港華智慧能源有限公司
Towngas Smart Energy Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

2021 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Business of the Group continues to grow with a total gas sales volume increased by 21% to 14.579 billion cubic metres, while revenue jumped 34% to HK$17,125 million.
- Excluding the loss of HK$359 million 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.
- A final dividend of HK fifteen cents per share is proposed.
- Riding on the solid foundation of our city gas business, the Group expanded its business operations to build zero-carbon smart industrial parks. As of end of 2021, the Group operates over 240 projects in 23 provinces, autonomous regions and municipalities in Chinese mainland, with business spanning across city gas and renewable energy.

RESULTS

The board of directors (the "Board") of Towngas Smart Energy Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2021.

The audited consolidated results of the Group for the year ended 31 December 2021 together with the comparative figures of 2020 are as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	**2021** ***HK$'000***	2020 *HK$'000*
Revenue	*3*	**17,125,447**	12,826,237
Total operating expenses	*4*	**(15,019,700)**	(11,001,870)
		2,105,747	1,824,367
Other income		**150,920**	106,195
Other (losses) gains, net		**(390,237)**	1,487
Share of results of associates		**435,807**	362,688
Share of results of joint ventures		**431,437**	334,168
Finance costs	*5*	**(588,923)**	(426,204)
Profit before taxation	*6*	**2,144,751**	2,202,701
Taxation	*7*	**(617,659)**	(554,893)
Profit for the year		**1,527,092**	1,647,808
Profit for the year attributable to:			
Shareholders of the Company		**1,253,202**	1,447,113
Non-controlling interests		**273,890**	200,695
		1,527,092	1,647,808
Proposed final dividend of HK fifteen cents (2020: HK fifteen cents) per ordinary share	*8*	**473,419**	445,340
		HK cents	*HK cents*
Earnings per share	*9*		
– Basic		**41.53**	49.56
– Diluted		**41.53**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	HK$'000	*HK$'000*
Profit for the year	**1,527,092**	1,647,808
Other comprehensive income (expense) for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**823,020**	1,429,353
Fair value change on investments in equity instruments at fair value through other comprehensive income	**(284,684)**	(789,041)
Income tax relating to items that will not be reclassified to profit or loss	**69,983**	197,830
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**(85,137)**	(174,889)
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**116,890**	163,835
	640,072	827,088
Total comprehensive income for the year	**2,167,164**	2,474,896
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**1,852,253**	2,183,432
Non-controlling interests	**314,911**	291,464
Total comprehensive income for the year	**2,167,164**	2,474,896

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	**2021** **HK$'000**	2020 HK$'000
Non-current assets			
Property, plant and equipment		**22,810,412**	20,016,653
Right-of-use assets		**941,481**	882,716
Intangible assets		**471,083**	475,074
Goodwill		**5,750,478**	5,625,492
Interests in associates		**11,183,849**	4,887,677
Interests in joint ventures		**3,629,468**	3,198,329
Loans to associates		**47,313**	69,090
Equity instruments at fair value through other comprehensive income		**1,497,846**	1,721,875
Deposits paid for acquisition of subsidiaries/associates		**178,829**	415,776
		46,510,759	37,292,682
Current assets			
Inventories		**704,509**	643,117
Loans to associates		**67,207**	16,398
Loans to joint ventures		**194,873**	198,212
Trade and other receivables, deposits and prepayments	*10*	**2,463,040**	2,237,218
Amounts due from non-controlling shareholders		**215,637**	170,092
Time deposits over three months		**9,571**	109,290
Bank balances and cash		**4,071,107**	2,225,954
		7,725,944	5,600,281
Current liabilities			
Trade and other payables and accrued charges	*11*	**2,994,759**	2,689,325
Contract liabilities		**3,939,179**	3,733,570
Lease liabilities		**15,312**	22,562
Amounts due to non-controlling shareholders		**79,855**	54,876
Taxation payable		**1,611,627**	1,224,176
Borrowings – amounts due within one year		**8,633,082**	5,136,717
Loan from ultimate holding company		**66,617**	-
Loans from joint ventures		**730**	5,231
Other financial liabilities		**29,992**	55,839
		17,371,153	12,922,296
Net current liabilities		**(9,645,209)**	(7,322,015)
Total assets less current liabilities		**36,865,550**	29,970,667

