2018 are calculated assuming all dilutive potential ordinary shares were converted.

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of diluted earnings per share | 5,670 | 2,818 |

| | 2019 | 2018 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,122,968,436 | 1,099,639,474 |
| Effect of dilutive potential ordinary shares: | | |
| - share options | 2,626,599 | 2,864,964 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,125,595,035 | 1,102,504,438 |
| Diluted earnings per share (RMB) | 5.04 | 2.56 |

## 8. TRADE AND OTHER RECEIVABLES

Included in the trade and other receivables are trade receivables of RMB2,362 million (2018: RMB2,686 million). The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| 0 to 3 months | 1,792 | 1,905 |
| 4 to 6 months | 76 | 164 |
| 7 to 9 months | 192 | 230 |
| 10 to 12 months | 55 | 171 |
| More than one year | 247 | 216 |
| | 2,362 | 2,686 |

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB5,698 million (2018: RMB5,095 million). The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

| | 2019<br>*RMB million* | 2018<br>*RMB million* |
|---|---|---|
| 0 to 3 months | 3,559 | 3,253 |
| 4 to 6 months | 1,135 | 930 |
| 7 to 9 months | 238 | 121 |
| 10 to 12 months | 161 | 86 |
| More than one year | 605 | 705 |
| | 5,698 | 5,095 |

## BUSINESS REVIEW

The key financial data, key operational data and share price information of the Group for the year together with the comparative figures for last year are as follows:

| | For the year ended 31 December 2019 | 2018 | Increased/ (Decreased) by |
|---|---|---|---|
| **Key financial data** | | | |
| Revenue *(RMB million)* | 70,183 | 60,698 | 15.6% |
| Gross profit *(RMB million)* | 11,265 | 9,510 | 18.5% |
| Profit attributable to owners of the Company *(RMB million)* | 5,670 | 2,818 | 101.2% |
| Core profit△ *(RMB million)* | 5,278 | 4,474 | 18.0% |
| Operating cash inflow *(RMB million)* | 11,690 | 8,294 | 40.9% |
| Basic earnings per share *(RMB)* | 5.05 | 2.56 | 97.3% |
| Net gearing ratio | 37.9% | 48.2% | (10.3 ppt) |
| **Key operational data#** | | | |
| Number of city-gas projects in China | 217 | 187 | 30 |
| Connectable urban population coverage *(thousand)* | 103,880 | 94,569 | 9.8% |
| New natural gas customers developed during the year: | | | |
| – residential households *(thousand)* | 2,397 | 2,302 | 4.1% |
| – C/I customers *(sites)* | 27,656 | 29,226 | (5.4%) |
| – installed designed daily capacity for C/I customers *(thousand $m^3$)* | 18,156 | 18,652 | (2.7%) |
| Accumulated number of customers: | | | |
| – residential households *(thousand)* | 20,920 | 18,523 | 12.9% |
| – C/I customers *(sites)* | 148,761 | 121,105 | 22.8% |
| – installed designed daily capacity for C/I customers *(thousand $m^3$)* | 124,709 | 106,553 | 17.0% |
| Piped gas penetration rate | 60.4% | 58.8% | 1.6 ppt |
| Unit of natural gas sold to residential households *(million $m^3$)* | 3,345 | 2,885 | 15.9% |
| Unit of natural gas sold to C/I customers *(million $m^3$)* | 15,334 | 13,225 | 15.9% |
| Unit of natural gas sold to vehicles *(million $m^3$)* | 1,245 | 1,260 | (1.2%) |
| Wholesale of gas volume *(million $m^3$)* | 7,039 | 5,958 | 18.1% |
| Number of natural gas processing stations | 197 | 185 | 12 |
| Combined daily capacity of natural gas processing stations *(thousand $m^3$)* | 147,802 | 123,640 | 19.5% |
| Total length of existing intermediate and main pipelines *(km)* | 54,344 | 46,397 | 17.1% |
| Accumulated number of integrated energy projects in operation | 98 | 62 | 36 |
| Integrated energy projects under construction | 22 | 35 | (13) |
| Sales volume of integrated energy *(million kWh)* | 6,847 | 2,886 | 137.2% |
| **Share price information** | | | |
| Highest share price *(HK$)* | 91.00 | 92.35 | |
| Lowest share price *(HK$)* | 66.50 | 51.15 | |
| Closing share price at the end of the year *(HK$)* | 85.15 | 69.45 | 22.6% |

△Profit attributable to owners of the Company but stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses.

# The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates.

## RESULTS OF THE YEAR

2019 has been an extraordinary year. Thanks to the proactive and innovative efforts of the Group to seize opportunities arising from China's determination to promote environmental protection and the acceleration of energy reform progress, as well as to drive business development based on customer needs, during the year, despite slowing global economic growth and continuous international trade tensions, the Group managed to accomplish all operational and financial guidance and achieved remarkable results!

