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港華燃氣有限公司
Towngas China Company Limited

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

2020 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights:

- Total gas sales volume of the Group rose by 8% to over 12 billion cubic metres.
- Profit after taxation attributable to shareholders of the Company rose by 11% to HK$1,447 million.
- A final dividend of HK fifteen cents per share is proposed.

RESULTS

The board of directors (the "Board") of Towngas China 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 2020.

The audited consolidated results of the Group for the year ended 31 December 2020 together with the comparative figures of 2019 are as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	**2020** **HK$'000**	2019 *HK$'000*
Revenue	*2*	**12,826,237**	12,924,371
Total operating expenses	*3*	**(11,001,870)**	(11,168,806)
		1,824,367	1,755,565
Other income		**106,195**	80,518
Other gains (losses), net		**1,487**	(165,848)
Share of results of associates		**362,688**	359,313
Share of results of joint ventures		**334,168**	383,217
Finance costs	*4*	**(426,204)**	(398,707)
Profit before taxation	*5*	**2,202,701**	2,014,058
Taxation	*6*	**(554,893)**	(501,485)
Profit for the year		**1,647,808**	1,512,573
Profit for the year attributable to:			
Shareholders of the Company		**1,447,113**	1,308,425
Non-controlling interests		**200,695**	204,148
		1,647,808	1,512,573
Proposed final dividend of HK fifteen cents (2019: HK fifteen cents) per ordinary share	*7*	**445,340**	430,603
		HK cents	*HK cents*
Earnings per share	*8*		
– Basic		**49.56**	46.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *HK$'000*	2019 *HK$'000*
Profit for the year	**1,647,808**	1,512,573
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	**1,429,353**	(365,792)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**(789,041)**	1,965,045
Income tax relating to items that will not be reclassified to profit or loss	**197,830**	(492,232)
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	**(174,889)**	39,614
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**163,835**	(40,017)
	827,088	1,106,618
Total comprehensive income for the year	**2,474,896**	2,619,191
Total comprehensive income for the year attributable to:		
Shareholders of the Company	**2,183,432**	2,471,357
Non-controlling interests	**291,464**	147,834
Total comprehensive income for the year	**2,474,896**	2,619,191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	**2020** **HK$'000**	2019 *HK$'000*
Non-current assets			
Property, plant and equipment		**20,016,653**	17,219,229
Right-of-use assets		**882,716**	799,774
Intangible assets		**475,074**	465,432
Goodwill		**5,625,492**	5,297,022
Interests in associates		**4,887,677**	4,263,989
Interests in joint ventures		**3,198,329**	2,756,425
Loans to associates		**69,090**	21,924
Equity instruments at fair value through other comprehensive income		**1,721,875**	2,399,044
Deposit paid for acquisition of an associate	*9*	**415,776**	-
Other financial asset		**-**	24,483
		37,292,682	33,247,322
Current assets			
Inventories		**643,117**	587,262
Loans to associates		**16,398**	10,962
Loans to joint ventures		**198,212**	215,759
Trade and other receivables, deposits and prepayments	*10*	**2,237,218**	1,940,690
Amounts due from non-controlling shareholders		**170,092**	192,702
Time deposits over three months		**109,290**	62,752
Bank balances and cash		**2,225,954**	1,937,437
		5,600,281	4,947,564
Current liabilities			
Trade and other payables and accrued charges	*11*	**2,689,325**	2,215,160
Contract liabilities		**3,733,570**	3,309,677
Lease liabilities		**22,562**	21,034
Amounts due to non-controlling shareholders		**54,876**	64,140
Taxation payable		**1,224,176**	962,593
Borrowings – amounts due within one year		**5,136,717**	3,433,529
Loan from a non-controlling shareholder		**-**	19,485
Loans from joint ventures		**5,231**	30,370
Other financial liability		**55,839**	-
		12,922,296	10,055,988
Net current liabilities		**(7,322,015)**	(5,108,424)
Total assets less current liabilities		**29,970,667**	28,138,898

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ***(Continued)***

AT 31 DECEMBER 2020

	2020	2019
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**39,554**	35,572
Borrowings – amounts due after one year	**6,356,041**	6,805,833
Deferred taxation	**848,342**	982,070
Loan from a non-controlling shareholder	**20,890**	-
Other financial liabilities	**57,238**	15,413
	7,322,065	7,838,888
Net assets	**22,648,602**	20,300,010
Capital and reserves		
Share capital	**296,893**	287,069
Reserves	**20,426,006**	18,324,987
Equity attributable to shareholders of the Company	**20,722,899**	18,612,056
Non-controlling interests	**1,925,703**	1,687,954
Total equity	**22,648,602**	20,300,010

1A. 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$7,322 million as at 31 December 2020. Taking into account of the internally generated funds, unutilised available credit facilities from banks and parent company, The Hong Kong and China Gas Company Limited ("HKCG"), and potential term loan 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.