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 31 DECEMBER 2021

	2021	2020
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**60,174**	39,554
Borrowings – amounts due after one year	**7,990,330**	6,356,041
Deferred taxation	**830,839**	848,342
Loans from non-controlling shareholders	**37,518**	20,890
Other financial liabilities	**40,694**	57,238
Convertible bonds	**2,733,237**	-
	11,692,792	7,322,065
Net assets	**25,172,758**	22,648,602
Capital and reserves		
Share capital	**315,989**	296,893
Reserves	**22,579,063**	20,426,006
Equity attributable to shareholders of the Company	**22,895,052**	20,722,899
Non-controlling interests	**2,277,706**	1,925,703
Total equity	**25,172,758**	22,648,602

1. BASIS OF PREPARATION

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$9,645 million as at 31 December 2021. The Group's liabilities as at 31 December 2021 included borrowings of approximately HK$8,633 million that are repayable within one year from the end of the reporting period.

As at 31 December 2021, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$14,674 million and unutilised facilities from banks and ultimate controlling shareholder, The Hong Kong and China Gas Company Limited (“HKCG”), amounting to approximately HK$9,397 million ("Facilities"). As of the date of approval for issuance of the consolidated financial statements, the Group had unutilised source of fund from MTN Programme and the Facilities amounting to approximately HK$14,691 million and HK$8,214 million, respectively. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$8,633 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks/creditors and has good credibility.

Taking into account of the internally generated funds, unutilised source of fund from MTN Programme and those available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements.

Amendment to HKFRS 16	Covid-19-Related Rent Concession
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except for the Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 which results in additional disclosures, the application of the other amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into three operating divisions, which also represent the operating segments of the Group for financial reporting purposes. The principal activities of the operating and reportable segments are as follows:

Sales of piped gas and energy	–	Sales of piped gas (mainly natural gas) and other types of energy
Gas connection	–	Construction of gas pipeline networks under gas connection contracts
Extended business	–	Sales of gas related household appliances and related products, and other related value-added services

In prior years, the Executive Directors assessed the Group's businesses by two operating segments, namely (a) sales and distribution of piped gas and related products and (b) gas connection. During the year ended 31 December 2021, the Executive Directors have reassessed and restructured its businesses into (i) sales of piped gas and energy (ii) gas connection and (iii) extended business. The comparative information has been restated to conform with the current year's presentation.

Segment results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other income, other (losses) gains, net and unallocated corporate expenses such as central administration costs and directors' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

Information regarding these segments is presented below:

	Sales of piped gas and energy *HK$'000*	Gas connection *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
For the year ended 31 December 2021				
REVENUE				
Revenue recognised at a point in time	**13,951,433**	**1,796,237**	**744,727**	**16,492,397**
Revenue recognised over time	**-**	**633,050**	**-**	**633,050**
External	**13,951,433**	**2,429,287**	**744,727**	**17,125,447**
Segment results	**1,086,045**	**1,118,476**	**89,956**	**2,294,477**
Other income				**150,920**
Other losses, net				**(390,237)**
Unallocated corporate expenses				**(188,730)**
Share of results of associates				**435,807**
Share of results of joint ventures				**431,437**
Finance costs				**(588,923)**
Profit before taxation				**2,144,751**
Taxation				**(617,659)**
Profit for the year				**1,527,092**

For the year ended 31 December 2020 (restated)	Sales of piped gas and energy *HK$'000*	Gas connection *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
REVENUE				
Revenue recognised at a point in time	10,227,961	1,651,794	388,078	12,267,833
Revenue recognised over time	-	558,404	-	558,404
External	10,227,961	2,210,198	388,078	12,826,237
Segment results	999,208	909,852	66,220	1,975,280
Other income				106,195
Other gains, net				1,487
Unallocated corporate expenses				(150,913)
Share of results of associates				362,688
Share of results of joint ventures				334,168
Finance costs				(426,204)
Profit before taxation				2,202,701
Taxation				(554,893)
Profit for the year				1,647,808

Amounts of segment assets and liabilities of the Group are not reviewed by the Executive Directors or otherwise regularly provided to the Executive Directors.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

All of the Group's revenue was generated in the PRC (place of domicile of the group entities that derive revenue) and over 90% of the Group's non-current assets other than financial instruments were also located in the PRC (place of domicile of the group entities that hold such assets).

