

# Chairmen's Statement



**“In order to turn imagination into reality, we safeguard the planet for future generations and allow our stakeholders’ interests to drive our work.”**

**– Dr. Lee Ka-kit**

**“We will continue to inject innovation into all our future developments, hand in hand with preserving the environment.”**

**– Dr. Lee Ka-shing**

The year 2022 marked the 160th anniversary of Towngas. After more than a century and a half of hard work marching forward under all circumstances, this century-old brand in Hong Kong is still full of vitality, heading to the future with much confidence and expectations. A century-old record with flourishing results is hard-won. On behalf of the board of directors of the Company, we would like to express our sincere gratitude to every dedicated and hard-working employee of the Group,

every long-term and loyal customer, and every shareholder and investor. The support and enthusiasm from different sectors of the society give us the strength to pursue sustainable development.

During the year, the Group held a series of activities to celebrate its 160th anniversary. We were honoured to have Mr. John Lee Ka-chiu, the Chief Executive of the Hong Kong Special Administrative

Region (“HKSAR”), as the officiating guest at the anniversary ceremony held on 12th August 2022 and to share our joy with different sectors of the society. Towngas will continue to uphold the spirit of providing competent, safe and customer-oriented high-quality services, actively participate in the development of our country and the HKSAR, and strive to promote a sustainable future.

Clean energy has always been a focus of the Group's business development. Over the years, we have been committed to the vision of safeguarding environmental resources for future generations while taking our stakeholders' interests into account. This vision has driven us to work tirelessly on our way forward. The country's "30-60 dual carbon goals" and "Hong Kong's Climate Action Plan 2050" provide great opportunities for the development of clean energy, and broaden the prospects of the Group's development. In the future, energy consumption will become cleaner and more environmentally friendly at a faster pace. To this end, the Group has set clear goals to move towards green and sustainable development.

We will continue to inject innovation into all our future developments, hand in hand with preserving the environment. We will keep abreast of technological changes in the process of energy transformation, increase our efforts to find innovative technologies and solutions, and strive to capitalise on the power of technological wisdom to create excellence and add value for all stakeholders, with a strong belief that the Group's development prospects are bright.

## The Year's Results

Although the global economic growth slowed last year due to the impact of the COVID-19 pandemic and geopolitics, coupled with soaring interest rates and rising energy prices, which brought challenges

to business operations, the Group's overall volume of gas sales remained stable during the year amid a continuously adverse business environment. This was attributable to our staff's dedication and hard work together, accurate seizure of market opportunities, increasing efforts to broaden sources of revenue and cut expenditure, as well as relevant policy support for various businesses from local governments. During the year, the Group endeavoured to increase its capability of having independent gas sources to alleviate the impact of soaring upstream gas prices on reducing unit gross profit, so as to strive for maximising benefit for shareholders and investors. In addition, renewable energy projects are expanding steadily, driving the sustainable development of the Group's business.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK\$5,248 million, an increase of HK\$231 million, up by approximately 5 per cent, compared to 2021. Basic earnings per share for the year amounted to HK28.1 cents.

During the year under review, the Group invested HK\$8,321 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and the Chinese mainland.

## Town Gas Business in Hong Kong

The Company has been committed to providing the society with a low-cost, safe, stable, clean and environmentally-friendly town gas supply for 160 years. With a farsighted vision, the Company signed a 25-year long-term agreement with an Australian natural gas supplier in 2003, and fixed the gas price at a level equivalent to US\$25 per barrel of crude oil. Since the commencement of this gas supply in 2006, this prospective move has saved town gas customers over HK\$20 billion in fuel costs to date. Therefore, even when international natural gas prices have been rising sharply recently, Hong Kong citizens can still enjoy an economical, stable, and reliable supply of town gas, without having to suffer from sharp price adjustments, and the Company's gas business in Hong Kong also remains stable.

Overall, the total volume of gas sales in Hong Kong for 2022 was approximately 27,398 million MJ, a decrease of 1 per cent, in contrast to an approximately 4 per cent increase in the number of appliances sold, both compared to 2021. As at 31st December 2022, the number of customers of the Company was 1,995,082, an increase of 30,145, representing an increase of approximately 2 per cent compared to the number at the end of 2021.

## Chairmen's Statement

To respond to the fluctuating epidemic situation in Hong Kong during the year, the Group launched the Towngas Dining Coupon Scheme to support the underprivileged and boost local consumption. On the other hand, to help tackle the fifth wave of the epidemic in Hong Kong, the Towngas team constructed a 1.5-kilometre town gas pipeline in only four days in February 2022 for the Lok Ma Chau Loop makeshift hospital, fully demonstrating the Group's resilience of unity, strong technical ability and efficient execution.

The Group has also stepped up its efforts to promote the application of artificial intelligence (AI) technology in various departments, including answering customer inquiries through the chat robot Tinny, along with the Gas Riser Artificial Intelligence System that helps reduce complicated procedures and enhance efficiency. In addition, the concept of the Internet of Things ("IoT") has been added to the self-developed smart controllers and gas meters so as to further ensure gas safety and improve customer experience.

### Businesses on the Chinese Mainland

The Chinese mainland is the major market for the Group's business expansion, as the Group has established sizeable customer resources and business networks with a solid foundation there since 1994. In the future, the Group will continue to focus on city-gas as its core business, accelerate the application of renewable energy in large-scale industrial parks, and at the same time expand sewage and

environmental and sanitary waste treatment, engineering and extended businesses to release the hidden value in the principal businesses and create synergy.

The provision of people-oriented and value-added services is our business philosophy. Apart from the supply of energy and construction of energy facilities, we focus even more on understanding customer needs and providing services exceeding customer expectations. In respect of the city-gas business, the Group is expanding its extended businesses to provide customers with one-stop quality services under the theme of "Smart Kitchen", including safety management, maintenance and fee payment, smart control, online shopping, and door-to-door services. As for smart energy management, the Group is providing customers with integrated energy solutions and a well-established energy and carbon service platform, contributing profits to both customers and the Group.

The Group's mainland businesses progressed steadily during the year. Overall, including the projects of the Group's subsidiary, Towngas Smart Energy Company Limited ("Towngas Smart Energy"; stock code: 1083.HK), the Group had 624 projects (inclusive of city-gas projects re-invested by the Group's companies) (2021 year end: 514 projects) on the Chinese mainland as at the end of 2022, spread across 28 provincial regions.

### Utility Businesses

The Group's utility businesses recorded stable growth during the year, with an increase in the volume of gas sales and water sales compared to 2021.

As at the end of 2022, inclusive of Towngas Smart Energy, the Group had a total of 315 city-gas projects on the Chinese mainland (inclusive of city-gas projects re-invested by the Group's companies) (2021 year end: 303 projects). The total volume of gas sales for these projects for 2022 was approximately 32,100 million cubic metres, an increase of approximately 3 per cent compared to 2021.

As at the end of December 2022, the Group's mainland gas customers stood at approximately 37.29 million, an increase of approximately 6 per cent compared to 2021.

During the year, the Group continued to actively seize market opportunities, stabilise business growth, and focus on targeting large-scale industrial users and new energy industrial customers, such as applying photovoltaics in glass and lithium battery production in particular. The Group launched the "gas + thermal energy" business during the year, transforming from mainly supplying gas to also providing integrated energy solutions. By helping customers improve their energy structure, enhancing efficiency, and promoting the low-carbon and intelligent transformation of industrial energy, the Group's gas business can be consolidated and enhanced, and its gross profit contribution will also increase.

In the context of high energy prices, the Group's strategy of having independent gas sources becomes increasingly important. The Group established a gas source operation centre during the year to enhance the flexibility of gas sources through the Group's projects, including the liquefied natural gas ("LNG") receiving terminal in Dapeng, Shenzhen, coalbed methane liquefaction project in Shanxi, LNG project in Ningxia, gas storage facility in Jintan, storage tank project in Caofeidian, and shale gas liquefaction plant in Sichuan. Along with the strategic cooperation with PipeChina to promote the interconnection of provincial pipelines, as well as coordinate and make good use of gas source procurement, the Group can increase its capability of owning independent gas sources and reduce costs, thereby improving the gross profit of its gas business.

During the year, two new gas wells invested in and developed by the Group were commissioned in the underground gas storage facility in Jintan district, Changzhou, Jiangsu province. Following the connection with the national pipeline network and then the implementation of interconnection with the pipeline network in Jiangsu province, the gas operating capacity increased to 277 million cubic metres, thus further expanding the peak-shaving capability and commercial coverage in eastern China. Furthermore, the Group invested in an LNG receiving terminal project at Caofeidian, Tangshan, Hebei province, which comprises 20 storage tanks of 200,000 cubic metres each and two

berths for LNG carriers for the whole project. The unloading capacity of the project will eventually reach 20 million tonnes per annum, and it is expected to be commissioned in 2023. Besides, part of the production capacity of the shale gas liquefaction plant in Weiyuan county, Sichuan province, will also be completed and commissioned in 2023.

The Group's water business recorded stable growth during the year, with the volume of water sales increasing by approximately 3 per cent, and the volume of sewage treatment increasing by approximately 10 per cent, both compared to 2021. The Group's urban organic waste utilisation project in Suzhou Industrial Park, Jiangsu province, has cumulatively processed approximately 500,000 tonnes of organic waste and produced 22 million cubic metres of bio-natural gas for the park's use. Environmental and sanitary integration in Wujin district, Changzhou, Jiangsu province, is progressing. The sewage treatment project in Wujin High-Tech Industry Development Zone will be commissioned in the third quarter of 2023. Besides, preliminary work for the construction of a domestic waste incineration project in Jiashan and a domestic waste transfer station in Wujin district have also commenced.

## Renewable Energy Business

Driven by the country's "dual carbon" goals, there is a strong demand for renewable energy on the Chinese mainland, and the related market is growing rapidly. The Group has officially launched integrated smart energy projects since 2016, focusing on zero carbon in its business development. As at the end of 2022, the Group had 183 renewable energy projects spread across 24 provincial regions. These projects encompass multi-energy supply (cooling, heating, electricity), photovoltaics, energy storage, charging and swapping power stations, and integrated energy services for industrial and commercial customers.

Currently, the Chinese mainland is still gradually shifting the focus of energy use from fossil fuels to renewable energy. Efficient and clean natural gas will continue to play an important role. It is expected that the promotion and application of energy projects and improvement of efficiency in the industrial sector, which is the focus of energy conservation and carbon reduction, will continue to deepen and integrate with new energy. Therefore, the Group will focus on assisting the country's eight major emission control industries, including electricity, steel, non-ferrous metals, petrochemicals, building materials, chemicals, papermaking and aviation, by providing them with energy-saving and emission-reducing solutions, and the installation of distributed photovoltaic systems, in order to help enterprises enhance energy efficiency. In the long term, this can promote the transformation and upgrading of the industries and help the country achieve its "dual carbon" goals.

## Chairmen’s Statement

During the year, the Group and IDG Capital launched a zero-carbon technology investment fund with a total scale of RMB10 billion to provide financial support to innovative and start-up firms in the field of zero-carbon technology. The Group also deploys its great number of application scenarios to accelerate the implementation of innovative products and technologies.

The TERA-Award smart energy innovation competition, jointly launched by the Group and State Power Investment Corporation Limited, was held for the second time in 2022, anticipating to find excellent innovative technologies and solutions in the smart energy field and help implement start-up projects, and accelerate the application of smart energy innovative technologies into practical use.

### Extended Businesses

Listening to and understanding people’s needs in daily life, integrating innovative concepts, and forecasting future lifestyles, we use creativity and technology to explore more possibilities in every detail. To this end, the Group’s extended businesses are constantly meeting customer requirements, and extending and exploring more possibilities for business development.

During the year, the Group reorganised and upgraded its extended businesses, with “Towngas Lifestyle” as the main brand, and provided one-stop

services for more than 37 million household users of the Group via the “Smart Kitchen”. Its Internet service platform, Towngas Lifestyle Cloud (TLC), has approximately 15 million members. Besides, the Group’s business of the “Bauhinia” brand increased its accessibility for customers by introducing pooled resources, upgrading its products and integrating sales channels, while also empowering its business with digital tools to achieve growth in the number of appliances sold.

During the year, the Group established strategic partnerships with a number of renowned brands in the industry, including the cooperation with Vaillant, a German brand, on promoting “comfortable living” and launching products such as floor heating and ventilation system to meet customers’ diverse needs. Besides, through the cooperation with Accenture, Towngas Lifestyle’s digital capabilities and talent development were enhanced, thus promoting the development of its business to meticulousness and high quality.

The security chip “TGSE CHIP”, jointly developed by Towngas Lifestyle, StarFive and ChinaFive, was officially launched during the year. It is the first RISC-V IoT security chip in the industry to strengthen data security of the “Smart Kitchen” related equipment; its cost is expected to be further reduced. This also marks a key step in the use of independently controllable chips in the digital infrastructure of the energy industry.

### Towngas Smart Energy Company Limited (Stock Code: 1083.HK)

Towngas Smart Energy, a subsidiary of the Group, recorded a profit after taxation attributable to its shareholders amounted to HK\$965 million, a decrease of approximately 23 per cent compared to 2021. As at the end of 2022, the Group held approximately 2,163 million shares in Towngas Smart Energy, representing approximately 66.36 per cent of Towngas Smart Energy’s total issued shares.

Towngas Smart Energy added 119 new projects to its portfolio during 2022, comprising 111 renewable energy projects, 7 piped-gas projects and one other project. The total number of projects held by Towngas Smart Energy was 363 as at the end of 2022.

In order to achieve the “dual carbon” goals, the country released a series of policies to promote the use of clean energy and energy-saving transformation in various industries during the year. Complementarity, joint supply and integration of multi-energy will be the long-term trend of the country’s energy utilisation. The integrated development of natural gas and new energy, combined with electricity and heat as a multi-energy supply, is not only clean and low-carbon, but also contributes to the safety and stability of the new energy supply system. Towngas Smart Energy continues to adopt the strategy of parallel development both in the city-gas and renewable energy sectors, and strengthens the provision of integrated energy services for customers.

A Towngas Smart Energy ecological platform, Tera Planet, was jointly developed with Tencent Cloud in April 2022. Based on the IoT capabilities, the platform helps customers realise intelligent management, analysis, prediction and optimisation of energy data. At present, the Towngas Smart Energy ecological platform has been put into commercial application for the first time in Hailing district, Taizhou, Jiangsu province. It is estimated that hundreds of thousands tonnes of carbon emissions can be reduced every year after the project is fully completed.

Focusing on strengthening the research and development of innovative energy technologies, the Group established Towngas Energy Academy in August 2022 and invited fellows, outstanding young persons and other experts to set up an expert committee to conduct specific research in five major fields encompassing energy storage, hydrogen energy, energy digital intelligence, renewable energy, and low-carbon energy saving. With the trend of rapid development of clean energy in the future, these innovative technologies and solutions will rejuvenate the traditional energy industry and inject new vitality into the Group's businesses.

## Environmental, Social and Governance

The Group has been actively promoting environmental, social and governance ("ESG") work and integrating ESG elements into its business operations.

2022 was an outstanding milestone full of recognition of our continued efforts on ESG. During the year, the Group was listed in the Dow Jones Sustainability Asia Pacific Index for the first time, and its ESG ratings were improved by several international rating agencies – including the MSCI ESG Rating, by which the Company and Towngas Smart Energy were both upgraded to "A". According to the ESG Ratings Reports, MSCI ESG Research recognised the Company's progress in carbon reduction, and Towngas Smart Energy's outstanding performance in health and safety practices. At the local level, the Group was included in the Hang Seng Corporate Sustainability Index for the 12th consecutive year. The Company placed first again and was designated "Exemplar" in the Greater China Business Sustainability Index ("BSI"), Greater Bay Area BSI and Hong Kong BSI. These external party ratings acknowledge the ESG progress made by the Group.

To drive collaboration on ESG-related topics, the Group hosted the first large-scale, business-initiated ESG Symposium in Hong Kong to discuss the three "E, S, G" topics. Guests from across political, business and academic fields were invited to share their insights, as well as analyse new international and local ESG trends to further promote ESG in the community. The hybrid event attracted over 5,000 participants. The Group is also the first Hong Kong company to publish the Climate-related and Nature-related Directive Guide ("Guide") in response to the Taskforce on Nature-related Financial Disclosures (TNFD) framework to

review and disclose the ecological and biodiversity impacts, as well as the risks and opportunities arising from the operations of the Group, and develop actions to reduce the Group's impacts on the environment. The Guide also further aligned with the Recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") by disclosing financial information related to the potential opportunities and risks led by climate change.

The Group is committed to becoming carbon neutral through energy transition and innovation, and has set two medium-term targets to be achieved by 2025 – to reduce group operational greenhouse gas ("GHG") emissions by 10 per cent (i.e. reduce 140,000 tCO<sub>2</sub>e compared to 2020 baseline), and reduce 10 million tonnes of GHG emissions in the environment per year through coal-to-gas, solar photovoltaic power generation, and energy efficiency improvement projects, among others. The Group's decarbonisation strategy includes utilising renewable and landfill gas, improving energy efficiency and developing low-carbon solutions for customers.

The Group actively contributes to environmental protection and became a supporter of TCFD, signatories of the Methane Guiding Principles partnership, China Oil and Gas Methane Alliance, and joined Climate Governance Initiatives in Hong Kong as the founding member.

## Chairmen's Statement

The Group issued its inaugural green bond in 2017, and the proceeds from the bond were invested in the Group's waste-to-energy projects. In 2022, Towngas Smart Energy issued its inaugural Sustainability-Linked Bond with a total of US\$200 million, and set two sustainability performance targets demonstrating the Group's commitment to addressing climate change.

The Group also drives the development of voluntary carbon trading and a low-carbon economy in Hong Kong through its support of Core Climate, a new international carbon marketplace initiated by Hong Kong Exchanges and Clearing Limited. The Group is one of the first users to complete a carbon trade on the platform.

In the social dimension, the top priority is to create positive impacts for employees, customers and the community. The Group developed the Smart Controller, which allows the monitoring of gas appliances' status remotely through a mobile app, and is particularly handy for the elderly with mild cognitive impairment. The Group also launched the Dining Coupon Scheme to support the underprivileged and the catering industry impacted by the epidemic. The Group is building a resilient workforce by providing a safe and healthy workplace and nurturing the next generation of talent; the Company also promotes diversity and inclusion, demonstrated by a 1:1 gender pay ratio of basic salary.

In the area of governance, the variable compensations of the Managing Director and Senior Executives are linked to material ESG issues, including climate change, while additional performance bonuses are provided to encourage employees to implement ESG excellence projects and initiatives. This affirms the Group's commitment to ESG issues and driving performance improvement.

The Group will continue to improve its ESG performance in accordance with the newly established ESG Strategy "ENERGY" with six pillars: **E**nergising the Ecosystem, **N**eutralising our Footprint, **E**ngaging with Society, **R**evitalising our Strengths, **G**reening the Future and **Y**oung-at-heart with Resilience, enhancing corporate operations and business development.

## Final Dividend

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 15th June 2023. Including the interim dividend of HK12 cents per share paid on 15th September 2022, the total dividend payout for the whole year shall be HK35 cents per share.