1B. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the 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.

Impacts on application of amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

For the purpose of determining whether a forecast transaction (or a component thereof) in a cash flow hedge is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

The application of the amendments impacts the Group's accounting in the following ways:

Under the on-going interest rate benchmark reform, there is uncertainty over the negotiation with the counterparties on the introduction of fall back clauses. The amendments modify certain hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty.

Assessment of hedging relationship and effectiveness

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Cash flow hedges

For the purpose of reclassifying the amount accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

2. 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 two operating divisions, which also represent the operating segments of the Group for financial reporting purposes, namely sales and distribution of piped gas and related products, and gas connection. They represent two major lines of business engaged by the Group. The principal activities of the operating and reportable segments are as follows:

Sales and distribution of piped gas and related products	–	Sales of piped gas (mainly natural gas) and gas related household appliances*
Gas connection	–	Construction of gas pipeline networks under gas connection contracts

* Sales from gas related household appliances contributed to less than 5% of the Group's total revenue.

Segments 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 gains (losses), 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:

For the year ended 31 December 2020	**Sales and distribution of piped gas and related products** *HK$'000*	**Gas connection** *HK$'000*	**Consolidated** *HK$'000*
REVENUE			
Revenue recognised at a point in time	**10,616,039**	**1,651,794**	**12,267,833**
Revenue recognised over time	**-**	**558,404**	**558,404**
External	**10,616,039**	**2,210,198**	**12,826,237**
Segment results	**1,065,428**	**909,852**	**1,975,280**
Other income			**106,195**
Other gains (losses), 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**

For the year ended 31 December 2019	Sales and distribution of piped gas and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
REVENUE			
Revenue recognised at a point in time	10,835,119	1,552,166	12,387,285
Revenue recognised over time	-	537,086	537,086
External	10,835,119	2,089,252	12,924,371
Segment results	1,033,527	893,605	1,927,132
Other income			80,518
Other gains (losses), net			(165,848)
Unallocated corporate expenses			(171,567)
Share of results of associates			359,313
Share of results of joint ventures			383,217
Finance costs			(398,707)
Profit before taxation			2,014,058
Taxation			(501,485)
Profit for the year			1,512,573

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 People's Republic of China (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).

3. TOTAL OPERATING EXPENSES

	2020	2019
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**8,743,202**	8,905,355
Staff costs	**1,017,976**	1,091,156
Depreciation and amortisation	**762,337**	693,254
Other expenses	**478,355**	479,041
	11,001,870	11,168,806

4. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**433,967**	406,640
Bank charges	**5,384**	6,724
Interest on lease liabilities	**3,063**	3,211
	442,414	416,575
Less: amounts capitalised	**(16,210)**	(17,868)
	426,204	398,707

5. PROFIT BEFORE TAXATION

	2020	2019
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**18,546**	18,712
Depreciation of right-of-use assets	**57,074**	53,912
Cost of inventories sold	**9,515,749**	9,638,211
Depreciation of property, plant and equipment	**686,717**	620,630
Staff costs	**1,017,976**	1,091,156
Change in fair value of other financial asset and liabilities	**-**	64,825
Loss on disposal of right-of-use assets	**231**	-
Impairment provision of goodwill	**-**	148,000
Impairment loss of trade receivables, net of reversal	**33,026**	16,121
and after crediting:		
Dividend income from equity instruments at fair value through other comprehensive income	**29,261**	30,515
Gain on disposal of right-of-use assets	**-**	2,445
Gain on disposal of property, plant and equipment	**296**	3,261
Exchange gain, net	**1,422**	41,271
Interest income	**28,058**	20,130

6. TAXATION

	2020	2019
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**537,566**	474,665
Deferred taxation		
– taxation charge for the year	**17,327**	26,820
	554,893	501,485

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 ranged from 15% to 25% (2019: 15% to 25%).