The Group's revenue in 2019 was RMB70,183 million, increased by 15.6% compared with last year. The increase was mainly driven by the robust growth of natural gas sales, integrated energy business and value added business. Gross profit margin was 16.1%, up 0.4 percentage point year-on-year. The improvement in gross profit margin was mainly due to the increased revenue contribution from integrated energy business and value added business with higher profitability, the gross profit margins of both businesses also improved during the year, while the share of revenue from wholesale of gas business with lower gross profit margin declined, offsetting the impact of the decline in gross profit margin of the construction and installation business.

Profit attributable to owners of the Company recorded RMB5,670 million, increased by 101.2% year-on-year. The significant increase was driven by the growth of retail gas sales volume and integrated energy sales volume, coupled with the rapid development of value added business with higher profitability. Basic earnings per share increased by 97.3% to RMB5.05. Net profit margin was 9.8%, up 3.5 percentage points year-on-year. The surge in net profit was attributable to the strong growth of the Group's core businesses mentioned above and the improvement of its operating efficiency, in addition to that, oil price movement also led to a large fair value change of the derivative contracts which were used to hedge the Group's long-term liquefied natural gas ("**LNG**") contracts. Therefore, stripping out other gains or losses (excluding net amount realised from commodity derivative contracts) and amortisation of share option expenses, core profit driven by operating activities increased by 18.0% to RMB5,278 million. The strong growth of business led to a significant increase of 40.9% in operating cash flow to RMB11,690 million, and a positive free cash flow of RMB2,694 million.

The outstanding performance reflected the Group's strategy which commits to providing customers with reliable, safe and clean energy-related solutions, and creates value for shareholders by driving growth through prudent investment was effective. As the Group's cash flow continued to grow steadily, the Board recommended a final dividend of HK$1.67 per ordinary share (equivalent to approximately RMB1.50), representing a significant increase of 40.3% year-on-year.

## BUSINESS REVIEW

The Group's business continued to grow steadily in 2019. The Chinese government's determination to push forward "coal-to-gas" conversion for pollution control and to promote natural gas as one of the main energy sources remained firm, while the promotion of integrated utilisation of multiple energy sources, and a quality and efficiency-oriented energy supply model by local governments also brought huge business opportunities to the Group. With a strong execution ability, the Group actively developed new natural gas customers, promoted coal-fired boilers replacement and conducted oil or electricity-to-gas conversion for commercial and industrial ("**C/I**") customers. The Group's retail natural gas sales volume in 2019 increased by 14.7% to 19,924 million cubic meters, and continued to outperform the national growth of 9.4%. In terms of non-gas energy sales, with 36 new integrated energy projects being put into operation during the year and the utilisation rate of existing projects gradually improved, sales of integrated energy including cooling, heating, electricity and steam increased significantly by 137.2% to 6,847 million kWh. As quality projects turn fully operational gradually, they will provide new momentum for the Group's future growth. The integrated energy solutions we provided not only brought sustainable profits to the Group, but also successfully reduced customers' energy consumption by more than 227,437 tons of standard coal and 1,089,050 tons of carbon dioxide emissions, which made great contributions to regional energy conservation and emission reduction.

The Group continued to seize opportunities arising from industry consolidation and obtained 8 quality gas projects in Anhui Province and Shanghai through the acquisition of Xuanran Natural Gas Co., Ltd as the

Company's subsidiary during the year. We obtained another 7 projects in Shandong Province, which further strengthened our deployment in this prosperous region with huge gas demand. Through the strategic M&A and new operating rights acquisition, the Group added 30 new city-gas projects during the year. As of 31 December 2019, the Group operated a total of 217 city-gas projects and 98 integrated energy projects in China, spanning over 22 provinces, municipalities and autonomous regions.

**Retail Gas Sales Business**

The Group upheld its customer-oriented philosophy, dug deep into existing customers and explored new customers with potential demand. As of 31 December 2019, natural gas sold to C/I customers, residential customers and gas refuelling stations increased by 14.7% year-on-year to 19,924 million cubic meters, driving the revenue up 16.9% to RMB40,049 million.

*Commercial and Industrial Market*

Most of the Group's projects are located in key areas of air pollution prevention and control, including Beijing-Tianjin-Hebei, Henan, Shandong, Jiangsu, Zhejiang, Guangdong, where local governments strictly implement environmental protection policies. Taking advantage of the opportunities arising from air pollution prevention and control, the Group tapped the potential of the C/I market, and actively promoted the replacement of coal-fired boilers for C/I users. At the same time, the Group successfully developed a large number of new customers leveraging on its advantage of owning multiple industrial park concessions, and opportunities arising from the relocation of industrial facilities to industrial parks. During the year, the Group developed a total number of 27,656 C/I customers (installed gas appliances with designed daily capacity of 18,156,199 cubic meters), among which, incremental designed daily capacity from newly developed "coal-to-gas" customers was approximately 5,810,000 cubic meters, accounting for 32.0% of newly developed C/I customers. The Group implemented market pricing for C/I construction and installation fees, with the average fee remained stable during the year. As of 31 December 2019, the total number of C/I customers served by the Group amounted to 148,761 (installed gas appliances with designed daily capacity of 124,708,782 cubic meters).

To cope with the challenges of upstream gas price hike and the slowdown in economic growth, the Group collected and analysed customer energy consumption data through the established intelligent operation platform, and worked out solutions to address their issues in managing energy consumption, such as providing customers with energy-saving services to improve the economics of using natural gas, and tailoring different sales package for customers with different affordability. The Group also provided discount to customers with stable and large gas consumption volume, and those with peak-shaving or interruptible gas needs, in an attempt to continue expanding gas sales volume while supplying gas stably and safely. The Group managed to maintain a stable dollar margin of gas sales thanks to its effective pass-through mechanism during price hike period.

The "ENN Smart Energy" APP launched by the Group enabled C/I customers to experience convenient online services. C/I customers who have installed standard gas meters, IoT smart meters and Bluetooth smart meters can have quick access to online payment and invoicing functions. New users can also receive messages on project construction progress updates and view service progress online in real time. The APP was equipped with a fast channel for energy solution, which enables customers to reach online professional consultants anytime, greatly improving customer satisfaction. During the year, total volume of natural gas sold to C/I customers reached 15,334 million cubic meters, representing an increase of 15.9% year-on-year, and accounted for 77.0% of the retail natural gas sales volume.

*Residential Market*

China is sprinting toward a "moderately well-off society". In this context, the large-scale urbanisation has been carried out with the utilisation of clean energy to improve the environment as well as to meet the demand arising from people's pursuit of quality life. This provides the Group with enormous opportunities for developing urban residential market. On the other side, the Group continued to work with local governments on implementing their development initiatives, such as "every township-level unit has access to natural gas", "every village has access to natural gas" and "building beautiful villages", and prudently carry out "rural coal-to-gas" conversion in areas with higher affordability such as Tianjin, Hebei, Shandong and Henan as part of its efforts to assist the local governments in achieving the replacement of scattered coals for the prevention and control of air pollution.

During the year, the Group developed a total of 2,397,000 residential households, in which new buildings, existing buildings and "rural coal-to-gas" conversion accounted for 67%, 12% and 21% respectively. The average construction and installation fee was RMB2,539 per household, maintaining at a stable level over the past few years. As of 31 December 2019, the Group had developed 20,920,000 residential customers cumulatively, raising the average piped gas penetration rate from 58.8% at the end of December 2018 to 60.4%.

According to the National Bureau of Statistics, the disposable income of national residents grew faster than the national economic growth rate in 2019, and the average per capita disposable household income in urban areas was RMB42,359, indicating the improvement of people's living standards. The Group continued to focus on natural gas sales for urban residents and established tier-pricing mechanism to further increase the gas sales profit from urban residential users. As of 31 December 2019, the Group cumulatively developed 1.82 million natural gas space heating users and most projects had established residential tier-pricing mechanism. Benefiting from the ramping up of gas consumption by newly developed residential customers and natural gas space heating users, the volume of natural gas sold to residential users increased by 15.9% to 3,345 million cubic meters, accounting for 16.8% of retail gas sales volume.

**Integrated Energy Business**

In 2019, seizing opportunities arising from stricter air pollution prevention and control, relocation of industrial facilities to industrial parks, adjustment of heating supply structure in industrial park, and the incremental power distribution reform, the Group kept "getting quality projects" and "executing well" in mind and developed new projects by providing heating, electricity and natural gas according to the local demand. Moreover, the Group took effort in promoting the systemic optimisation and upgrade of both the existing projects and projects under construction, and managed to promote both the quality and quantity improvement of integrated energy business through optimising existing projects. During the year, a total of 36 integrated energy projects were put into operation, making the cumulative number climb to 98, bringing a total of 6,847 million kWh of integrated energy sales to the Group, up 137.2% year-on-year. In addition, 22 integrated energy projects were under construction, which will contribute 20,003 million kWh's integrated energy sales in full operation once gradually put into operation in the next one or two years and turn fully operated. During the year, the Group signed 75 new industrial park integrated energy projects, amongst which, 53 are located outside the Group's city-gas concessions. We believe the business will develop rapidly when some of the quality projects are put into operation. In addition, the Group has accumulated a number of quality incremental power grid projects, and the development of various projects has laid a good foundation for promoting the Group's transformation and upgrading to become an integrated energy service provider.

The Group adhered to its principle of integrated energy development, explored and utilised the most competitive resources based on different local conditions, and developed integrated energy project. The No.1 Integrated-energy Station Project of Mudanjiang Economic Development Zone, Heilongjiang Province, which is a technological innovation and a breakthrough of biomass pyrolysis technology. Mudanjiang Economic Development Zone is a national level development zone and one of the national incremental distribution network pilot areas. The project made full use of local rice husk, corncob, sawdust and other biomass resources, adopted biomass energy pyrolysis technology and multi cogeneration device to produce bio oil, gas and carbon, and provided steam and a variety of energy products for downstream storage and users, with better economic and social benefits such as promoting resource recycling, driving energy conservation and emission reduction. The project was going to facilitate biomass pyrolysis industrialisation, and the integrated development of power distribution, photovoltaic and other geothermal electricity to build a biomass ecosystem that is fit for scale replication and drive overall development.