4. TOTAL OPERATING EXPENSES

	2021	2020
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**12,254,356**	8,743,202
Staff costs	**1,303,943**	1,017,976
Depreciation and amortisation	**867,895**	762,337
Other expenses	**593,506**	478,355
	15,019,700	11,001,870

5. FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**584,598**	433,967
Effective interest expenses on convertible bonds	**9,265**	-
Bank charges	**6,321**	5,384
Interest on lease liabilities	**3,747**	3,063
	603,931	442,414
Less: amounts capitalised	**(15,008)**	(16,210)
	588,923	426,204

6. PROFIT BEFORE TAXATION

	2021	2020
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**19,726**	18,546
Depreciation of right-of-use assets	**63,462**	57,074
Cost of inventories sold	**13,168,902**	9,515,749
Depreciation of property, plant and equipment	**784,707**	686,717
Staff costs	**1,303,943**	1,017,976
Change in fair value of embedded derivative component of convertible bonds	**358,643**	-
Loss on disposal of right-of-use assets	**-**	231
Impairment provision of goodwill	**60,000**	-
Impairment provision of plant, property and equipment	**8,939**	-
Impairment loss of trade receivables, net of reversal	**6,274**	33,026
and after crediting:		
Dividend income from equity instruments at fair value through other comprehensive income	**31,719**	29,261
Gain on disposal of right-of-use assets	**5,409**	-
Gain on disposal of property, plant and equipment	**21,363**	296
Exchange gain, net	**10,573**	1,422
Interest income	**40,602**	28,058

7. TAXATION

	2021	2020
	HK$'000	*HK$'000*
The charge comprises:		
People's Republic of China ("PRC") Enterprise Income Tax ("EIT")		
– current year	**565,638**	537,566
Deferred taxation	**52,021**	17,327
	617,659	554,893

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

The EIT rates applicable for the Group's PRC subsidiaries are 15% or 25% (2020: 15% or 25%).

Following the "Catalogue of Encouraged Industries in Western Region" which was promulgated by the National Development and Reform Commission of the PRC in 2014, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

8. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2020 of HK$445,340,000 (2020: HK$430,603,000 in respect of the year ended 31 December 2019) was recognised as distribution, being HK fifteen cents per ordinary share (2020: HK fifteen cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK fifteen cents (2020: HK fifteen cents) per ordinary share has been proposed by the Board and is subject to approval by shareholders at the annual general meeting and compliance with the Companies Act of the Cayman Islands.

9. EARNINGS PER SHARE

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

	2021	2020
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company attributable to the Company for the purpose of basic and diluted earnings per share	**1,253,202**	1,447,113

	Number of shares	
	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of basic and diluted earnings per share	**3,017,444**	2,920,079

The computation of diluted earnings per share for the year ended 31 December 2021 does not assume the conversion of all convertible bonds issued as their assumed conversion would result in an increase in earnings per share.

No diluted earnings per share was presented as there were no potential ordinary shares in issue for the year ended 31 December 2020.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2021	2020
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**1,241,290**	1,101,251
Prepayments	**571,274**	631,212
Other receivables and deposits	**650,476**	504,755
	2,463,040	2,237,218

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables net of allowance of credit losses presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
0 to 90 days	**952,900**	883,463
91 to 180 days	**81,132**	39,115
Over 180 days	**207,258**	178,673
	1,241,290	1,101,251

11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2021	2020
	HK$'000	*HK$'000*
Trade payables	**1,587,061**	1,418,051
Consideration payable for acquisitions of businesses	**80,700**	78,187
Other payables and accruals	**1,325,645**	1,192,770
Amount due to ultimate holding company (note)	**1,353**	317
	2,994,759	2,689,325

Note: The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
0 to 90 days	**905,106**	803,056
91 to 180 days	**209,004**	209,887
181 to 360 days	**172,091**	142,431
Over 360 days	**300,860**	262,677
	1,587,061	1,418,051

12. EVENT AFTER THE REPORTING PERIOD

On 3 December 2021, Towngas China Energy Investment Limited ("TCEI"), an indirectly wholly-owned subsidiary of the Group has entered into equity interest transfer agreements ("Transfer Agreements") with Hong Kong and China Integrated Power Investment (Shenzhen) Limited ("HCIP"), an indirectly wholly-owned subsidiary of HKCG, pursuant to which HCIP agreed to sell the equity interests in 31 renewable energy companies held by it to TCEI at the aggregate consideration of RMB509,206,000 (equivalent to HK$613,206,000) based on and subject to the terms and conditions set out in the relevant Transfer Agreements. Details are disclosed in the announcement dated 3 December 2021. As at 31 December 2021, the acquisition of 15 out of 31 renewable energy companies has been completed.