Following the "Catalogue of Encouraged Industries in Western Region" which was promulgated by the National Development and Reform Commission ("NDRC") 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.

7. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2019 of HK$430,603,000 (2019: HK$421,504,000 in respect of the year ended 31 December 2018) was recognised as distribution, being HK fifteen cents per ordinary share (2019: 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 2020 of HK fifteen cents (2019: 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.

8. EARNINGS PER SHARE

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

	2020	2019
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share, being profit for the year attributable to shareholders of the Company	**1,447,113**	1,308,425

	Number of shares	
	2020	2019
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,920,079**	2,840,607

No diluted earnings per share for both years were presented as there were no potential ordinary shares in issue for both years.

9. DEPOSIT PAID FOR ACQUISITION OF AN ASSOCIATE

On 27 October 2020, the Company entered into a capital increase agreement with Shenergy (Group) Company Limited and Shanghai Gas Co., Ltd. ("Shanghai Gas"), pursuant to which the Company agreed to increase the registered capital and capital reserves of Shanghai Gas by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to approximately HK$5,583,274,000) and the Company will own 25% equity interests in Shanghai Gas upon completion. An amount of RMB350,000,000 (equivalent to approximately HK$415,776,000) was paid to Shanghai United Assets and Equity Exchange as a deposit for such acquisition of associate of the Company. Details of the above transaction were disclosed in the circular of the Company dated 25 January 2021. Up to the date of issuance of this announcement, the transaction has not yet completed.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020	2019
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**1,101,251**	886,834
Prepayments	**631,212**	561,195
Other receivables and deposits	**504,755**	492,661
	2,237,218	1,940,690

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 presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**883,463**	682,276
91 to 180 days	**39,115**	77,053
Over 180 days	**178,673**	127,505
	1,101,251	886,834

11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**1,418,051**	1,220,225
Consideration payable for acquisitions of businesses	**78,187**	73,724
Other payables and accruals	**1,192,770**	920,205
Amount due to ultimate holding company (note)	**317**	1,006
	2,689,325	2,215,160

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:

	2020	2019
	HK$'000	*HK$'000*
0 to 90 days	**803,056**	706,935
91 to 180 days	**209,887**	122,759
181 to 360 days	**142,431**	172,570
Over 360 days	**262,677**	217,961
	1,418,051	1,220,225

FINANCIAL REVIEW

In 2020, total gas sales volume of the Group rose by 8% to 12,003 million cubic metres and total number of customers reached 14.14 million, with 704,000 new customers. Profit after taxation attributable to shareholders of the Company rose by 11% to HK$1,447 million as compared to last year. Basic earnings per share amounted to HK49.56 cents.

Revenue

Revenue from the sales of piped gas and related products decreased 2% from HK$10,835 million in 2019 to HK$10,616 million in 2020. This decrease was primarily attributable to the decrease in the average gas sales prices. The total consolidated volume of gas sold during the year amounted to 3,599 million cubic metres, representing an increase of 6% compared to last year. In the gas connection business, income from connection fees for the year amounted to HK$2,210 million, up 6% as compared to 2019, with approximately 470,000 consolidated new household connections being made in 2020.

Total Operating Expenses

Total operating expenses in 2020 amounted to HK$11,002 million, a decrease of 1% as compared to HK$11,169 million in 2019. The cost of gas fuel, stores and materials used decreased 2% from HK$8,905 million in 2019 to HK$8,743 million. The decrease was mainly attributable to the decrease in purchase price of natural gas during the year. Staff costs dropped by 7% while depreciation and amortisation expenses rose by 10%.

Finance Costs

Finance costs in 2020 amounted to HK$426 million, a rise of 7% as compared to 2019. This rise in finance costs reflected the increase in loans mainly for the acquisition and set-up of new projects and business development.

