



Chairman's Statement

Dr. Lee Ka-kit
Chairman





Economic Landscape

In 2021, the global economy showed signs of recovery despite the ongoing volatility, as industrial production and commodity trading steadily picked up. However, the repeated outbreaks of COVID-19 hindered full economic recovery. Furthermore, due to geopolitical confrontation and military conflict, global oil and natural gas prices are expected to soar. Added to the inflation and pace of interest rate hikes in the United States, as well as the higher commodity prices, the uncertainties of the global economy are being further intensified.

Thanks to the country's scientific coordination of anti-COVID-19 measures, focused economic development, as well as its intensified cross-cyclical adjustment of the country's macro policies, the Chinese mainland's economy maintained positive momentum and development, demonstrating its ongoing resilience. National fiscal policy put the focus back on the improvement of quality and efficiency, hand-in-hand with the improvement of the expenditure structure and the enhancement of fiscal sustainability. Further to the ongoing implementation of tax and fee cuts, the People's Bank of China also lowered the deposit reserve ratio for financial institutions. This reduced costs in the real economy, helping to stimulate strength and vigour among market players, and creating the suitable financial environment for top-quality development and supply-side structural reform.

These macro policies played a significant role in restoring investment confidence in business, and at the same time helping to increase the disposable income of residents and promoting the growth of domestic consumption. The economy in the Chinese mainland recorded a growth of 8.1% in 2021, creating added momentum to the world's economic recovery.

Reforms and Prospects of Energy Marketisation in the Chinese mainland

During the year, PipeChina basically completed the integration of oil and gas trunk pipeline networks across the nation. This integrated operation of oil and gas trunk pipelines in the Chinese mainland is greatly significant, as it improves the efficiency of oil and gas resource allocations and ensures national energy security. It will further promote the construction of an oil and gas production, supply, storage and distribution system.

In 2021, the incremental demand and growth rate of natural gas in the Chinese mainland rebounded significantly compared with that in 2020. The demand for natural gas among urban residents and industrial enterprises as well as requirements for power generation thus increased dramatically. Annual consumption reached 372.6 billion cubic metres, up 12.7% year on year, accounting for about 10% of total primary energy consumption.

The proportion of permanent urban residents in the Chinese mainland hit 64.72% in 2021, close to the goal of 65% as stated in the 14th Five-Year Plan. The rate is expected to rise significantly (a 1% increase indicates a growth of tens of millions in the urban population). This will create a huge demand for clean energy, push up the urban gasification rate and help the Group achieve considerable growth in our city gas and renewable energy businesses.

In the next phase, achieving "carbon peak" and "carbon neutrality" will become the important drivers of economic transformation and development. Clean energy will play an important role in addressing climate change and ensuring energy supply security, opening up more opportunities for development. The total consumption of natural gas is expected to exceed 500 billion cubic metres by 2030.



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2021 Business Highlights

In 2021, thanks to the rapid economic recovery in the Chinese mainland, the significant increase in gas sales and positive results in renewable energy sales, Towngas Smart Energy recorded a revenue of HK\$17,125 million, up 33.5% year on year, with a profit after taxation attributable to shareholders of the Company of HK\$1,612 million (before taking into account fair value change attributable to convertible bond derivative instruments), up around 11% year on year.

Up to the end of the year, the Group had 244 projects in 23 provinces, autonomous regions and municipalities in the Chinese mainland, covering city gas and renewable energy businesses. The gas sales volume of Towngas Smart Energy increased significantly during the year, with an overall growth in gas sales volume of 21% to 14,579 million cubic metres. The total number of customers of the Group reached 15.09 million, representing an increase of 950,000 compared to last year, with 17,000 new industrial and commercial users and 933,000 new residential customers.

The Group focuses on a "Zero-Carbon Smart Industrial Park Integrated Energy Service Provider" strategy, and promotes business development in three major regions, - Northern, Eastern and Southern (mainly the three Eastern provinces, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area), completing over 110 strategic renewable energy projects cumulatively by the end of 2021. This figure includes the development of 32 zero-carbon smart industrial park projects currently under negotiation (the total number includes HKCG's, our parent company's, projects as well). Our goal is to serve 200 quality parks in five years time.

