

CLEAN ENERGY FOR ALL

The background of the slide features a blurred view of the Shanghai skyline, with the Oriental Pearl Tower being the most prominent structure. The image is set against a light blue sky and a body of water in the foreground. The overall aesthetic is clean and modern, with a color palette of light blues and oranges.

MAINLAND UTILITY BUSINESSES

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In 2020, Towngas China signed a capital increase agreement with Shanghai Gas Co., Ltd (Shanghai Gas) and Shenergy (Group) Company Limited (Shenergy Group), which is expected to give us access to 6.3 million more customers and increase our customer base to a total of about 40 million households in mainland China.



MAINLAND UTILITY BUSINESSES

For more than 25 years, Towngas has been providing people in mainland China with a clean, reliable and economic supply of fuel as well as other products that contribute to a more comfortable life and promote a sustainable future. Our businesses today cover 282 city-gas projects serving around 31.81 million customers in 23 provinces, autonomous regions and municipalities (2019 year end: 273 projects, inclusive of city-gas projects re-invested by the Group's companies). Through these businesses, we are meeting the growing demand for energy that will power the nation's economy while assuring a cleaner environment for all.

Progress amid Challenges

In 2020, trade disputes between mainland China and the United States continued to have a negative impact on exports as a whole. Our gas sales in mainland market were also affected in the early part of the year by the outbreak of COVID-19. As some cities went into lockdown, most industrial and commercial activities came to a halt in the first quarter of the year and overall gas volume fell. Once the epidemic began to come under control in March, our commercial and industrial (C&I) clients resumed normal operation and production in an orderly manner. The mainland economy has also gradually recovered since then.

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This auto parts factory in Xuzhou, Jiangsu province uses natural gas for drying, controlling indoor temperature and treating exhaust fumes.
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During the period, local governments issued a series of measures to support small and medium-sized enterprises. As a responsible utility group, Towngas provided special offers on tariffs in some cities for customers in need. We also ensured our gas supply would remain uninterrupted and continued to carry out safety inspections. At the same time, we collaborated closely with our C&I clients to help them resume

production or get back to work as soon as possible after the lockdown was lifted.

For the year as a whole, total sales of our city-gas amounted to approximately 26,900 million cubic metres, which was 5 per cent higher than in 2019. The margin on gas sales was also better than the year before, as the Government had lowered the city gate price, which contributed to increased gas use.





A LANDMARK PARTNERSHIP WITH SHANGHAI GAS



In October 2020, Towngas China signed a capital increase agreement with Shanghai Gas and Shenergy Group to acquire a 25 per cent stake in Shanghai Gas, one of the largest city-gas operators in mainland China, with a customer base of 6.3 million accounts and annual gas sales of over 9,000 million cubic metres.

The partnership will help the Group to expand into Shanghai and recently developed surrounding areas, including Lingang New District, Qingpu New District and the Yangtze River Delta Integrated Development Demonstration Zone. As a result, our market position in the eastern part of mainland China is set to be further strengthened.

Moreover, Shanghai Gas and Shenergy Group have two liquefied natural gas (LNG) receiving terminals at Wuhaogou and Yangshan Port. Combined with our underground salt cavern gas storage facility in Jintan, Changzhou, Jiangsu province, the receiving terminals will create synergy and assurance for the Group's gas supply, thereby establishing a solid foundation for our entry into the natural gas trading market.

Shanghai is a wealthy municipality, with a population of over 24 million. Through our partnership, we have an opportunity to extend our businesses to the strong customer base of Shanghai Gas, including space heating systems, insurance services, gas appliances and kitchen and bathroom products.

Igniting a Low-carbon Economy

Natural gas, the cleanest fossil fuel with much lower carbon emissions than coal or oil, will continue to be our main business focus in the foreseeable future. At the same time, we have also been exploring other opportunities for our continued business growth, such as renewable energy and smart energy.

This strategy aligns with the Chinese government's Fourteenth Five-Year Plan, which calls for the development of intelligent, green production technologies that help to reduce carbon emissions. We are also contributing towards mainland China's goal of peaking carbon emissions before 2030 and achieving carbon neutrality before 2060, as announced in September 2020 at the United Nations General Assembly.

During the year we continued to vigorously promote coal-to-gas conversion in line with the Chinese government's environmental policies and commitment to carbon neutrality. The annual gas consumption among our coal-to-gas customers increased by 17 per cent from last year to reach 3.4 billion cubic metres.

Customers benefitting from our high-efficiency gas applications can be found in a wide range of trades and industries, including steel manufacturing, ceramics, glass, textiles and food, as well as hotel, restaurant and theme park businesses. During the year, we continued to look for business opportunities by initiating new projects for our gas applications. One example is the laundry business we started in 2019, which is currently in operation in Hangzhou, Chengdu, Shaoguan and Guilin. More new projects in Nanjing, Tangshan and other cities are expected to be commissioned in 2021.