**New Gas Projects Development**

The group seized the opportunity arising from industry consolidation. Leveraging on its keen market insight, excellent safety and operation management, flexible project development strategies, and leading integrated energy service philosophy, the Group acquired exclusive operating rights of 30 city-gas projects during the year with an incremental population of 4,015,000, and expected to drive additional gas sales volume of more than 2,500 million cubic meters in the coming years.

In terms of projects acquisitions, the Group acquired Xuanran Natural Gas Co., Ltd. as the Company's subsidiary obtaining exclusive operating rights for 8 gas projects in Anhui Province and Shanghai with huge gas demands. The industries covered by the projects are all industries with growth momentum, including medical food, textile, mechanical processing, auto parts, etc., As Anhui Province is looking to benefit from the relocation of industrial facilities to industrial parks, it is expected that more large-scale industrial users will move into the province going forward, bringing greater development potential to the Group.

As of 31 December 2019, the Group had a total of 217 city-gas projects in China, spanning over 22 provinces, municipalities and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Gansu, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang, Shanxi, Shaanxi, Shanghai, Tianjin with a population of 104 million.

A number of small and medium-sized gas companies with single business model have been under mounting pressure in recent years due to the international trade dispute, regulation on gas distribution returns, the gas shortage as well as the rising financing costs. The Group will continue to look for M&A opportunities that may bring synergies to its existing projects, and strive to expand the operational areas of city-gas business leveraging on its good corporate image, excellent safety operation capability and the integrated energy business model.

**Value Added Business**

Since the Group announced its "customer-centricity" business philosophy, employees started to focus on customers' needs and managed to explore various business opportunities. The Group also provided its member companies with energy experts to evaluate the pain points faced by C/I customers and provide them with energy-saving technologies and retrofitting services, so as to maintain customers' market competitiveness by enhancing their energy consumption and production efficiency, enabling users who could not afford natural gas to gain access to the energy, thereby driving the continuous growth of customers' energy needs. Taking advantage of its brand influence and an online-offline service platform that connects with end customers, the Group actively promoted gas appliances such as cookers, space heaters, water heaters, kitchen ventilators, and disinfection cabinets, and launched a variety of smart products such as smart gas meters, alarms, automatic shut-off valves, etc. Gratle's gas appliances and various household products achieved higher sales to 431,268 units during the year, representing a year-on-year growth of 75.7%.

During the year, revenue from value added business amounted to RMB1,988 million, up 38.8% year-on-year. Benefiting from the Group's diversified value added services provided to customers and continuous efforts to promote high-end and smart products, gross profit increased significantly by 125.5% year-on-year to RMB1,236 million. Currently, penetration rate of value added business among the Group's overall customers is only 6%, while among the newly developed customers during the year, penetration rate was 15%, reflecting the rapid development of this business and its huge growth potential.

**Wholesale of Gas Business**

Leveraging on its well-established upstream resources network, smart dispatching system, and large-capacity LNG transportation fleets, the Group distributed LNG to downstream customers such as small-scale gas distributors, C/I customers outside its city-gas concessions, LNG refuelling stations and power plants. During the year, sales volume increased by 18.1% year-on-year to 7,039 million cubic meters, maintaining a leading share in domestic LNG trading market. However, the warm weather last year resulted insignificant peak demand, coupled with the increasingly fierce competition pressuring downstream LNG market price, wholesales of gas business revenue only up by 2.0% to RMB18,465 million, gross profit decreased by 27.2% year-on-year to RMB166 million.

In the future, the Group will continue to foster alliance and collaboration with upstream suppliers to lock in core resources, strengthen the advantages of the integration of LNG resources, distribution, storage and logistics. The Group will seize opportunities arising from the operation of national pipeline company, Shanghai and Chongqing Petroleum and Natural Gas Exchange and the strategic positioning of Zhoushan terminal to expand its wholesale of gas business.

**Excellent Operation Management to Improve Efficiency**

In 2019, through the active promotion of operational cost management, we actively promoted self-driven organisations' motivation to reduce cost and improve efficiency. We promoted operating efficiency through gas source coordination, pipeline optimisation, reduction of engineering costs and price comparison, which managed to improve our management precision and efficiency with reduced costs. For example, member companies expanded the number of suppliers leveraging the big data through Internet procurement platform. It created a transparent procurement environment through collective bidding and optimisation of procurement strategies, which managed to reduce procurement cost while improving the quality. In terms of pipeline network security operation, ENN Energy also started cooperation with the Urban Management and Law Enforcement, sharing data and information with Urban Management and Law Enforcement through connected platforms, which greatly enhanced efficiency of information acquisition, reduced chances of incidents caused by deterioration of pipelines and enhanced work efficiency of front-line security guards. During the reporting period, each employee of the group has generated an average gross profit of RMB315,237, representing an increase of 11.1% year-on-year while administrative and selling expenses only accounted for 5.8% of revenue. The Group will continue to optimise cost and resources to improve operation efficiency and strive to create greater value for the Group.