Equity Instruments at Fair Value through Other Comprehensive Income

Equity instruments at fair value through other comprehensive income mainly consisted of the Group's investment in Chengdu Gas Group Corporation Ltd. ("Chengdu Gas") and Nanjing Public Utilities Development Co., Ltd. ("Nanjing Public"). Chengdu Gas and Nanjing Public were stated at fair value and the fair value change was recognised as other comprehensive income during the 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 2020, the Group's bank loans and other loans amounted to HK$11,493 million (31 December 2019: HK$10,239 million), of which HK$5,137 million (31 December 2019: HK$3,433 million) represented bank loans and other loans due within 1 year, HK$6,343 million (31 December 2019: HK$6,790 million) represented bank loans and other loans due between 1 to 5 years, and HK$13 million (31 December 2019: HK$16 million) represented bank loans and other loans due over 5 years. Other than the HK$8,147 million (31 December 2019: HK$6,876 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. As a result, the Group bore currency risk from fluctuations of Renminbi exchange rate for non-Renminbi denominated deposits and borrowings. The Group's borrowings denominated in Renminbi amounted to HK$9,749 million (31 December 2019: HK$8,495 million) and the remaining HK$1,744 million (31 December 2019: HK$1,744 million) borrowings were denominated mainly in Hong Kong dollars and United States dollars 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-Renminbi denominated loans so as to reduce risk arising from fluctuations of Renminbi. Apart from the borrowings as mentioned above, the Group also has Renminbi loans amounted to approximately HK$5 million (31 December 2019: HK$30 million) and approximately HK$21 million (31 December 2019: HK$19 million) from joint ventures and a non-controlling shareholder on a fixed interest rate basis respectively. As at 31 December 2020, the Group did not have any pledge on assets. As at the end of the year, the Group had a gearing ratio (net debt to total equity plus net debt) of 28.9% (31 December 2019: 29.0%).

As at 31 December 2020, the Group's cash and cash equivalents together with time deposits amounted to HK$2,335 million (31 December 2019: HK$2,000 million), of which 99% (31 December 2019: 98%) are Renminbi-denominated and the rest are denominated in Hong Kong dollars and United States dollars.

As at 31 December 2020, the Group's unutilised available credit facilities amounted to HK$7,716 million from banks and HKCG. The Group intends that the capital increase of Shanghai Gas will be funded from available internal funding, unutilised credit facilities from banks and HKCG, and potentially new banking credit facilities.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised credit facilities and we have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our high credit ratings, the Group enjoys favourable interest rates on bank loans.

Credit Ratings

Moody's Investors Service maintained the issuer rating of Towngas China at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas China 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 2020.

Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2020 of HK fifteen cents per share (2019: 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.

BUSINESS REVIEW

Economic development and social activity in many countries around the world were severely hit by the spread of COVID-19 in 2020. Early in the year, the Chinese government adopted decisively a range of pandemic prevention and control measures. Among other things, these measures required all trades and professions to suspend work and production. As such, the pandemic in China was brought under control in the end of first quarter of the year. The domestic economy began to pick up from the second quarter as businesses resumed, and work and production recommenced in an orderly manner across the country. Annual Gross Domestic Product (GDP) increased 2.3 per cent year-on-year by the end of 2020, making China the only nation among the world's major economies to post positive economic growth.

As a socially responsible public utility, Towngas China employees took a proactive approach during the pandemic, upholding its corporate culture of "courtesy", "craftsmanship" and "integrity" throughout operations. The Group is proud to report that professionalism was maintained and every effort was made to ensure safe and stable gas supply, allowing urban residents to maintain a normal life, while at the same time working within pandemic prevention and control restrictions. Despite the many challenges to the Group's operations and activities, its overall business development remained stable with progress and breakthroughs being made in a number of areas.

Industrial and commercial enterprises were unable to operate as usual during some periods in the first half of the year due to the pandemic. This dealt a blow to gas sales in the first quarter of the year. In spite of this, the Group managed to record an 8 per cent increase in annual gas sales overall, in view of the subsequent resumption of work and production.

With the various measures devised by the NDRC and all levels of government to reduce pipeline network transmission fees, impose off-season prices in advance and require gas suppliers to lower sales prices, the Group launched an array of gas bill relief measures specifically for industrial and commercial customers. These included not suspending gas supply despite payments in arrears — if a company failed to pay their gas bills in time as a result of the pandemic, the payment due date was postponed according to the situation. These temporary policies and factors have had a slight impact on our business.

