



Financial Review

Excluding the loss from change in fair value of embedded derivative component of convertible bonds, profit after taxation attributable to shareholders of the Company rose by **11%** to **HK\$1,612 million**.



In 2021, total gas sales volume of the Group rose by **21%** to **14,579 million cubic metres**.

Total number of customers of the Group reached **15.09 million**, with **950,000 new customers**.



Revenue

In 2021, the economy resumed growth in the Chinese mainland, driving the increase in energy consumption. The total revenue of the Group increased by 33.5% from HK\$12,826 million in 2020 to HK\$17,125 million in 2021. Revenue from sales of piped gas and energy, gas connection and extended business recorded growth.

Business Segments	2021 (HK\$ million)	2020 (HK\$ million)	Change (%)
Sales of piped gas and energy	13,951	10,228	36.4
Gas connection	2,429	2,210	9.9
Extended business	745	388	92.0
Total	17,125	12,826	33.5

In 2021, the total consolidated volume of gas sold of the Group amounted to 4,213 million cubic metres, representing an increase of 17.1% over last year. There were 525,000 new household connections, representing an increase of 11% over last year. Revenue from extended business also recorded significant growth as the Group actively expanded its extended business with Covid-19 waning in the Chinese mainland.



Total Operating Expenses

Total operating expenses of the Group included gas fuel, stores and materials used, staff costs, depreciation and amortisation, and other expenses. Total operating expenses in the financial year of 2021 amounted to HK\$15,020 million, representing an increase of 36.5% from HK\$11,002 million in the financial year of 2020.

	2021 (HK\$ million)	2020 (HK\$ million)	Change (%)
Gas fuel, stores and materials used	12,254	8,743	40.2
Staff costs	1,304	1,018	28.1
Depreciation and amortisation	868	763	13.8
Other expenses	594	478	24.3
Total	15,020	11,002	36.5

Total operating expenses as a percentage of revenue in 2021 was higher than that in 2020, mainly attributable to the rise in the purchase price of natural gas in 2021.

Other Income

The increase in other income compared to that for the financial year of 2020 was mainly due to the increase in government grants, interest and other miscellaneous income.

Other (Losses) Gains, Net

The increase in other losses compared to that for the financial year of 2020 was mainly due to the loss of HK\$359 million from change in fair value of embedded derivative component of convertible bonds.

Share of Results of Associates

During the financial year of 2021, share of results of associates increased by 20.2% from HK\$363 million last year to HK\$436 million, mainly due to the significant increase in the volume of gas sold by associates during the year, resulting in increase of profit compared with last year.

Share of Results of Joint Ventures

During the financial year of 2021, share of results of joint ventures increased by 29.1% from HK\$334 million last year to HK\$431 million, mainly due to the increase in the volume of gas sold and connection income earned by joint ventures during the year, resulting in increase of profit compared with last year.

Finance Costs

During the financial year of 2021, the finance costs of the Group increased by 38.2% from HK\$426 million last year to HK\$589 million. The increase was mainly due to new bridging loans borrowed for the acquisition of Shanghai Gas Co., Ltd. ("Shanghai Gas"), issuance of convertible bonds and increased borrowings for the investment in new projects during the year.



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Profit for the Year

During the financial year of 2021, profit for the year amounted to HK\$1,527 million, representing a year-on-year decrease of 7.3%. Profit attributable to shareholders of the Company amounted to HK\$1,253 million, representing a year-on-year decrease of 13.4%. Excluding the impact of change in fair value of embedded derivative component of convertible bonds of HK\$359 million, profit for the year amounted to HK\$1,886 million, representing a year-on-year increase of 14.4%, and profit attributable to shareholders of the Company was HK\$1,612 million, representing a year-on-year increase of 11.4%. Basic earnings per share amounted to HK41.53 cents, representing a year-on-year decrease of 16.2%. Operating cash inflow during the year amounted to HK\$2,253 million, basically similar to that of last year.

Financial Position

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

As at 31 December 2021, the Group's bank loans and other loans amounted to HK\$16,623 million (31 December 2020: HK\$11,493 million), of which HK\$8,633 million (31 December 2020: HK\$5,137 million) represented bank loans and other loans due within 1 year, HK\$7,968 million (31 December 2020: HK\$6,343 million) represented bank loans and other loans due between 1 to 5 years, and HK\$22 million (31 December 2020: HK\$13 million) represented bank loans and other loans due over 5 years. Other than the HK\$10,442 million (31 December 2020: HK\$8,147 million) in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred in mainland China and most transactions, assets and liabilities were stated in Renminbi ("RMB"). As a result, the Group bore currency risk from fluctuations of RMB exchange rate for non-RMB denominated deposits and borrowings. The Group's borrowings denominated in RMB amounted to HK\$15,648 million (31 December 2020: HK\$9,749 million) and the remaining HK\$975 million (31 December 2020: HK\$1,744 million) borrowings were denominated mainly in Hong Kong dollars and United States dollars ("USD") as at the end of the year. Cross currency interest rate swaps contracts were made to hedge foreign currency risk for most of the non-RMB denominated loans so as to reduce risk arising from fluctuations of RMB. Apart from the borrowings as mentioned above, the Group also has RMB loans amounted to approximately HK\$67 million (31 December 2020: nil), approximately HK\$1 million (31 December 2020: HK\$5 million) and approximately HK\$38 million (31 December 2020: HK\$21 million) from the parent company HKCG, joint ventures and non-controlling shareholders on a fixed interest rate basis respectively.

In June 2021, the Group established a USD2 billion MTN Programme which helps strengthen financial position of the Group and expand its sources of funding. Up to the year ended 31 December 2021, the Group issued notes in the total nominal amount of HK\$920 million with maturity term of 3 years.



In October 2021, the Group entered into a subscription agreement with a strategic investor for the issue of 116,783,333 new shares at HK\$5.00 per share and 5-year RMB-denominated convertible bonds in aggregate principal amount of RMB1,836 million (equivalent to HK\$2,218 million) (“Subscription”). The proceeds from the Subscription amounting to approximately HK\$2,802 million are for the Group’s general corporate purposes, including investing in renewable energy business. The Subscription was completed in November 2021. Details of the Subscription were disclosed in the announcements of the Company dated 25 October 2021 and 18 November 2021.

As at 31 December 2021, the Group had a gearing ratio (net debt to total equity plus net debt) of 37.9% (31 December 2020: 28.9%). The notable increase in the gearing ratio of the Group during the year was mainly due to the bridging loans drawn from banks to fund the capital increase of Shanghai Gas, issue of notes under the MTN Programme and issue of the above stated convertible bonds.

As at 31 December 2021, the Group’s cash and cash equivalents together with time deposits amounted to HK\$4,081 million (31 December 2020: HK\$2,335 million), of which 99% (31 December 2020: 99%) are RMB-denominated and the rest are denominated in Hong Kong dollars and USD.

As at 31 December 2021, the Group has unutilised source of fund from MTN Programme amounting to approximately HK\$14,674 million and unutilised facilities from banks and HKCG amounting to approximately HK\$9,397 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity, financing arrangements with banks, the MTN Programme, convertible bonds and equity funding. The Group maintains a strong liquidity position with its cash and cash equivalents on hand, unutilised credit facilities and its MTN Programme. We have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our good credit ratings, the Group enjoys favourable interest rates on bank loans and notes.

Credit Ratings

Moody’s Investors Service maintained the issuer rating of Towngas Smart Energy at “Baa1” with a “stable” outlook rating. Standard & Poor’s also affirmed the long-term corporate credit rating of Towngas Smart Energy at “BBB+” and its rating outlook as “stable”. These ratings reflect the credit rating agencies’ recognition of the Group’s stable business and credit profile.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2021.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2021 of HK fifteen cents per share (2020: HK fifteen cents per share). The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.