**Capital Market Awards**

With years of steady growth in operating results and business models that keep up with market changes, the Group was included in numerous influential rankings in capital market, including No. 29 in The World's 50 Most Valuable Public Utility Brands (No. 2 among Chinese shortlisted companies), reported by Brand Finance, a UK brand valuation consultancy. No. 147 in "China's Top 500 List" ranked by Fortune Magazine, an international financial magazine highly recognised by investment professionals; No. 1434 in Forbes' annual Global 2000 list (No. 11 in Natural Gas sector); and No. 82 in Top 100 Comprehensive Strength List of "Top 100 Listed Company in Hong Kong" co-organised by a number of authoritative financial media and financial institutions. These awards indicated the Group's powerful influence in energy sector and capital market.

In addition, the Group has been awarded with "Most Honored Company" for three consecutive years, and was included in the rankings of "Best CEO" , "Best CFO", "Best IR Program", "Best ESG/SRI Metrics" and "Best Corporate Governance" in Institutional Investor magazine's 2019 All Asia Executive Team Rankings. The Group has also received "Best IR Company during a corporate transaction" from IR Magazine, "Certificate of Excellence" from the "Fifth Investor Relations Award 2019" by the Hong Kong Investor Relations Association, Gold Award in the category of "Energy & Resource Integrated Presentation" from International Annual Report Design Awards (2019 Winter). The above awards indicate that the Group's execution ability, professional information disclosure, investor relations management and corporate governance are highly recognised by the capital market.

## OUTLOOK

Demand for clean, efficient, economical, safe and convenient energy is an eternal pursuit of mankind. After 40 years of reform, China has become the world's second largest economy, and the world's largest energy producer and consumer. Looking ahead, China's energy development is moving towards an era of rapid development. With the transformation, innovation and integration of energy technology, digital technology and energy system, the energy industry is gradually evolving from a traditional energy system to a modern energy system, bringing along tremendous changes to the industry. Energy reform is pushing the transformation from high-carbon to low-carbon or even carbon-free energy consumption; the energy supply is undergoing an evolution from centralised to distributed, and from supply-driven to user-demand-oriented. The relationship between digital information and energy has changed from the absence of energy information and information-assisted energy to data-guided orderly energy flow. The reform of energy such as oil, gas and power system has been deepened, moving from strict planning and control to market-oriented trading. The change is inevitable, and the future is expected. Only by grasping the industry trends and setting clear goals can we gain the opportunity and make arrangement in advance to win in the future.

Looking forward, in developing existing city-gas business, the Group will dig deep when exploring customer potential demand, gain deeper understanding of customer needs, provide better service for existing customers, and focus on seizing opportunities of industry reshuffle in the economic downturn, actively explore quality projects with huge industrial gas and integrated energy demand through joint M&A to promote gas sales volume. Meanwhile, the Group will actively plan and work out supporting measures to address regulatory policies such as engineering and installation fee, gas distribution return, and upstream reforms. In expanding the integrated energy business that supports future development, the Group will adhere to the strategy of progressive implementation and investment, strengthen the core competitiveness of integrated energy business and innovative project operation models, create core product solutions, optimise data and IoT connection and analysis to strengthen the Group's capabilities for rapid development.

We think about the future, and we also have both feet on the ground. The coronavirus outbreak at the beginning of 2020 has affected industries across China, causing them to postpone the resumption of work after Chinese New Year, which will have certain impact on manufacturing and commercial activities as well as on the demands of natural gas. Nevertheless, the central government has introduced 30 financial measures to support the prevention and control of the epidemic, strengthen the counter-cyclical adjustment of monetary policy, maintain basic stability of the financial market, further increase financial support to regions which are greatly affected by the epidemic to better cater to social needs, and fill the demands for basic financial services and promote a sustainable and healthy development of the national economy. The National Development and Reform Commission has also brought forward low-season non-residential city gate price to relieve the mounting pressure from C/I users. The Group believes that the impact of the epidemic on China's economy is temporary. After the epidemic, it is expected that local governments will also introduce policies to stimulate consumption and support enterprises, so that the overall domestic economic growth will gradually return to normal levels.

The Group will also take a number of measures to ensure a stable growth of the whole years' results, including informing project companies to closely monitor customers' production resumption plan, and be well-prepared to provide stable energy supply to customers upon their resumption. The Group will communicate with upstream gas suppliers in a timely manner to pass through the change of cost and reduce supply costs by flexibly adjusting the gas supply structure. The Group will also actively communicate with governments at all levels and seek opportunities from relevant supporting policies, cooperating with the government in terms of epidemic prevention, and actively supporting customers' production resumption, while exploring new business opportunities. During the epidemic, most services provided by the Group have been transferred to mobile application (APP) and online platform, which will lay the foundation for the Company to develop value added business and explore more business opportunities. As a responsible utility company, the Group will actively work with the government and customers to cope with the difficulties and sustain a larger customer base for long-term development.

Notwithstanding the many uncertainties in the international political and economic situation, China-US trade talks have achieved preliminary results. It is believed that the export volume of products from China will increase, and the increasing contribution of domestic consumption to economic growth will offset the impact of some external factors. In the long run, the export of Chinese products to countries and regions along the "Belt and Road" initiative shows growth potential, which will also help the manufacturing industry flourish. China's overall economic growth in 2019 was 6.1%, and the per capita GDP exceeded USD10,000 for the first time during the year, reflecting an improvement in the quality of economic growth. The Group has numerous projects covering the Guangdong Province and Jiangsu Province located along the Eastern coast, where the annual GDP of these provinces has exceeded or approached the RMB10 trillion, becoming the first batch of provinces named "RMB10 trillion GDP provinces" in China. We will leverage on the national strategy of facilitating the regional development around Beijing-Tianjin-Hebei, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area, to quickly tap new growth opportunities for future development.

## FINANCIAL RESOURCES REVIEW

### Financial Resources and Liquidity

The Group's capital mainly derived from cash inflow of its business operations, financing, investment income and equity. The main factors influencing the Group's future cash balance are cash flow from operation, capital expenditures and repayment of debts.

An analysis of the Group's cash, current and non-current debts is as follows:

| | **2019**<br>*RMB million* | **2018**<br>*RMB million* | **Increased/ (Decreased) by**<br>*RMB million* |
|---|---|---|---|
| **Bank balances and cash (excluding restricted bank deposits)** | 7,373 | 7,923 | (550) |
| Long-term debts (including bonds) | 11,650 | 8,688 | 2,962 |
| Short-term debts (including bonds) | 7,495 | 11,561 | (4,066) |
| **Total debts** | 19,145 | 20,249 | (1,104) |
| **Net debts**[1] | 11,772 | 12,326 | (554) |
| **Total equity** | 31,020 | 25,554 | 5,466 |
| **Net gearing ratio**[2] | 37.9% | 48.2% | (10.3ppt) |
| | | | |
| **Net current liabilities** | 11,773 | 11,478 | 295 |
| **Unutilised credit facilities** | 13,448 | 12,110 | 1,338 |

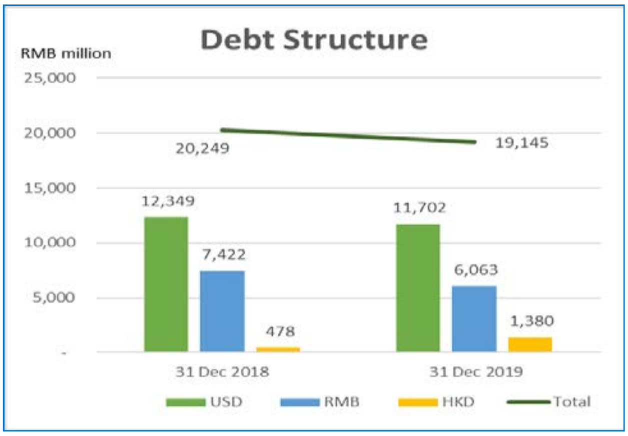
### Borrowings Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability and flexibility of the Group's capital and debts structure. As at 31 December 2019, the Group's total debts amounted to RMB19,145 million, representing a decrease of RMB1,104 million compared to the total debts as of 31 December 2018, mainly paid by income from operating activities. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB7,373 million, maintaining at a level similar to 31 December 2018. As a result, the Group's net gearing ratio reduced to 37.9% as at 31 December 2019 (2018: 48.2%).

[1]Net debts = Total debts - Bank balances and cash (excluding restricted bank deposits)
[2]Net gearing ratio = Net debts / Total equity

*Foreign exchange risk management*

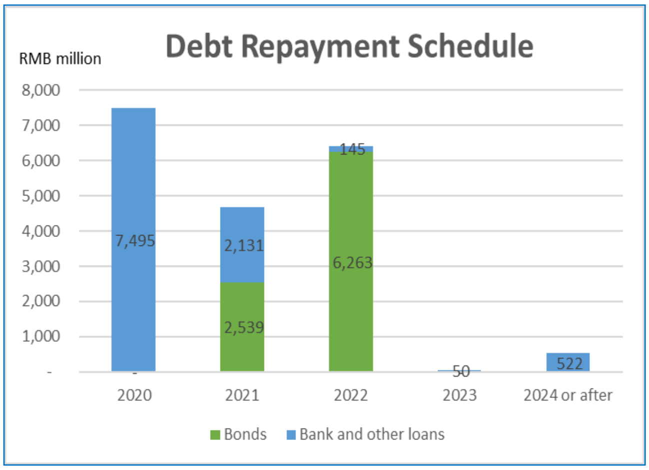
As at 31 December 2019, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,681 million (2018: USD1,806 million) and HK$1,540 million (2018: HK$546 million), equivalent to approximately RMB11,702 million (2018: RMB12,349 million) and RMB1,380 million (2018: RMB478 million) respectively, and among which 67.3% (2018: 62.6%) is long-term debt. In managing foreign exchange risk arising from bonds and loans denominated in foreign currencies, the Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms of which are in line with that of the Group's foreign debts. Such foreign currency derivative contracts can mitigate the foreign exchange risk arising from the interest and principal payments of such foreign debts. As of 31 December 2019, the Group has hedged debt principal of USD785 million (2018: USD700 million) and the hedge ratio of long-term USD debts reached 62.0% (2018: 56.4%). In view of the existence of fluctuation in RMB/USD rate, the Group will continue to closely monitor the foreign exchange market and strive to use foreign currency derivative contracts to mitigate the impact on its results when deemed appropriate.