Despite the pandemic and the challenging situation, the Group managed to reach a new milestone in its business development. On 27 October, it signed an agreement with Shanghai Gas for our acquisition of a stake in the latter for RMB4.7 billion. The ultimate goal was to allow both parties to own a reciprocal 25 per cent share in each other's company within one year. When the deal is completed, Towngas China can appoint members to the board of directors and supervisory board as well as to the senior management of Shanghai Gas, playing a more active role in its development decisions and daily operation.

This strategic investment will extend the Group's business to Shanghai, one of the most affluent cities on the mainland, with a population of over 24 million. Shanghai Gas has 6.3 million local customers in this city, where there is high spending power as well as increasing aspirations for quality lifestyle. This development thus offers tremendous market potential for the Group's high-end gas appliances and kitchen cabinets as well as gas insurance and other extended business initiatives. The collaboration will substantially increase Towngas China's customer base to more than 20 million client accounts.

This positive development serves as an excellent example of successful integrated development programme in the Yangtze River Delta region. It also breaks new ground as the first project collaboration in the gas industry following China's promulgation of the relevant guidelines. In addition to Shanghai, the Group will be extending its business to the vicinity, including the Lingang New Area, Qingpu New Area and the demonstration zone for integrated development in the Yangtze River Delta region.

Furthermore, Shanghai Gas and its parent company, Shenergy (Group) Company Limited, owns the liquefied natural gas ("LNG") storage and peak-shaving base in Wuhaogou and LNG terminal in Yangshan Port respectively, with an annual processing capacity of 7.5 million tonnes as well as a gas storage capacity of more than 1.2 million cubic metres. Together with the underground salt cavern gas storage in Jintan, Jiangsu province, owned by HKCG, the Group's parent company, it provides the opportunity to purchase and store gas when the gas price is relatively cheap in summer, and to supply it to project companies when demand is higher in winter. This both creates more economic benefits for project companies and helps them to cater for peak requirements when gas can sometimes be in short supply.

Sales of Piped Gas

In 2020, the Group's total piped gas sales volume rose 8 per cent to 12,003 million cubic metres. Industrial gas sales increased by 12 per cent to 7,581 million cubic metres, accounting for 63 per cent of total gas sales; residential gas sales rose by 9 per cent to 2,643 million cubic metres, accounting for 22 per cent of total gas sales; and the equivalent of 264 million cubic metres of natural gas sales was recorded for the Group's distributed energy system ("DES") projects, accounting for 2 per cent of total gas sales. Due to the pandemic, commercial gas sales were seriously dampened during the year with a volume of 1,515 million cubic metres, accounting for 13 per cent of total gas sales. The total number of Group customers reached 14.14 million, an increase of 704,000 customers year-on-year.

New Project Developments

During the year, the Group continued to push forward the development of its DES projects. It set up three additional DES projects—at the Eastern Park of Tongling Economic and Technological Development Zone in Anhui province, Fuxin Industrial Park in Liaoning province and Xiliu Textile Industrial Park in Haicheng, also in Liaoning province. Together with previous projects already in place, the Group holds 21 DES projects in total. The Tongling Economic and Technological Development Zone is a development zone at national level, with huge potential in the heating market. Fuxin Industrial Park is located in Fuxin city, where pipelines for piped natural gas have not yet been connected. As such, the cost of steam for businesses in the park is extremely high. The heating project, together with the Group's local city-gas enterprise Fuxin Hongkong and China Gas Company Limited, will provide customers in the park with low-cost heating, to become the only heating and steam pipeline operator in the park. The heating project in Xiliu Textile Industrial Park will align itself with the local government's initiatives to improve the energy mix by phasing out existing coal-fired boilers. The three projects will reach a capacity equivalent to 100 million cubic metres of natural gas in five years.

At the same time, Towngas China, together with 12 Group companies in the southwest region, jointly launched the Towngas Sichuan United Energy project to build a shale gas liquefaction plant and gas storage facilities. Upon completion, the project will be able to cater for peak requirements for gas storage in the southwestern region. Going forward, the Group will achieve its goals to interconnect company pipeline networks in the region and provide direct supplies of regular gas from gas source locations to businesses in the vicinity.

Further serving customers in the southwestern region, the Group established Towngas Cosy Home (Chengdu) Technological Services Co., Ltd. ("Towngas Cosy Home"), an extended business platform project, during the year. With an expanding middle-class customer base and increasing consumption in the PRC, Towngas Cosy Home will consolidate enterprise resources in the region, aligning itself with the change and increase in market consumption with the launch of extended business services to provide a "cosy lifestyle". This will drive regional businesses to grow their business in the residential market and boost overall regional profit. The initiative is expected to accelerate the development of the Group's extended business.