Barring any unforeseen circumstances, the forecast dividends per share for 2023 shall not be less than the interim and final dividends for 2022.

## Business Outlook for 2023

Hong Kong's economy has been significantly impacted by the epidemic, which has been raging for three years. Nevertheless, following the resumption of social activities to normality in an orderly manner and quarantine-free travel with the Chinese mainland and overseas since early 2023, both inbound and outbound travelling have been increasing swiftly, helping to drive economic recovery. As a result, the catering and tourism sectors will regain momentum. The town gas business in Hong Kong is expected to have more optimistic growth.

The Group will also pay attention to and align with the "Long-Term Housing Strategy" of the Government of the HKSAR to prepare well for the city's future expansion, including the development of the Northern Metropolis and the "Lantau Tomorrow" project. The Group predicts that steady growth in its number of gas customers that comes along with urban development in Hong Kong will last for some time into the future.

Hong Kong is striving to achieve carbon neutrality by 2050, and the development of sustainable green energy is an important step in eliminating carbon emissions. Hydrogen constitutes approximately half of the composition of town gas supplied by the Group in Hong Kong.

With the Company's existing gas pipeline network reaching virtually everywhere in Hong Kong, installation of hydrogen extraction systems on the client side is a low-cost, safe and efficient hydrogen energy supply solution suitable for Hong Kong. The Group will make good use of its underground pipelines of 3,700 kilometres, and work actively with the Government of the HKSAR to formulate future regulations and standards for the hydrogen energy industry, in order to supply safe and reliable hydrogen energy to related energy-using enterprises shortly.

In respect of mainland businesses, the Group's annual volume of gas sales has exceeded 32 billion cubic metres currently. Benefiting from the country's ongoing promotion of urbanisation and unremitting efforts in advocating national environmental protection policies, the city-gas business has favourable factors and broad room for business development. The number of the Group's new customers on the Chinese mainland exceeds 2 million annually, which is equivalent to a customer base of adding "one more Hong Kong" every year. Coupled with the country's increasing efforts to "expand domestic demand and promote sales", the Group's volume of gas sales and the number of customers are expected to increase significantly in 2023, and this ideal momentum will last for some time into the future.

The Group's smart energy business progressed rapidly in 2022. Given the Group's approximately 400,000 industrial and commercial customers, 50,000 employees and large-capacity energy storage technology, the development of zero-carbon smart industrial parks and photovoltaic projects has begun to take shape. The Group will continue to promote the development of these projects in line with the trend of green energy development, and strengthen and improve customer-centred comprehensive energy and carbon management services. In addition, the Group will strengthen its innovation and scientific research to maintain the core competitiveness of its businesses. The Group has set a target to provide smart energy solutions to 200 industrial parks on the Chinese mainland by 2025.

Under the favourable "Healthy China" policy, there are numerous possibilities for the Group's extended businesses, which will be based on households and kitchens, adding two elements of warmth and low carbon in the future. The business will lay out integrated management of comfort and health, provide more products and services for daily life on top of gas supply, convey the concept of a low-carbon green and healthy lifestyle to customers, and at the same time, implement data sharing, improve efficiency, and reduce manpower costs, thus bringing convenient and efficient gas services to customers.

The Group is actively studying and exploring the integration and utilisation of natural gas and hydrogen energy, promoting the demonstration and application of hydrogen doping in natural gas pipelines in Shandong province, and studying the feasibility of upgrading existing natural gas refilling stations to gas and hydrogen refilling stations in Guangdong and Jiangsu provinces and other places. In addition, the Group has carried out relevant work on the feasibility of using the underground gas storage facility for hydrogen storage.

2022 marked the 25th anniversary of Hong Kong's return to the motherland and the 160th anniversary of the Company's foundation. Looking forward, the Group will leverage the power of technological innovation with a brand-new look to "ignite" greater aspirations and contributions on a new track.

**Lee Ka-kit**

*Chairman*

Hong Kong, 17th March 2023

**Lee Ka-shing**

*Chairman*