*The impact of debt repayment on cash flow*

The Group seeks to maintain strict control over the debt level and strike a balance between duration of debt and cost of financing. In managing borrowings, the Group will seek to spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.

The Group has no bonds due in 2020. For bank and other loans that are soon to expire, the Group intends to continue to repay part of it by using bank revolving loans, and partly by issuing new bonds using the remaining RMB2,900 million issuance quota of a wholly-owned subsidiary of the Company as approved by the China Securities Regulatory Commission on 10 December 2018. In addition, the Company can also use the wholly-owned subsidiary's RMB5,000 million green bond quota as approved by the National Development and Reform Commission on 19 January 2020. Half of this quota is required for green projects in accordance with national industrial policies in the fields of "Gas-replacement-coal" projects, natural gas pipeline construction, and distributed energy, and the remaining half can be used to supplement working capital. Therefore, the Group has sufficient resources to repay the borrowings.




## NET CURRENT LIABILITIES

The Group's current liabilities mainly include a large amount of receipts in advance of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

During the year, in response to market changes, the Group replaced certain short-term loans with long-term loans. As at 31 December 2019, the Group's short-term debt to total debt ratio decreased to 39.1% as compared to 57.1% at the end of last year. Net current liabilities maintain at similar level to last year at RMB11,773 million (2018: RMB11,478 million).

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Directors are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

## CREDIT RATING

During the year, the Group's credit ratings given by three international rating agencies (Standard & Poor's, Moody's and Fitch Ratings) remained favorable. United Credit Ratings Co., Ltd., the largest domestic credit rating agency, also maintains the highest AAA credit rating and "stable" outlook for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for onshore business investment. These ratings reflect the Group's sound financial position which can generate highly visible and stable operating cash flow. The management of the Company believes that the good credit rating will continue to provide the Group with sufficient financial resources for its long-term development.

In September 2019, Standard & Poor's adjusted the Company's outlook to a negative watch. It believes that the restructuring at the Company's controlling shareholder level will not have a direct impact on the operations of the Company and also the credit profile on stand-alone basis, but it may need to adopt a group rating methodology to assess the credit profile of the Company due to the reorganised group structure. Standard & Poor's believes the Company's future new controlling shareholder has a weaker credit profile than the Company, hence the reorganisation is likely to have a negative impact on the Company's credit profile. As the reorganisation has not yet been completed and the results of the assessment depend on the final shareholder's structure, Standard & Poor's did not adjust the Company's long-term credit rating and remained at BBB+. Moody's believes the restructuring has no impact on the Company's current credit profile, while Fitch Ratings believes the debt financing required for the restructuring is limited, therefore, they maintain the Company's credit ratings at Baa2 and BBB respectively, both with "stable" outlook.

As of the date of this announcement, the credit ratings of the Company are summarised below:

| | Standard & Poor's | Moody's | Fitch Ratings |
|---|---|---|---|
| Long-term credit rating | BBB+ | Baa2 | BBB |
| Outlook | Watch Negative | Stable | Stable |

The Group's strong financial profile, with further improved operating cash flow during the year and well-managed debt maturities, will support the Company to maintain its current or even achieve higher credit ratings.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group has no significant contingent liabilities.

## FINANCIAL GUARANTEE LIABILITY

As at 31 December 2019, the Group had issued guarantees to banks to secure loan facilities granted to joint ventures. The guaranteed facilities amount utilised was approximately RMB726 million (2018: RMB203 million).

## CAPITAL EXPENDITURES AND COMMITMENTS

*(a) Capital expenditures*

The Group's capital expenditure in 2019 amounted to RMB8,922 million (2018: RMB8,096 million), mainly used for piped gas projects, integrated energy projects and acquisition of new projects.

*(b) Capital commitments*

As at 31 December 2019 and 2018, the Group's capital commitments are as follows:

| | **2019** | **2018** |
|---|---|---|
| | *RMB million* | *RMB million* |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 1,021 | 1,113 |
| Capital commitments in respect of | | |
| - investments in joint ventures | 495 | 212 |
| - investments in associates | 518 | 219 |
| - other equity investments | 259 | 92 |

*(c) Other commitments*

Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and lasts for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivative financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

## COMMODITY PRICE RISK MANAGEMENT

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. Except for the abovementioned foreign currency-denominated debts, the foreign exchange risk faced by the Group mainly comes from LNG international procurement business denominated in USD and linked to the international crude oil price.