From the end of reporting period and up to the date of approval of financial statements, the acquisition of another 10 renewable energy companies with an aggregate net asset value of HK$47,387,000 was completed and the total consideration amounted to HK$47,416,000.

FINANCIAL REVIEW

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.

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.

REVIEW OF OPERATIONS

In 2021, the Group has achieved several new milestones in its business development plan, including the introduction of the new investor Affinity Equity Partners, the completion of the first phase of the plan for cross-shareholding with Shanghai Gas, and the business transformation from a single gas business entity into an integrated clean energy supplier, focusing on promoting smart energy solutions in the zero-carbon smart park scenario. In line with the new development direction, the Company passed a resolution at the extraordinary general meeting on 26 November to officially rename the Company as Towngas Smart Energy Company Limited.

Renewable Business

While the Chinese mainland has promised to become carbon neutral by 2060, the Government has set specific medium-term goals of further increasing the share of renewable energy consumption to 25% and expanding the total installed capacity of photovoltaic systems and wind power to more than 1.2 billion kilowatts by 2030. Possessing the absolute advantages in terms of scalability, cost and safety, the solar energy and wind energy industries are expected to be the key driver of the goals.

Many industrial and commercial customers of the Group are located in industrial parks. Therefore, the installation and operating costs of photovoltaic systems could be effectively reduced, providing strong support for photovoltaic projects targeting industrial parks. At present, the Chinese mainland has about 2,600 industrial parks at national and provincial levels. Towngas Smart Energy aims to provide smart energy solutions for 200 of these industrial parks by 2025. By 2021, the Group and its parent company HKCG had carried out more than 110 renewable energy projects in 21 provinces, autonomous regions and municipalities and developed 32 zero-carbon smart industrial parks, with business scope spanning multi-energy supply (cooling, heat, electricity), photovoltaics, energy storage, charging and swapping stations, integrated energy services for industrial and commercial customers.

During the year, Towngas Smart Energy cooperated with multiple industry-leading enterprises to accelerate business planning. The Group established with Contemporary Amperex (CATL) the joint venture Towngas CATL Smart Energy Technology (Suzhou) Company Limited (港華時代智慧能源科技(蘇州)有限公司), an innovative energy technology enterprise with a particular focus on shared energy storage and user-side energy storage for zero-carbon smart industrial parks. The Group also set up the Joint Research Centre for Regional Integrated Energy Planning Technology with Tsinghua University to explore regional integrated energy planning, multi-energy complementation, integrated gas use and other key technologies. Besides, the Group collaborated with Tencent Cloud to create a smart energy ecological platform to carry out innovations in business areas such as energy and carbon monitoring, energy operation, energy and carbon trading, and auxiliary services using digital technologies including cloud computing, big data, artificial intelligence (AI), edge computing and Internet of Things. The Group and State Power Investment Corporation (SPIC) reached a strategic cooperation in the field of battery charging and swapping for heavy trucks, in an effort to jointly promote the development of zero-carbon industrial parks and source-grid-load-storage integration and to achieve the implementation of business scenarios and building of charging and swapping stations.

Gas Business

In 2021, the Chinese mainland's apparent consumption of natural gas reached 372.6 billion cubic metres, an increase of approximately 12.7% over the same period last year; and the economy grew by 8.1%. With steady economic recovery and the goal of achieving carbon emission peak by 2030 and carbon neutrality by 2060, natural gas, as one of the cleanest fossil energy sources, will undoubtedly play an important role in the Chinese mainland's energy structure transition. The demand for natural gas will undoubtedly continue unabated.