In addition, we have been involved in the Distributed Energy Systems (DES) business since 2017. Widely acclaimed by our C&I customers, DES offers a decentralised energy supply for generating electricity as well as producing hot water, steam and chilled water using waste heat. The economies of scale available

with DES have enabled us to extend these efficient, cost-saving systems into residential districts for space heating and industrial development zones for steam supply. In 2020, we recorded a total of 260 million cubic metres in DES gas sales, an increase of 76 per cent compared with 2019.

In order to expand our sustainable energy business, we have developed a Smart Energy system that utilises artificial intelligence (AI), big data and the Internet to achieve higher energy efficiency and lower emissions. The system covers a portfolio of electricity, steam, natural gas, renewable energy and energy storage. During the year, we acquired 40 solar photovoltaic power generation projects and five energy storage projects, with a total capacity of 300 megawatts and total storage capacity of over 100 megawatt-hours respectively.

Strengthening Our Midstream and Upstream Businesses

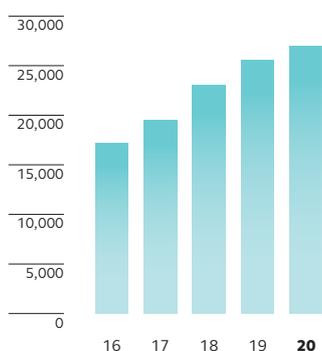
Securing a reliable supply of natural gas is critical for the success of our businesses in mainland China. This is achieved through our investments in midstream facilities, including long-haul pipelines, gas storage facilities and joint purchases of gas directly from upstream gas sources, in accordance with our diversified gas sourcing strategy.

In Jintan, Changzhou, Jiangsu province, we operate an underground salt-cavern gas storage facility, which is the first of its kind built by a city-gas enterprise on the mainland. With four wells now in operation, it will eventually comprise 25 wells with a total storage capacity of 1.1 billion cubic metres and a working capacity of 660 million standard cubic metres. This facility will increase our gas storage capacity and help us to regulate gas supply and prices more effectively, while opening up business opportunities for gas trading.

During the year, we acquired two storage tanks at the LNG receiving terminal in Tangshan, Hebei province. With a total capacity of 400,000 cubic metres, they are targeted for use before the end of 2023. We have also been granted the right to use the jetty at the terminal for importing 1 million tonnes of LNG per year. Under a 50-year contract, this project will both enhance the Group's gas storage capacity and reduce the cost of building separate gas storage facilities by individual companies under the Group.

We also maintained a presence in Sichuan province by establishing a company in Weiyuan to invest in a shale gas liquefaction plant and gas storage tanks. The facilities will serve our many Sichuan city-gas companies and provide another reliable source of supply for our nearby projects.

China Joint Ventures Gas Sales (million m³)





With the encouraging development of our food waste project in Suzhou Industrial Park, Jiangsu province, plans were made for a new food waste treatment line to serve residential districts.

In 2019, the Government integrated the national oil and gas pipeline network under China Oil & Gas Pipeline Network Corporation, enabling us to purchase LNG directly from overseas suppliers or trade it on the Shanghai Petroleum and Natural Gas Exchange for our city-gas projects or gas storage facilities. This has further diversified our gas supply channels and provided new opportunities for our businesses.

Water and Environmental Business

Our wholly-owned subsidiary, Hong Kong & China Water Limited (Hua Yan Water), currently operates seven urban water projects in mainland China. These businesses include tap water supply and wastewater treatment, purified water production and sales, water quality and meter testing, as well as smart water services. The performance of the water business in 2020, despite

COVID-19, remained stable with sales of 917 million tonnes of water, a slight decrease of about 1 per cent.

As a public utility company, Hua Yan Water considers the safety of its water supply to be its highest priority. Accordingly, the company started two projects for water quality analysis and intelligent water management during the year. One of these offers comprehensive water testing services at a laboratory that has obtained China Inspection Body and Laboratory Mandatory Approval and China National Accreditation Service for Conformity Assessment. The other new project is involved in developing technologies and software for building smart water systems and upgrading management systems for water supply companies.

Capitalising on our rich experience in sewage treatment, we established Hong Kong and China Environmental Holdings

Company Limited (Hua Yan Environmental) to coordinate the development of our environmental governance businesses.

Our urban organic waste resource utilisation project in Suzhou Industrial Park, Jiangsu province made satisfactory progress during the year. The project has cumulatively processed more than 170,000 tonnes of organic waste to date and produced nearly 5 million cubic metres of bio-natural gas. Plans were also made for a new food waste treatment line to serve residential districts with a designed daily capacity of 300 tonnes of food waste. It is expected to go into operation in the second quarter of 2021.

We also acquired a food waste resource utilisation project in Tongling, Anhui province in July 2020. With a working capacity of 100 tonnes per day, the plant has already processed 25,000 tonnes of food waste during the year. We are currently expanding the project to increase its annual capacity to a total of 73,000 tonnes by the second half of 2021.

Another new food waste project was secured in Xinbei, Changzhou, Jiangsu province, where we plan to construct a treatment plant with a working capacity of 300 tonnes per day. Commissioning of this plant is expected in 2024.

Moreover, in Changzhou we expanded into an environmental and sanitation business that will convert urban solid waste into valuable products in order to build a total recycling system that includes domestic waste incineration, waste screening, kitchen waste treatment and a garbage disposal network. Construction of an incineration treatment facility in Jiashan, Changzhou will begin by the end of 2021. Upon its completion, the facility will be capable of producing 320,000 megawatt-hours of electricity each year.

Looking further ahead, we will expand the urban organic waste and sanitation market and develop the appropriate infrastructure for this business, with the aim of constructing a smart sanitation system for more hygienic cities.

Services beyond Gas

At Towngas we are in not just the business of supplying a safe and reliable source of energy, but also a lifestyle business catering to customers' everyday needs. With a strong customer base of over 30 million accounts, we have expanded into new

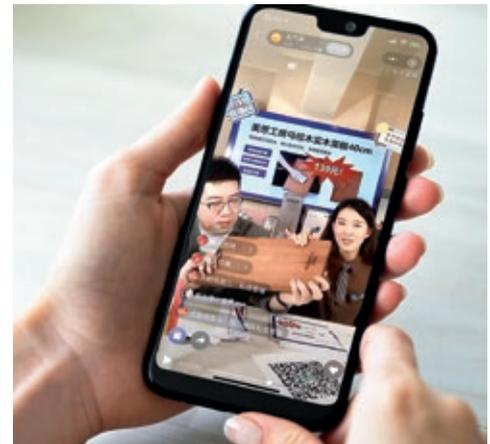
Live-streaming on Towngas Lifestyle makes increased interactions possible with customers and helps stimulate sales of products.

markets, including smart appliances, kitchen cabinets, insurance, home care and other services, for a better, more comprehensive customer experience.

Products under our Bauhinia brand, mainly gas appliances, continued to be popular among customers in 2020, due mostly to the brand's growing reputation for high quality and safety features. During the year, approximately 800,000 appliances were sold, with sales of combi boilers achieving an increase of nearly 50 per cent to about 45,000 units.

In 2020, we launched additional smart Bauhinia kitchen products in the market. Smart appliances in this line include stoves, water heaters, range hoods and space heaters. All are equipped with Internet of Things functions that customers can control with an app. Another smart appliance launched during the year was a cooking appliance with an intelligent temperature control function for enhanced safety, which will automatically shut off when the temperature exceeds a pre-set level.

Mia Cucina, our Total Kitchen Solution of premium kitchen



equipment and cabinets, achieved sales of over 9,400 sets in 2020 at a value of more than RMB90 million. Our marketing focus continued to be on residential projects during the year, and we negotiated with major property developers to install kitchen cabinets in residential complexes in provinces such as Jiangsu, Shandong and Guangdong.

We also enhanced our online services for the greater convenience of our customers. On our online platforms, customers can now manage their gas accounts, make maintenance appointments, pay gas bills and enjoy other services, or even go e-shopping. In addition, we have adopted new technologies to provide smart kitchen solutions, such as an Intelligent Kitchen Helper service that we pilot tested in 2020. With this new service, customers can “talk” to our smart speaker and gain access to our online services, monitor their appliances or shut off gas valves.



During the COVID-19 epidemic, we saw a surge in demand for online shopping. This benefitted our e-commerce platform, Towngas Lifestyle, which achieved total sales of RMB18.78 million in 2020, a nearly fourfold increase over the previous year.

With Towngas Lifestyle, we offer a total home solution ranging from cooking and health tips to high quality home accessories, kitchenware, seasonal and festive food, insurance and a new housework service that includes cooking and cleaning.

Providing high quality service has always been our competitive advantage as we take care of our customers along the journey from purchase to delivery and offline interactions. During the year, we set up a Home Lifestyle Centre in Suzhou for offline engagement with our customers and as a business sharing platform for training the staff of our service providers and

partners. In future, we plan to launch more outlets to reach a total of 50 outlets in 2021.

Ensuring Gas Safety

Safety, as always, is our greatest priority. This was particularly challenging in 2020 with the outbreak of COVID-19 and its associated risks to our stakeholders. In accordance with our enhanced health and safety guidelines, we not only offered adequate protective equipment for our employees but also implemented a variety of measures on our premises. These included stepping up our cleaning procedures and limiting access to our offices and plants by visitors in order to minimise the risk of infection.

To ensure the safety of our customers, we continued to carry out proactive gas inspections in their homes and businesses, although the number of these inspections was lower

than in previous years due to the epidemic. We also utilised online channels, including popular social media platforms such as WeChat and Tiktok, to promote gas safety to the public.

With “Preventing Risks and Ensuring Safety” as our theme for 2020, we made every effort to strengthen our safety management and maintain the highest standards of safety. In 2020, the number of general managers’ safety inspections increased from once a month to twice a month. In total, 45 safety audits were conducted to identify potential risks for rectification, with public health information added as one of the inspection and audit items. To demonstrate our commitment to safe production, we also promoted responsibility for production safety, which all project companies were required to implement.

During the year, no serious gas incidents were reported. The number of cases per 100 km of third-party damage and gas pipe network leakages declined by 14 per cent and 11 per cent respectively.



Even during the COVID-19 epidemic, our technicians continued to carry out regular inspections of our gas infrastructure to ensure public safety.