On 26 November 2021, we officially changed our name to Towngas Smart Energy Company Limited ("Towngas Smart Energy") to accelerate our transformation into a renewable energy investor and operator. Prior to this change, Affinity Equity Partners, a well-known private equity fund,

announced their investment of HK\$2.8 billion in the Group based on its recognition and belief that as a Group, we are able to leverage the solid foundations we have built in the city gas industry and the many advantages we hold in aligning ourselves with the national goals of achieving "carbon peak" and "carbon neutrality", as we continue to develop our renewable energy business and become a leader in the integrated smart energy industry.

Environmental, Social and Governance (ESG)

As an energy corporation, Towngas Smart Energy attaches great importance to ESG management. Thus, we have long incorporated the concept of sustainable development into our day-to-day operations. Our Board of Directors regularly reviews important ESG-related issues and has formulated the Group's Environmental, Social and Governance Policies. We encourage all project companies, associates, suppliers and business partners to refer to the principles developed by the Group, wherever and whenever applicable. In addition, in 2019, the Group established an ESG Committee led by Board members, and elevated as a Board Committee this year, dedicated to promoting various ESG-related schemes and closely following up on implementation of the goals set in the various areas.

Ever since 2011, we have consistently been selected as a constituent of the Hang Seng Corporate Sustainability Index. During the year, we received a number of industry awards, notably in the ESG field. Key awards and accolades include:

- *China News Weekly*, China News Service
- **The title of 2021 Low-Carbon Role Model**



- China-Asia Economic Development Association, *Global Times* and *Chinese Economic News*
 - **The accolade of Innovative Enterprise in China’s Economy in the New Era**
- Included in the list of **Top 60 China Corporate Citizen 520 Responsible Brand 2021**
- Ranked on the list of **Top 50 Contributors in the Research Report on the Contribution of Chinese Energy Enterprises to Low-carbon Development**
- 2022 Global Investment Trend Forum & the 6th Golden Hong Kong Stocks Awards Ceremony
 - **Best Energy and Resources Company**
 - **Most Socially Responsible Listed Company**

We always regard safety as a top priority. As such, we have established a sound safety risk management framework and strictly implemented a safety responsibility system. Each year, different safety themes are developed and implemented, and resources are allocated to renovate facilities in areas under management and conduct technical training for staff.

The Group has established a department dedicated to environmental protection, which formulates environmental management policies and measures, develops environmental safety manuals for employees, carries out environmental management supervision and inspection, ensures compliance with all relevant environmental laws, and regularly reviews and updates such policies and measures. Various project companies of the Group have obtained their ISO 14000 environmental management system certification, and most suppliers also hold ISO 9000, ISO 14000 and OHSAS 18000 certification. Our parent company, HKCG, took the lead in signing the “Chinese City-Gas Enterprise Methane Emission Control Proposal” to actively support the formulation

and implementation of government policies on methane emission control, which also promotes the country’s methane emissions reduction scheme in line with international standards. In addition, we host a variety of education and training activities to encourage all project companies and employees to participate in environmental activities, raise environmental awareness in the community, and strengthen the promotion of “green office and low-carbon life” concepts.

Over the years, we have been active in safeguarding the interests of stakeholders and the public, as we undertake our responsibilities as a corporate citizen. We have been operating our “Bauhinia Movement” across the country, donating gas stoves and daily necessities to those in need. Our charity philosophy to “benefit the community and give back to society” is now bearing fruit, particularly in our project companies. Over the years, our iconic community initiative “Gentle Breeze Movement” has donated money and supplies of over RMB3 million in total to support schools with limited resources. Active for many years, it currently covers 14 provinces and municipalities and benefits more than 9,000 students from grassroots families. Additionally, our Care for Life Foundation, which I first initiated in 2009, is committed to providing medical assistance for orphaned and poor children with birth defects (mainly congenital heart disease) in the Chinese mainland. By the end of December 2021, more than 41,000 children in 31 provinces, autonomous regions and municipalities have received assistance under this scheme.

As one of the earliest companies to put ESG concepts into practice, we firmly believe that in promoting environmental measures, undertaking social responsibilities, and improving corporate governance, we need to be proactive. Rather than passively “waiting for problems to arise”, we need to actively care for our planet, our communities and even the many matters that arise around us. We need to adhere to a persistent attitude and take the initiative to create shared values for society as a whole.



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Business Outlook

Over the years, the Group has been working conscientiously in the gas business in the Chinese mainland, with extensive experience and teams of professionals committed to the construction and operation of city infrastructure, provision of first-rate services, as well as government-business cooperation. Currently, we are actively responding and aligning ourselves to the national goals of achieving carbon peak and carbon neutrality. The Group will seize the opportunities, leverage our strengths and adopt our strategy for parallel development both in the city gas and renewable energy sectors to achieve steady business growth.

We have diversified our presence in upstream LNG terminals, production, storage, trade, etc, and reduced the gas source costs in downstream cities to better seize gas source-side opportunities arising from the "X+1+X" natural gas reforms and maintain our competitiveness.

The underground salt cavern gas storage facility in Jintan, Jiangsu Province, owned by our parent company HKCG, leverages the wide-spread national pipeline network to allocate gas sources across different regions. It is expected to become the gas storage and allocation hub for LNG receiving terminals in Eastern China under the "liquid in, gas out" regime.

During the year, the Tangshan Caofeidian LNG receiving terminal, another HKCG investment, was launched. Upon completion, it can receive 1 million tonnes of LNG every year. The Group's shale gas liquefaction plant in Weiyuan, Sichuan, set to be completed in early 2023, will become our gas-storage and peak-shaving base in Southwest China. The equity interest acquisition in Shanghai Gas was also completed within the year. The two LNG terminals that Shanghai Gas Co., Ltd (Shanghai Gas) has the right to use also help the Group further secure the supply of gas sources.

With the completion of the natural gas pipeline between Russia and the Chinese mainland in 2019, the bottleneck in gas sourcing in the Northeast has been greatly eased, with the energy supply becoming much more stable. On the industrial side, benefiting from the Chinese mainland's coal-to-gas conversion policy, we continue to drive growth in gas sales. In addition, we strive to develop our heating business as we take advantage of our hot water and energy-saving technologies to tap into the commercial sector. We promote distributed residential heating and central district heating in the residential market, allowing highly efficient use of natural gas in our heating business.

Against the backdrop of achieving the goals of carbon peak and carbon neutrality, the renewable energy industry, as a highlighted area of national development, has opened up enormous business opportunities. With accelerated economic development and rapid urban expansion in the Chinese mainland, exploring a roadmap for zero-carbon development in urban areas has become the basis for achieving nation-wide carbon neutrality. Based on the technologies of cloud computing, big data and the Internet of Things among others, we have established an integrated energy system. This system spans multi-energy supply, photovoltaics, energy storage, as well as charging and swapping to achieve a reduction in our carbon footprint and the digital transformation of industrial park energy management, and help drive the development of zero-carbon cities.

Going forward, we will build on synergies with our parent company HKCG, and take advantage of our some 400,000 industrial and commercial customers, 50,000 employees as well as our mass energy storage technologies to further accelerate the development and establishment of zero-carbon smart industrial parks. Meanwhile, we will continue to provide our 40,000,000 residential customers with safe and quality products and services.



The Group will continue to boost the sales of our “Bauhinia” brand. Apart from appliances, like gas stoves and water heaters, range hoods and gas dryers, “Bauhinia” also supplies tailored kitchen design and smart kitchen equipment. Adding to this list, Bauhinia has tapped into the Chinese mainland’s heating market and developed a residential heating business under the “Towngas Heating” brand. We also focus on providing comfortable and healthy lifestyles. We have thus joined hands with outstanding partners in various industries to provide customers with one-stop and diversified services covering health management, health education and health consumption. In the future, we will leverage the resource advantages of our parent company to coordinating and collaborating with them, in our efforts to create develop better with a macro perspective.

Looking forward to 2022, we will continue to steadily develop our city gas business while stepping up the promotion of our business in zero-carbon smart industrial parks. At the same time, we will increase our investment in, and commitment to, technology research and development to create leading energy knowledge and expertise, thus cementing our core competitive advantages. We seek to grow into a leading player in the country’s energy management industry over the next 5 to 10 years.

In view of the continuous and rapid spread of the COVID-19 pandemic, the Group will prudently balance the needs of business development and operations to ensure that sufficient funds are available to meet our business needs.

The Central Government, together with every sector in the country, have gone all-out in their support of Hong Kong’s combat against the fifth wave of the pandemic, the most severe yet in two years. They have swiftly rolled out and implemented a series of anti-pandemic measures to aid Hong Kong, while at the same time ensuring the steady supply of medical and other critical supplies. We would like to express our sincere appreciation on behalf of the Group.

In conclusion, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude for the support received from our shareholders, and the tremendous efforts made by our staff.

Dr. Lee Ka-kit
Chairman
17 March 2022