Under this circumstances, the gas sales volume of Towngas Smart Energy increased robustly by 21% to about 14,579 million cubic metres during the year. Specifically, the increase in industrial, commercial and wholesale markets was the most significant. Industrial gas sales volume was 7,667 million cubic metres, representing an increase of 28% over 6,008 million cubic metres in 2020 and accounting for 53% of the total gas sales volume of the Group; wholesale gas sales volume was 2,032 million cubic metres, representing an increase of 29% over 1,573 million cubic metres of last year and accounting for 14% of the total gas sales volume of the Group; commercial gas sales volume was 1,719 million cubic metres, representing an increase of 13% over 1,515 million cubic metres of last year and accounting for 12% of the total gas sales volume of the Group; residential gas sales volume increased from 2,643 million cubic metres to 2,796 million cubic metres, up 6%, accounting for 19% of the total gas sales volume. Distributed energy business recorded the equivalent of 365 million cubic metres of natural gas sales in 2021, compared with the equivalent of 264 million cubic metres of natural gas sales of last year and accounting for approximately 2% of the total gas sales volume of the Group. The total number of customers of the Group reached 15.09 million, representing an increase of 950,000 over that of last year.

In 2021, the COVID-19 pandemic affected the global demand for liquefied natural gas (LNG). In the first half of the year, in the context of oversupply and oil price decline, international LNG prices remained stable. However, in the second half of the year, given the surge in demand and shortage of natural gas supply, international LNG prices reached a record high. Meanwhile, with significantly rising upstream natural gas prices in the Chinese mainland and intensifying pressure on ensuring supply in the Chinese mainland during winter, the Group faced downside pressure on the dollar margin of gas sales in the second half of the year. In addition, strongly promoting coal-to-gas conversion to industrial customers through a lower dollar margin to boost gas sales volume also diluted the overall dollar margin of the Group's gas business.

In the upstream, the Group continued to expand channels to purchase lower-cost international LNG, including signing long-term LNG import agreements together with its parent company HKCG, building a shale gas liquefaction project in Weiyuan County, Sichuan province, and HKCG's investing in LNG terminal storage tanks in Tangshan City, Hebei province, thus consolidating the Group's independent gas sources and preparing for future natural gas transactions. By the end of the year, the LNG terminal storage tanks project in Tangshan, Hebei province had started preliminary construction. After being put into use, it is expected to enhance the Group's peak shaving capacity in North China and Northeast China.

Extended Business

During the year, the Group extended its business footprint and used digital technology to build a lifestyle cloud platform focusing on the two themes of comfort and health, covering a variety of products and health services, including smart stoves, high-end kitchen cabinets, home services, insurance, cooking courses, healthy food, and other lifestyle-related products.

In 2021, the Group completed the first phase of the plan for cross-shareholding with Shanghai Gas, gaining access to the huge and premium customer base of Shanghai Gas which can boost the initial development momentum of the Group's extended business in the local market. The Group will further tap the consumption potential and demand of customers to open a new chapter for the expansion of extended business.

In 2021, under the favourable Healthy China policy, the Group launched the health brand Moment+. The Towngas Lifestyle e-commerce platform was upgraded into a comprehensive service platform, Moment+, promoting a healthy lifestyle through an online and offline integrated operating model. On the basis of the original gas service and product sales function, the online platform Moment+ provides articles and short videos on the theme of healthy living, including nutritional recipes, weight management tips, cleaning and maintenance skills, with a view to providing one-stop health management information. In terms of offline operations, the Group opened six Moment+ community lifestyle experience centres during the year, and another 20 stores were set up in the traditional customer centres.

Furthermore, based on the huge customer base nationwide, the Group will accelerate the integration of gas and insurance services and strive to promote the gas insurance business to increase the value per customer. By doing so, the Group aims to provide customers with more diversified value-added services and an additional protection for their life and property while generating extra income.

New Project Developments

In July 2021, the Group completed the capital injection to Shanghai Gas, and held 25% of its equity interest. Shanghai Gas has a huge customer base of 6.4 million in Shanghai and the right to manage and operate two LNG receiving terminals. As the location of the carbon trading centre, Shanghai is expected to become a pilot zone for the opening of the carbon market and the trial implementation in various industries in the future. As the natural gas pricing mechanism of Shanghai Gas will be refined in 2022, the Group reached an agreement with Shanghai Gas and Shenergy Group, the controlling shareholder of Shanghai Gas, to extend the transition period to the end of 2021. The Group will share the results of Shanghai Gas in proportion to its shareholding from 1 January 2022. Based on the Enhanced Strategic Cooperation Agreement entered into with Shanghai Gas, the Group has fully cooperated with Shanghai Gas in the fields of natural gas procurement, extended business and renewable energy to achieve common strategic goals.

Apart from Shanghai Gas, with the reinvestment projects of its project companies taken into account, the Group had four new city gas projects in the year, namely 長春燃氣公主嶺豐瑞能源發展有限公司 (Changchun Gas Gongzhuling Fengrui Energy Development Co., Ltd.) in Jilin province, 杭州余杭港華燃氣有限公司 (Hangzhou Yuhang Hong Kong and China Gas Co., Ltd.) in Zhejiang province, 池州前江燃氣有限公司 (Chizhou Qianjiang Gas Co., Ltd.) and 安慶長城港華燃氣有限公司 (Anqing Changcheng Hong Kong and China Gas Co., Ltd.) in Anhui province. These four projects are expected to bring the Group an annual gas sales of 245 million cubic metres of natural gas equivalent in the next five years.

In 2021, the Group made steady progress in renewable energy projects. During the year, the Group had a total of 35 new renewable energy projects, increasing the total number of renewable energy projects established to 56, covering business types such as industrial and commercial distributed photovoltaics, energy storage, carbon management, and electricity engineering. Specifically, the Group added an integrated energy project in the Yixiu Economic Development Zone of Anqing City, Anhui province during the year, increasing the number of integrated energy projects established by the Group to 22. Once completed, the project will continuously provide clean, environmental-friendly, stable and efficient heat sources for the parks, thereby optimising the parks' energy structure.

In addition, the Group added another 21 renewable energy projects in early 2022. It will continue to expand its business presence, strive to become the No. 1 brand in the field of zero-carbon smart parks, and consolidate its position as a leader in the renewable energy industry in the Chinese mainland.

Safety Management

The Chinese mainland saw frequent occurrence of gas accidents in 2021. On 4 November, the Office of Work Safety Commission of the State Council (國務院安全生產委員會辦公室) issued a circular requiring all regions, relevant departments and units to earnestly implement the requirements of the central government, learn lessons from gas accidents, and comprehensively strengthen gas safety in urban areas, in an effort to curb the frequent occurrence of gas accidents.

The Group regards safety production as the top priority. Our parent company, HKCG, introduced regular indoor inspection into the Chinese mainland as early as in the 1990s, and became the first gas group to use safety stoves with ignition detection devices in 2005. These two measures were later incorporated into the regulations of the Ministry of Housing and Urban-Rural Development for regulating the gas industry, raising the safety standards for the domestic gas industry. The Chairman of the Group spearheaded the establishment of the Safety and Environmental Protection Committee composed of relevant senior management, and made comprehensive arrangements for the safety risk management of the Group by holding at least 8 meetings and a number of on-site inspections. The actions taken by the Group’s management not only set up a good example, but also promoted the implementation of various safety measures of the Group.

The Group adopts a two-level system to manage and control safety risks, being supervision and guidance on safety risks by the Group and implementation of safety production measures by project companies. By combining the two, the management and control of the Group are seamlessly connected with the management of project companies. The Group has established a group-level health, safety and environmental protection ("HSE") management system, and prepared a comprehensive three-level document (management manual, management procedure and guideline) of HSE management system for the full implementation by its project companies. Paying attention to safety production and occupational health in all aspects of its production and operation, the Group has systematised and standardised safety risk management, supported project companies in setting up safety management systems suitable for themselves, and further optimised the Group's safety management. To urge project companies to strictly fulfill their responsibilities as the first person responsible for safety production, the Risk Department of the Group has established the Monthly Safety Inspection System for General Managers and specified professional inspection items, pursuant to which, general managers of project companies shall conduct on-site inspections on risk management at least twice a month (one planned and one unplanned).

The Group strictly follows a prevention-focused strategy for safety risk management, and strives to forecast risk accidents through smart operation monitoring systems such as AI smart video system platform, drone patrol, and optical fiber intrusion early warning system for underground pipe network, so as to prevent accidents from happening.

Employee and Remuneration Policies

As at 31 December 2021, the Group had 23,287 employees, 99% of whom worked in the Chinese mainland. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

Awards and Accolades

Towngas Smart Energy received a number of industry awards in the area of sustainable development and corporate social responsibility respectively during the year for its outstanding Environmental, Social and Governance (ESG) performance and contributions.

In the aspect of sustainable development, Towngas Smart Energy was awarded the "2021 Low-Carbon Role Model" by China News Weekly of China News Service, for its excellent performance in population, industry, ecology, humanities and space of city-building aspects. The Group was awarded the "2021 Vibrant City Builder" by China News Weekly of China News Service and Propaganda Department of Guangzhou Municipal Committee of CPC, in recognition of the efforts in providing quality energy supply services to cities during the critical carbon peak period of the 14th Five-Year Plan. The Group was also selected as "2021 Sustainability Brand" presented by Southern Weekly, for its visions based on industrial greening, creating shared value, and quality operations. Moreover, it was chosen as "Innovative Enterprise in China's Economy in the New Era", by China-Asia Economic Development Association, Global Times and Chinese Economic News, in recognition of its outstanding performance in innovation, influence, contribution, development capacity and operation capacity.

In the aspect of corporate social responsibility, the Group was awarded the "Top 60 China Corporate Citizen 520 Responsible Brand 2021" by the Organising Committee of the Summit on China Corporate Citizen 520 Responsible Brand and the "Caring Enterprise in the 10th Walk for Charity" presented by Shenzhen Special Zone Daily and Shenzhen Project Care Foundation for the outstanding contributions to charity projects.

Environmental, Social and Governance (ESG)

The Group continues to uphold the principles of "benefitting society through active participation in social services; and contributing to the community through dedicated efforts in environmental protection". In doing so, it strives to undertake its corporate social responsibilities to make itself an industry role model in community caring, environmental protection and promotion of the sustainable development of society as a whole, so as to create a better future for its stakeholders.

The Group's Board of Directors places great emphasis on committing resources to environmental protection, community services and corporate governance. It has set up the ESG Committee consisting of senior management members, who are required to report to the Board of Directors on the implementation of projects and to regularly review the progress of these projects. A department is dedicated to the coordination of community initiatives and environmental activities. This department is supported by the Towngas Smart Energy Volunteer Team, which has recruited an increasing number of volunteers. As at the end of 2021, the team had over 7,000 volunteers, and the Group contributed more than 300,000 hours to social services during the year.

Moreover, to address investors' concerns about the ESG performance, the Group continues its efforts to raise the performance in relevant ratings so as to increase transparency. Towngas Smart Energy so far has been awarded excellent ratings by several rating agencies engaged in the environmental, social and governance aspects. During the year, it was also rated for the first time by internationally recognised Sustainalytics and included into FTSE Russell ESG Index.

The COVID-19 pandemic continued into 2021. To express our gratitude and support to the frontline healthcare workers committed to combating the pandemic, we donated supplies that catered to their needs. During the Dragon Boat Festival, the Group once again held the annual charity event Rice Dumplings for the Community. More than 50 project companies participated in the event, and nearly 1,000 volunteers showed up in reaction to the Group's appeal. Together with members from the local community, education institutions and charities, they made and donated over 20,000 rice dumplings to the communities in need. Moreover, the Group continued to launch Bauhinia Movement during the year by providing free gas appliance installation services for impoverished families and disadvantaged groups, conducting safety inspections, and promoting safety awareness in gas uses among the public.

As for the efforts in protecting the environment, Towngas Smart Energy holds a large-scale event carrying an environmental theme every year. The theme of 2021 was "Environmental Naturalists", which encouraged enterprises and employees to reduce waste at source in their daily operations and lives, and to strive to turn waste into treasure. More than 90 project companies participated in the event. In particular, around 60 project companies participated in the "Towngas Green Planting Day", on which approximately 9,600 saplings were seeded.

Long-term Development Strategies

The energy structure of various countries is constantly being adjusted, with share of the more efficient and clean energy expanding and the demand for low-carbon energy increasing. The world is at a critical period of transitioning from fossil energy to renewable energy.

In the long run, Towngas Smart Energy will build an integrated, smart and sustainable renewable energy business based on three core pillars: integration, digitalisation and decarbonisation. By leveraging the new business development model of building and managing zero-carbon smart industrial parks, and applying cutting-edge technologies such as advanced energy storage technology, smart energy platform, blockchain and chips, the Group can create an integrated source-grid-load-storage smart regional energy supply management system.

As for integration, based on the requirements of different scenarios in zero-carbon industrial parks, Towngas Smart Energy provides customers with integrated smart energy solutions by investing in and operating distributed photovoltaics, multi-energy supply, energy efficiency management, user-side energy storage, and charging and swapping stations in a variety of ways. For digitalisation, Towngas Smart Energy will independently develop its smart energy ecological cloud platform to provide zero-carbon industrial parks and customers with digital energy solutions. Such solutions can help them achieve smart operation and maintenance of energy assets, monitor and analyse energy use by users, and improve of energy-saving solutions. For decarbonisation, based on solid cooperative relations with customers, Towngas Smart Energy provides customers in zero-carbon industrial parks with services like carbon management, green electricity trading to help them reduce carbon emissions and achieve green and low-carbon operations.

With the state's goal of achieving carbon emission peak by 2030 and carbon neutrality by 2060, natural gas, as one of the cleanest fossil energy sources, will undoubtedly play an important role in the Chinese mainland's energy structure transition.

The Group will vigorously invest in developing integrated energy projects such as industrial, residential and commercial distributed heating projects in the city gas market, with a view to providing strong support for the Group's gas sales growth during the 14th Five-Year Plan period. Meanwhile, the Group's companies in all regions are actively expanding the distributed heating business and employing the "gas + integrated energy" development model to tap the potential of existing customers in operating areas.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021, except that the trustee of the share award scheme adopted by the Company on 17 August 2021 ("Share Award Scheme"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 3,772,000 Shares at a total consideration of HK$19,928,000.

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year.

Compliance with Rule 3.10A of the Listing Rules

As disclosed in the announcement dated 9 March 2022, following the resignation of Dr. Hu Zhang-hong as an Independent Non-Executive Director on 9 March 2022, the Company did not meet the requirement of Rule 3.10A of the Listing Rules. The Board will take steps to fulfill the requirement of the Listing Rules as soon as practicable and in any event within three months from 9 March 2022. Further announcement will be made by the Company as and when appropriate.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2021.

Board Audit and Risk Committee

The Company has a board audit and risk committee (the "Board Audit and Risk Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems.

A meeting of the Board Audit and Risk Committee was held on 28 February 2022 to review the Group's audited consolidated financial statements for the year ended 31 December 2021 in conjunction with the Group's internal auditors and Deloitte Touche Tohmatsu, the Group's external auditor.

Annual General Meeting

The Annual General Meeting (the "AGM") will be held on Thursday, 26 May 2022. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about Thursday, 14 April 2022.

Final Dividend

The Board recommended the payment of a final dividend from the retained earnings and share premium account of the Company of HK fifteen cents per share (2020: HK fifteen cents per share) payable to shareholders whose names are on the register of members on 6 June 2022, which is subject to approval by shareholders at the AGM and compliance with the Companies Act of the Cayman Islands.

The proposed final dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid shares in lieu of cash in whole or in part under the scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, rank pari passu in all respects with the existing shares in issue on the date of the allotment and issue of the new shares except that they shall not be entitled to the proposed final dividend. The circular containing details of the Scrip Dividend Scheme and the relevant election form is expected to be sent to shareholders on or about 10 June 2022.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the new shares to be issued under the Scrip Dividend Scheme.

It is expected that the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be sent by ordinary mail to shareholders at their own risk on or about 12 July 2022.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:-

(1) from 23 May 2022 to 26 May 2022, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

(2) from 1 June 2022 to 6 June 2022, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 20 May 2022 and 31 May 2022 respectively.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all the loyal and dedicated employees of the Group. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 17 March 2022

At the date of this announcement, the Board comprises:

Non-Executive Directors:
LEE Ka-kit *(Chairman)*
LIU Kai Lap Kenneth

Independent Non-Executive Directors:
Moses CHENG Mo-chi
Brian David LI Man-bun
James KWAN Yuk-choi

Executive Directors:
Alfred CHAN Wing-kin
Peter WONG Wai-yee *(Chief Executive Officer)*
John HO Hon-ming *(Company Secretary)*
Martin KEE Wai-ngai *(Chief Operating Officer – Gas Business)*
John QIU Jian-hang *(Chief Operating Officer – Renewable Business)*