Employee and Emolument Policies

As at 31 December 2020, the Group had 22,506 employees, with 99 per cent located in mainland China. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. On-the-job training is provided as well as optimal benefits packages for employees, which include medical and retirement plans, year-end bonuses and other incentives. Employees are also encouraged to adopt a work-life balance, whilst improving the work environment on a continuing basis. The Group aims to help employees realise their full potential as well as their contribution to the Group.

Multiple Accolades

Over the years, Towngas China has proactively been creating value for stakeholders. Hand-in-hand with this commitment, the Group has made every effort to help the more vulnerable members of its community with the contribution of both manpower and material resources through various community programmes and donations. These initiatives have gathered momentum and gained widespread recognition at every level of society. In view of these activities, the Group has received many leading industry awards. Year 2020 was no exception, with the Group receiving a number of accolades in several areas, ranging from sustainable development, financial performance and business operations to its corporate culture and community participation.

During the year, Towngas China was once again selected as a constituent of the Hang Seng Corporate Sustainability Index Series. The Group has been included in the index since 2011, demonstrating its outstanding performance in various aspects, including environmental protection, social responsibility and corporate governance.

On the back of its excellent financial performance and forward-looking business development strategies, further accolades included being selected as Listed Company with the Best Investment Potential by Hong Kong Ta Kung Wen Wei Media Group, The Hong Kong Institute of Chartered Secretaries and The Hong Kong Chinese Enterprises Association, among others. The Group was also named as a Cutting Edge Enterprise in Energy Innovation by Energy magazine. With the proactive development of its distributed energy business in recent years, its operation, management and technology applications have reached an industry-leading level. The Group thus received the China Distributed Integrated Energy Project Excellence Outstanding Award 2020, China Distributed Integrated Energy Technological Innovation Award 2020 and China Distributed Integrated Energy Operation and Maintenance Management Excellence Award 2020 from the Professional Committee on Distributed Energy of China Energy Research Society and China Energy Net.

In addition, in recognition of the Group's notable contribution to measures in response to the pandemic and other community initiatives, the China Committee of Corporate Citizenship of the China Association of Social Workers named Towngas China as a Five-star Chinese Corporate Citizen 2020, Corporate Citizen Anti-virus Frontrunner 2020, and Chinese Corporate Citizen Quality Public Welfare Project 2020 (Towngas China Gentle Breeze Movement).

Corporate Social Responsibility

As a leading public utility, Towngas China upholds the principles of "participating in public services to contribute to the community, and protecting the living environment to give back to society". As such, the Group makes every effort to set an example in its business operations, as it works to safeguard the health and safety of its stakeholders, protect the environment and serve the community.

The Board places great emphasis on investing resources in environmental protection, social welfare and corporate governance. To this end, an Environmental, Social and Governance Committee, consisting of senior management members, has been established. Their responsibilities are to regularly report to the Board on the implementation of various projects. A dedicated department also coordinates community initiatives and environmental protection activities. This department is in turn supported by the Towngas China Volunteer Team consisting of employees from all of the Group's project companies. The Towngas China Volunteer Team now has more than 6,700 members. All staff of the Group, during the year, contributed more than 570,000 hours of public service.

Pandemic Relief Support

In its efforts to help companies resume work and production as soon as possible and protect the health of the community, the Group took the initiative to channel both manpower and resources whenever and wherever possible. For example, when protective supplies were in short supply, the Group mobilised staff to source protective equipment such as medical masks, protective clothing, gloves, goggles and alcohol disinfectant from around the world. These supplies were then donated to organisations in need and vulnerable groups.

Towngas China sought to pay the highest possible tribute to frontline medical workers who worked tirelessly to serve the community during the pandemic. In addition to donating protective equipment, the Group leveraged its business strengths to donate and install gas stoves, water heaters and gas dryers for medical institutions for free, seeking to better cater for their basic needs and to support their efforts by providing a full range of facilities.