*International LNG Procurement Contracts*

The long-term LNG procurement contracts signed by the Group with three international natural gas suppliers was implemented in the second half of 2018, which have been achieved to the normal operation in 2019. The pricing of the contracts is mainly linked to the international crude oil price. In order to cope with the resulting risk of commodity price fluctuations, the Group has established a comprehensive risk management policy to stabilise the LNG procurement costs by hedging a certain reasonable proportion of LNG annual procurement plans to reduce international LNG price exposures.

The oil prices were rebounded in the first half of 2019, followed by falling in the middle of the year and fluctuating in a relatively stable range in the second half of the year. Taking advantage of the optimisation of hedging, the Group recognised a realised gain of RMB178 million and an unrealised gain of RMB633 million for the year ended 31 December 2019.

The Group introduced and implemented a world leading Energy Trading Risk Management System (ETRM), which could closely combine financial derivative transactions with physical trading, achieving a digitalised risk management process in real time. In addition, the group will continually optimise the existing hedging strategy, trading authorisation and risk management policies to better manage the risks associated with the Group's import LNG business.

## EVENT AFTER THE REPORTING PERIOD

The slump in international crude oil price in early March 2020 would enable the Group to benefit from lower procurement costs in accordance with the long-term LNG contracts, which would be partially mitigated by the negative effects on the Group's commodity derivative contracts. The Group will closely monitor the international crude oil market and perform detailed assessment instantly. Considering the unpredictability of crude oil market development and price trend, it is not practicable to provide a reasonable estimate of the effect on the Group's financial performance in the coming future.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## AUDIT COMMITTEE

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with the management the accounting principles and practices adopted by the Group and discuss auditing, risk management, internal control and financial reporting matters. The Audit Committee also maintains an appropriate relationship with the Company's independent auditor and provides advice and comments to the Board.

During the year, the Audit Committee consists of four members, being Mr. Law Yee Kwan, Quinn (Chairman of the committee), Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Ms. Yien Yu Yu, Catherine, who are all independent non-executive directors. A meeting of the Audit Committee was held on 13 March 2020 to review with the management on the Group's annual results and the Audited Consolidated Financial Statements for the year ended 31 December 2019.

## DISTRIBUTABLE RESERVES

According to the applicable laws of the Cayman Islands, the Company's reserve available for distribution as at 31 December 2019 amounted to RMB3,573 million.

## FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board now recommends a final dividend of HK$1.67 (2018: HK$1.19) (equivalent to approximately RMB1.50 (2018: RMB1.04)) per ordinary share payable to shareholders of the Company whose names are on the register of members on Thursday, 21 May 2020. The resolution on the final dividend is subject to approval by the shareholders in the forthcoming AGM and will be paid to shareholders of the Company on or before Wednesday, 22 July 2020.

For the purpose of ascertaining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 8 May 2020 to Wednesday, 13 May 2020, both days inclusive. In order to qualify for the right to attend and vote at the AGM, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Thursday, 7 May 2020.

For the determination of entitlement to the final dividend to be approved at the AGM, the register of members of the Company will be closed from Wednesday, 20 May 2020 to Thursday, 21 May 2020, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates should be lodged with Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 19 May 2020.

The address of Computershare Hong Kong Investor Services Limited is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

During year 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the scheme rules and trust deed of the Share Award Scheme, purchased over-the-counter a total of 2,415,100 shares of the Company from Nomura International plc at a total consideration of HK$181,857,030.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the year.

Senior managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) of the Company, have also been requested to comply with the provisions of the Model Code.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules throughout the year in 2019 except a deviation from Code Provision E.1.2 that Mr. Wang Yusuo (Chairman of the Board) was unable to attend the AGM of the Company held on 30 May 2019 due to business trips. Alternatively, Mr. Wang Dongzhi, an executive director of the Company, attended and acted as the chairman of the AGM to ensure effective communication with shareholders of the Company at the AGM. The chairman of the Audit Committee, Mr. Law Yee Kwan, Quinn and the chairman of the Remuneration Committee, Mr. Yuen Po Kwong had attended the AGM.

## DISCLOSURE OF INFROMATION AND PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE AND COMPANY WEBSITE

The Annual Results announcement has been published on the Company's website at www.ennenergy.com and the Stock Exchange's HKEXnews website at www.hkexnews.hk.

The Company's 2019 Annual Report will be available on the websites of the Company and the Stock Exchange's HKEXnews on and before or after Friday, 3 April 2020, and despatch to shareholders.

By order of the Board
**ENN ENERGY HOLDINGS LIMITED**
**WANG YUSUO**
*Chairman*

Hong Kong, 16 March 2020

*As at the date of this announcement, the Board comprises five executive directors, namely Mr. Wang Yusuo (Chairman), Mr. Cheung Yip Sang, Mr. Han Jishen (Chief Executive Officer), Mr. Zhang Yuying (President) and Mr. Wang Dongzhi; two non-executive directors, namely Mr. Wang Zizheng and Mr. Jin Yongsheng; and four independent non-executive directors, namely Mr. Ma Zhixiang, Mr. Yuen Po Kwong, Mr. Law Yee Kwan, Quinn and Ms. Yien Yu Yu, Catherine.*