Community Initiatives

The Towngas China Gentle Breeze Movement is one of Towngas China's iconic community initiatives. Since 2013, the movement sought to improve the quality of life of underprivileged families as well as the teaching environment by providing support for schools with limited resources. To this end, it participated in school renovation projects in addition to donating books and school supplies. Over the years, since the start of the initiative to the end of 2020, Towngas China has donated more than RMB3.15 million to over 30 schools.

In 2020, through this movement, the Group carried out educational support activities in Chongqing and Qingyuan city, Guangdong province. Xinmin Primary School in Qijiang District, Chongqing city is located in a remote area with poor facilities. In addition to donating books and school supplies, Group volunteers provided scholarships for teachers and students who won prizes in the "Little Yue Fei" writing competition. The aim is to support the next generation to carry forward the spirit of loyalty and patriotism. At the same time, the Group also donated two tonnes of northeast rice produced by Towngas China Bauhinia Farm to 22 schools in Qijiang District, in support of the country's education initiatives.

A further educational support activity was the renovation of Dongmang Primary School in Qingyuan city, Guangdong province. In addition to repairing outdoor facilities such as the school gate and flag-raising platform, volunteers set up a "Towngas China Charity Library" for the school, while also donating a range of school equipment. These included a campus broadcasting system, computers as well as desks and chairs for students, among others.

During the Dragon Boat Festival, the Group once again hosted its annual social welfare campaign, "Rice Dumplings for the Community". Over 1,000 corporate volunteers as well as their relatives and friends got together with local educational institutions and charities to source ingredients and make rice dumplings. More than 20,000 rice dumplings were made and donated to the underprivileged in celebration of the festival.

Long-Term Development Strategy

The year 2020 was without doubt a year full of challenges. The pandemic and the Sino-US trade war posed serious challenges to China's macro-economy. However, this also demonstrated the strong commitment of the Chinese government to bring the country's businesses and people together. This has enabled China's rapid economic recovery as everyone worked together in concert to overcome the year's many difficulties.

The year 2021 saw the introduction of China's 14th Five-Year Plan, promoting energy transition and green development as inevitable steps to building an ecological civilisation. Additionally, the Chinese government is aiming to achieve carbon neutrality by 2060. Thus, China's energy consumption will become increasingly green. In this context, the business of natural gas, which is regarded as a clean energy source, will see growing opportunities. With its ongoing commitment to providing clean energy, Towngas China will continue to deepen its involvement in the country's city-gas markets. Furthermore, in addition to the over a hundred city-gas projects currently held by the Group in China, it has also been engaging in the distributed energy market in recent years to increase its market share in the energy field. The Group believes that distributed energy has the advantage of discharging less carbon dioxide emissions while at the same time providing higher energy efficiency. As such, it will be one of the main development directions of the Group.

To seize the opportunities presented by the 14th Five-Year Plan and follow the smart transformation megatrend, Towngas China has launched a number of products with a brand-new "smart stoves" concept. In 2021, the Group will be promoting smart energy and extended services even further. It will also be building an integrated Internet platform comprising the gas cloud, smart Internet of Things ("IoT"), e-commerce and community door-to-door services. This will help drive the development of the Group's extended business services and provide lifestyle services for our customers. In terms of industrial development, the 14th Five-Year Plan is greatly relevant to Towngas China's key business areas. Under this trend for green development, it is expected that natural gas and smart energy will present huge development opportunities, which in turn brings better and brighter prospects for the Group's business.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

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 of Hong Kong Limited (the "Listing Rules") during the year.

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 2020.

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 26 February 2021 to review the Group's audited consolidated financial statements for the year ended 31 December 2020 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, 27 May 2021. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about Friday, 16 April 2021.

Final Dividend

The Board recommended the payment of a final dividend out of the share premium account under reserves of the Company of HK fifteen cents per share (2019: HK fifteen cents per share) to shareholders whose names are on the register of members on 4 June 2021, 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 11 June 2021.

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 13 July 2021.

Closure of Register of Members

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

(1) from 24 May 2021 to 27 May 2021, 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 2 June 2021 to 4 June 2021, 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 and transfer office 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 21 May 2021 and 1 June 2021 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, 18 March 2021

At the date of this announcement, the Board comprises:

Executive Directors:
Alfred Chan Wing-kin *(Chairman)*
Peter Wong Wai-yee *(Chief Executive Officer)*
John Ho Hon-ming *(Company Secretary)*
Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-executive Directors:
Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi