ENN 新奥

新奥能源控股有限公司
ENN Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2688)

Annual Results Announcement
For The Year Ended 31 December 2020

Annual Results Highlights:

	2020	**2019**	**Increase**
Profit attributable to owners of the Company *(RMB million)*	6,278	5,670	10.7%
Core profit△ *(RMB million)*	6,237	5,278	18.2%
Basic earnings per share *(RMB)*	5.59	5.05	10.7%
Proposed final dividend per ordinary share *(HK$)*	2.10	1.67	25.7%
Proposed special dividend per ordinary share *(HK$)*	0.32	-	100.0%
Retail gas sales volume# *(million m^3)*	21,953	19,924	10.2%
Sales volume of integrated energy# *(million kWh)*	12,042	6,847	75.9%

△Profit attributable to owners of the Company but stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses.
#The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates.

The Board of Directors (the "**Board**") of ENN Energy Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020 together with the comparative audited figures for the corresponding period in 2019. The annual results and the audited consolidated financial statements have been reviewed by the Company's Audit Committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** *RMB million*	**2019** *RMB million*
Revenue	3	71,617	70,183
Cost of sales		(59,285)	(58,918)
Gross profit		12,332	11,265
Other income		952	861
Other gains and losses	4	282	644
Distribution and selling expenses		(951)	(976)
Administrative expenses		(3,230)	(3,099)
Share of results of associates		306	326
Share of results of joint ventures		476	547
Finance costs		(609)	(727)
Profit before tax		9,558	8,841
Income tax expense	5	(2,227)	(1,980)
Profit for the year		7,331	6,861
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Fair value change of equity instruments at fair value through other comprehensive income (“**FVTOCI**”)		65	(1)
Fair value change of properties transferred from property, plant and equipment to investment properties		-	3
Income tax relating to items that will not be reclassified		(16)	-
		49	2
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		1	-
Reclassification of exchange reserve to profit or loss upon deregistration of a subsidiary		-	3
Fair value change of derivative financial instruments under hedge accounting		(122)	-
Income tax relating to items that may be reclassified		14	-
Other comprehensive income for the year		(58)	5
Total comprehensive income for the year		7,273	6,866
Profit for the year attributable to:			
Owners of the Company		6,278	5,670
Non-controlling interests		1,053	1,191
		7,331	6,861
Total comprehensive income for the year attributable to:			
Owners of the Company		6,220	5,674
Non-controlling interests		1,053	1,192
		7,273	6,866
		RMB	*RMB*
Earnings per share	7		
Basic		5.59	5.05
Diluted		5.57	5.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	Notes	2020 RMB million	2019 RMB million
Non-current Assets			
Property, plant and equipment		41,861	37,955
Right-of-use assets		2,129	2,185
Investment properties		261	268
Goodwill		2,511	2,379
Intangible assets		4,446	4,175
Interests in associates		3,619	3,308
Interests in joint ventures		4,141	3,841
Other receivables		73	48
Derivative financial instruments		292	328
Financial assets at fair value through profit or loss (“**FVTPL**”)		4,760	4,841
Equity instruments at FVTOCI		211	123
Amounts due from associates		6	345
Amounts due from joint ventures		10	12
Deferred tax assets		1,370	1,292
Deposits paid for investments		1	15
Prepayment and deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		134	169
Restricted bank deposits		650	446
		66,475	61,730
Current Assets			
Inventories		1,285	1,169
Trade and other receivables	8	9,053	7,492
Contract assets		732	757
Derivative financial instruments		336	345
Financial assets at FVTPL		70	16
Amounts due from associates		892	575
Amounts due from joint ventures		2,106	1,058
Amounts due from related companies		348	164
Restricted bank deposits		116	566
Cash and cash equivalents		8,630	7,373
		23,568	19,515
Current Liabilities			
Trade and other payables	9	8,302	7,635
Contract liabilities		14,242	12,613
Deferred income		38	33
Amounts due to associates		319	189
Amounts due to joint ventures		976	785
Amounts due to related companies		925	1,060
Taxation payables		971	962
Lease liabilities		89	100
Bank and other loans – due within one year		4,590	7,495
Senior notes		2,380	-
Derivative financial instruments		401	416
		33,233	31,288
Net Current Liabilities		(9,665)	(11,773)
Total Assets less Current Liabilities		56,810	49,957

Capital and Reserves		
Share capital	117	116
Reserves	30,444	25,752
Equity attributable to owners of the Company	30,561	25,868
Non-controlling interests	5,611	5,152
Total Equity	36,172	31,020
Non-current Liabilities		
Contract liabilities	3,212	3,302
Deferred income	729	650
Amounts due to joint ventures	585	735
Lease liabilities	310	450
Bank and other loans – due after one year	2,078	2,848
Corporate bonds	2,097	2,094
Senior notes	4,827	2,539
Unsecured bonds	3,712	4,169
Derivative financial instruments	526	330
Deferred tax liabilities	2,562	1,820
	20,638	18,937
	56,810	49,957

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Group's net current liabilities of approximately RMB9,665 million as at 31 December 2020. A wholly-owned subsidiary of the Company has been approved by the National Development and Reform Commission (the "**NDRC**") on 19 January 2020 to issue green bonds amounting to RMB5,000 million. Except for the unutilised issuance quota of the green bonds, the Group has unutilised credit facilities of approximately RMB12,001 million as at 31 December 2020, which are subject to renewal within twelve months from the end of the reporting period. The Directors are therefore satisfied that the Group will be able to meet in full its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2020 have been prepared on a going concern basis.

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

The Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory 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

The application of the "Amendments to References to the Conceptual Framework in HKFRSs Standards" and amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and / or on the disclosures set out in these consolidated financial statements.

Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group during the year.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group reviews their critical terms.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedge reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SEGMENT INFORMATION

Information reported to the chief executive office / joint vice chairman / vice chairman of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. The Group's operating and reportable segment under HKFRS 8 "Operating Segments" are retail gas sales business, integrated energy business, wholesale of gas, construction and installation, and value added business. Segment profit reviewed by the CODM represents the gross profit earned by each segment.

Segment profit represents the profit earned by each segment without allocation of central administration costs, distribution and selling expenses, share of results of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The following is an analysis of the Group's revenue and results by reportable segments which are also the operating segments for the years under review:

2020

	Retail gas sales business *RMB million*	Integrated energy business *RMB million*	Wholesale of gas *RMB million*	Construction and installation *RMB million*	Value added business *RMB million*	Total *RMB million*
Segment revenue	57,875	5,099	38,451	7,434	6,391	115,250
Inter-segment sales	(17,365)	(57)	(20,515)	(990)	(4,706)	(43,633)
Revenue from external customers	40,510	5,042	17,936	6,444	1,685	71,617
Segment profit before depreciation and amortisation	7,576	1,049	366	3,616	1,315	13,922
Depreciation and amortisation	(1,085)	(146)	(4)	(352)	(3)	(1,590)
Segment profit	6,491	903	362	3,264	1,312	12,332

2019

	Retail gas sales business *RMB million*	Integrated energy business *RMB million*	Wholesale of gas *RMB million*	Construction and installation *RMB million*	Value added business *RMB million*	Total *RMB million*
Segment revenue	54,515	3,020	33,686	8,404	7,255	106,880
Inter-segment sales	(14,466)	(271)	(15,221)	(1,472)	(5,267)	(36,697)
Revenue from external customers	40,049	2,749	18,465	6,932	1,988	70,183
Segment profit before depreciation and amortisation	6,669	600	171	3,991	1,239	12,670
Depreciation and amortisation	(998)	(127)	(5)	(272)	(3)	(1,405)
Segment profit	5,671	473	166	3,719	1,236	11,265

4. OTHER GAINS AND LOSSES

	2020	2019
	RMB million	*RMB million*
Net (loss) gain of financial assets at FVTPL	(45)	5
Net gain of derivative financial instruments (note a)	102	915
Gain (loss) on foreign exchange, net (note b)	608	(198)
Impairment loss under expected credit loss model, net of reversal:		
- Trade and other receivables	(106)	(48)
Impairment loss recognised in respect of property, plant and equipment	(70)	-
Net loss on disposal of:		
- Property, plant and equipment	(128)	(77)
- Subsidiaries	(62)	(2)
Others	(17)	49
	282	644

Notes:

a. Included in the amount for the year are realised settlement gain of RMB171 million (2019: RMB178 million) and unrealised gain of RMB32 million (2019: RMB633 million) recognised by the Group in relation to commodity derivative contracts.

b. Included in the amount for the year ended 31 December 2020 is an exchange gain of approximately RMB605 million (2019: exchange loss of RMB192 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in USD to RMB.

5. INCOME TAX EXPENSE

	2020	2019
	RMB million	*RMB million*
Current tax	1,736	1,565
(Overprovision) underprovision in prior years	(10)	1
Withholding tax	63	69
Overprovision of withholding tax in prior years	(71)	-
	1,718	1,635
Deferred tax	509	345
	2,227	1,980

As the major operating income of the Group are sourced from People's Republic of China (the "**PRC**"), the tax charge substantially represents PRC Enterprise Income Tax for both years. According to the PRC Enterprise Income Tax Law and its implementation regulations, China enterprise is subject to 25% tax rate.

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprise", which are subject to PRC Enterprise Income Tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and those subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

6. DIVIDEND

(a) Dividend policy

The Company's dividend policy allows shareholders to share the Company's profits while reserving sufficient reserves for the Group's future development. Subject to the financial performance of the Company, the Company intends to share its profits with shareholders in the form of annual dividends. Barring unforeseen circumstances, the Company intends to maintain annual dividends in an amount of no less than 15% of the Group's annual consolidated net profit attributable to the owners of the Company. Proposed dividends, if any, will be declared at the discretion of the Board and will depend upon, among others things, the Group's general financial conditions and strategies, expected operating cash flows and capital expenditure needed for future expansion, surplus, contractual restrictions, actual and expected government financial conditions, macroeconomics and such other factors as the Board may deem relevant.

(b) Dividends recognised and distributed during the year

	2020 *RMB million*	**2019** *RMB million*
Final dividend declared and paid	1,719	1,176

2019 final dividend of HK$1.67 (equivalent to approximately RMB1.50) per ordinary share or approximately RMB1,719 million in aggregate was paid during the year ended 31 December 2020.

(c) Proposed final dividend after the end of the reporting period

After the end of the reporting period, the Board has recommended a final dividend of HK$2.10 per ordinary share (equivalent to approximately RMB1.77 per ordinary share) and a special dividend of HK$0.32 (equivalent to approximately RMB0.27) per ordinary share for the year ended 31 December 2020, and is subject to approval by the shareholders in the forthcoming Annual General Meeting ("**AGM**"). The final dividend proposed after the end of the reporting period has not been recognised as a liability in the consolidated financial statements.

7. EARNINGS PER SHARE

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

(a) Basic earnings per share

Basic earnings per share for the years ended 31 December 2020 and 2019 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	**2019**
Profit for the year attributable to the owners of the Company (RMB million)	6,278	5,670
Weighted average number of ordinary shares	1,123,467,932	1,122,968,436
Basic earnings per share (RMB)	5.59	5.05

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2020 and 2019 are calculated assuming all dilutive potential ordinary shares were converted.

	2020 *RMB million*	**2019** *RMB million*
Earnings		
Earnings for the purpose of diluted earnings per share	6,278	5,670

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,123,467,932	1,122,968,436
Effect of dilutive potential ordinary shares:		
- share options	2,714,693	2,626,599
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,126,182,625	1,125,595,035
Diluted earnings per share (RMB)	5.57	5.04

8. TRADE AND OTHER RECEIVABLES

Included in the trade and other receivables are trade receivables of RMB2,184 million (2019: RMB2,362 million). The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period:

	2020 *RMB million*	2019 *RMB million*
0 to 3 months	1,418	1,792
4 to 6 months	301	76
7 to 9 months	181	192
10 to 12 months	16	55
More than one year	268	247
	2,184	2,362

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB6,186 million (2019: RMB5,698 million). The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	2020 *RMB million*	2019 *RMB million*
0 to 3 months	3,472	3,559
4 to 6 months	1,094	1,135
7 to 9 months	535	238
10 to 12 months	236	161
More than one year	849	605
	6,186	5,698

BUSINESS REVIEW

The global outbreak of COVID-19 disrupted economic activities and caused recessions in various countries in 2020. Nevertheless, China's economic activities, especially industrial production, have been resumed in an orderly manner since the second quarter of the year with its effective pandemic prevention and control measures. Together with a series of economic stimulus and tax preference policies introduced by the government, China recorded an annual GDP growth of 2.3%, representing the only major economy in the world with positive growth. Meanwhile, Chinese government's commitment to minimise environmental pollution persisted. China's President stated at the General Assembly of the United Nations that China would strive to achieve carbon neutrality by 2060. Local governments promoted policies on energy structure optimisation, energy conservation and emission reduction, as well as increasing the use of clean energy. All of the above policies will drive the sustainable growth of the Group's natural gas sales and integrated energy business.

During the year, the Group made considerable efforts in pandemic prevention and control to ensure the safety of gas supply and services. At the same time, the Group continued to seize opportunities arising from China's determination to promote environmental protection, and the acceleration of national energy reform progress, leveraged on its customer-oriented strategy to develop business. As such, the Group accomplished all operational and financial guidance and achieved remarkable results in 2020. The outstanding performance demonstrated the Group's strategy which commits to providing customers with reliable, safe and clean energy solutions, and creates value for shareholders by driving growth through prudent investment was effective.

The key financial data, key operational data and share price information of the Group for the year together with the comparative figures for last year are as follows:

	For the year ended 31 December		**Increased/ (Decreased) by**
	2020	**2019**	
Key financial data			
Revenue *(RMB million)*	71,617	70,183	2.0%
Gross profit *(RMB million)*	12,332	11,265	9.5%
Profit attributable to owners of the Company *(RMB million)*	6,278	5,670	10.7%
Core profit△ *(RMB million)*	6,237	5,278	18.2%
Basic earnings per share (RMB)	5.59	5.05	10.7%
Net gearing ratio	30.6%	37.9%	(7.3ppt)
Key operational data#			
Number of city-gas projects in China	235	217	18
Connectable urban population coverage *(thousand)*	112,331	103,880	8.1%
New natural gas customers developed during the year:			
– residential households *(thousand)*	2,293	2,397	(4.3%)
– C/I customers *(sites)*	28,367	27,656	2.6%
– installed designed daily capacity for C/I customers *(thousand m^3)*	17,078	18,156	(5.9%)
Accumulated number of customers:			
– residential households *(thousand)*	23,213	20,920	11.0%
– C/I customers *(sites)*	177,128	148,761	19.1%
– installed designed daily capacity for C/I customers *(thousand m^3)*	141,787	124,709	13.7%
Piped gas penetration rate	62.0%	60.4%	1.6ppt
Retail gas sales volume *(million m^3)*	21,953	19,924	10.2%
Wholesale of gas volume *(million m^3)*	7,616	7,039	8.2%
Combined daily capacity of natural gas processing stations *(thousand m^3)*	155,264	147,802	5.0%
Total length of existing intermediate and main pipelines *(km)*	63,096	54,344	16.1%
Accumulated number of integrated energy projects in operation	119	98	21
Integrated energy projects under construction	24	22	2
Sales volume of integrated energy *(million kWh)*	12,042	6,847	75.9%
Share price information			
Highest share price *(HK$)*	115.00	91.00	
Lowest share price *(HK$)*	63.00	66.50	
Closing share price at the end of the year *(HK$)*	113.80	85.15	33.6%

△ Profit attributable to owners of the Company but stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses.

The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates.

FINANCIAL PERFORMANCE

The total gas sales volume of the Company, its affiliated companies, joint ventures and associated companies has grown by 9.7% year-on-year to 29,569 million cubic meters. During the year, upstream natural gas prices fell, and the Group adjusted prices for end users accordingly, thus, revenue of the Group grew slightly by 2.0% to RMB71,617 million. Please refer to the "**Operation Highlights**" section below for details of each business segment performance. The Group's strategy of diversified gas sources purchase resulted in significant cost reductions. The gross profit margin of retail gas sales and wholesale of gas businesses increased by 1.8 percentage points to 16.0%, and 1.1 percentage points to 2.0% respectively, resulting in an increase of the Group's overall gross profit margin by 1.1 percentage points year on year to 17.2%.

The Group's operating expenses are generally divided into distribution and selling expenses, as well as administrative expenses, which mainly include salaries and employee benefits, marketing and advertising expenses, office expenses, depreciation and amortisation, and etc. The Group's operating expenses amounted to RMB4,181 million (2019: RMB 4,075 million), operating expenses to revenue ratio was similar for both years. The decrease in distribution and selling expenses was mainly due to the Group's work from home policy and reduction of non-essential business trips of employees during COVID-19 outbreak in the year. The increase in administrative expenses was mainly due to the Group's various prevention measures to minimise the risk of COVID-19 infection, and the procurement of sanitary supplies and protective equipment to protect the safety of our customers and employees.

Finance cost decreased by RMB118 million to RMB609 million (2019: RMB727 million), down by 16.2% year on year, thanks to the low interest rate environment globally, and the concessional loans obtained by some of the Group's project companies to fight against the epidemic during the year. As a result, effective interest rate also decreased from 3.9% in 2019 to 3.6% in 2020.

Other gains and losses amounted to RMB282 million (2019: RMB644 million), down by 56.2% year on year, mainly due to the impact of exchange differences, changes in the fair value of derivative financial instruments and asset impairments. During the year, the exchange rate of RMB against US dollar moved higher by year end. As a result, the Group recorded a net foreign exchange gain of RMB608 million (2019: loss of RMB198 million). In terms of derivative financial instruments, due to changes in accounting policies, oil prices, exchange rate and other valuation factors, the gain from derivative contracts decreased by approximately RMB813 million to RMB102 million (2019: RMB915 million). The business of vehicle gas refuelling stations continued to be affected by external factors, including online car hailing service and supportive policy of electric automobiles by local governments, coupled with the impact from COVID-19 which reduced people's frequency of commuting, the Group has decided to further optimise its vehicle gas refuelling network by eliminating inefficient sites. During the year, the Group recorded an impairment and sale losses in property, plant and equipment of RMB198 million (2019: RMB77 million).

During the year, profit attributable to the owners of the Company recorded RMB6,278 million, increased by 10.7% year-on-year. Stripping out the impact of other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses of RMB41 million, core profit driven by operating activities increased by 18.2% to RMB6,237 million. Basic earnings per share was RMB5.59, increased by 10.7% year-on-year. During the year, the Group's operating cash flow was RMB9,696 million, and recorded positive free cash flow of RMB3,016 million.

OPERATION HIGHLIGHTS

Retail Natural Gas Sales Business

In the face of the challenges brought by COVID-19 during the year, the Group adhered to government's guidelines in pandemic prevention and control, at the same time ensured the safety of gas supply. Customer-orientation is the bedrock of the Group's business activities, we further explored gas demand of existing customers and developed new customers, utilising our digitalised tools which collected and analysed customers' energy consumption data, to give us more insights into their energy consumption characteristics and predict future demands. As such, the Group was able to customise sales package for users and drove the growth of their energy consumption.

During the year, natural gas supply was adequate, upstream natural gas city gate price was reduced. At the same time, the Group increased low-cost LNG import through our own long-term contracts and from spot market utilising controlling shareholder's Zhoushan terminal, which effectively optimised the gas supply structure and reduced overall gas procurement cost during the year. We shared part of the cost saving with customers who were price-sensitive, effectively stimulated their gas consumption volume.

As of the end of 31 December 2020, retail gas sales volume increased by 10.2% to RMB21,953 million cubic meters, however, due to the downward adjustment of gas price, revenue of retail gas sales business had a modest growth of 1.2% to RMB40,510 million. Total volume of natural gas sold to C/I customers reached 16,878 million cubic meters, representing an increase of 13.5% year-on-year, and accounted for 76.9% of the retail gas sales volume. Benefiting from the stay-home policy and generally lower temperatures in winter than the previous year, residential gas sales volume increased by 10.1% to 4,185 million cubic meters, representing 19.1% of the retail gas sales volume.

New Customers Development

Most of the Group's projects are located in key areas of air pollution prevention and control, including Beijing, Tianjin, Hebei, Henan, Shandong, Jiangsu, Zhejiang, Guangdong and other provinces, where local governments strictly implement environmental protection policies. Leveraging on the opportunity of air pollution control battle, the Group has further explored business opportunity in the C/I market and actively promoted coal-fired boilers replacement and LPG-to-gas etc. for C/I users. At the same time, with the increasing number of manufacturing companies relocating to industrial parks, and our advantage of possessing many industrial parks concessions, the Group has developed a large number of new C/I customers. During the year, a total of 28,367 new customers (gas appliances installed with daily designed capacity of 17,077,763 cubic meters) were developed. Among them, the installed daily designed capacity from "coal-to-gas conversion" was approximately 4,780,000 cubic meters, accounting for 28% of the newly developed C/I customers. The Group implements market-based pricing for C/I customers' installation fees, which was steady compared with the previous year. By the end of 2020, the Group has served a total of 177,128 C/I customers (gas appliances installed with daily designed capacity of 141,786,545 cubic meters).

China is sprinting toward a "moderately well-off society", urbanisation rate has exceeded 60% in 2020. Government's urbanisation rate target is to reach 65% within the "14th Five-Year Plan" period, in this context, the utilisation of clean energy is essential to improve the environment as well as to meet the demand arising from people's pursuit of quality life, which will also provide the Group with enormous opportunities of developing urban residential customers. The Group will continue to focus on new customers development in urban areas, and enhance gas pipeline infrastructure establishment, so as to further raise the penetration rate of our projects. As a good corporate citizen, the Group will also assist local governments in achieving the replacement of scattered coals for the prevention and control of air pollution, focusing on areas in proximity to our existing concessions, to carry out "rural coal-to-gas project" prudently. During the year, the Group developed a total of 2,293,000 residential households, in which new buildings, existing buildings and "rural coal-to-gas" conversion accounted for 74%, 5% and 21% respectively. The average construction and installation fee was RMB2,492 per household, maintaining at a stable level over the past few years. As of the 31 December 2020, the Group has developed 23.21 million residential customers cumulatively, raising the average piped gas penetration rate from 60.4% in 2019 to 62.0%.

Integrated Energy Business

In 2020, seizing opportunities arising from carbon neutrality, industrial transformation, clean heating and energy system reform, the Group kept "getting quality projects" and "executing well" in mind, to optimise and upgrade both existing projects and projects under construction, at the same time, to develop new projects tailored to local conditions The Group also actively developed demand-side energy services, thus, managed to promote both qualitative and quantitative development of its integrated energy business. During the year, a total of 21 integrated energy projects were put into operation, the number of operational projects increased to 119, generating a total of 12,042 million kWh of integrated energy sales to the Group, up 75.9% year-on-year.

In addition, 24 integrated projects are under construction. Total demand of integrated energy will reach 31,861 million kWh when all projects fully ramp up. In addition, we also proactively developed integrated energy projects utilising low-carbon energy sources, such as biomass, photovoltaic and geothermal heat energy etc. The Group also tapped into distributed clean heating projects in the northern part of China and mid to lower reaches of the Yangtze River, total heating areas exceeded 5 million square meters. Above projects laid a good foundation for promoting the Group's transformation and upgrading to become an integrated energy service provider.

The Group designs the optimal energy supply technology route according to the resource conditions of the project, customer's energy demand, and the load forecast. The integrated energy projects that were put into operation during the year, incorporated the use of various clean energy sources, including biomass, photovoltaic and natural gas. One of the projects was Yangpu Economic Development Zone located in Hainan Province. It is a national level development zone approved by the State Council and is positioned as a national offshore trade centre, an advanced manufacturing base and a commodity distribution and trading base. Currently, there are industrial users operating in the development zone, with huge energy demand such as electricity and steam. Leveraging digital technology and adhering to the principle of integrated energy development, the Group reinvented the energy structure of the zone to improve its energy efficiency, so as to achieve energy conservation and emission reduction for customers in the zone. Upon full operation, the energy consumption scale of the first phase of this project will reach 500 million kWh per year, and the Group's integrated energy solutions can save 107,000 tons of standard coal and reduce 280,000 tons of carbon dioxide emission annually for Yangpu Economic Development Zone. Another project was Yuanbaoshan Industrial Park located in Chifeng City of Inner Mongolia. It is one of the 20 key industrial parks in Inner Mongolia Autonomous Region, and is also the most important chemical industrial park in the east of the province. With comprehensive supporting facilities and adequate infrastructure, the park has already attracted many industrial enterprises of considerable scale to settle there, including five leading industries such as phosphorous coal chemical, bio-chemical, fine chemical (including medicine), equipment manufacturing and new materials. The annual energy consumption scale of this project will reach 428 million kWh, our solutions will save 170,000 tons of standard coal and reduce 426,000 tons of carbon dioxide emission for the park every year.

In addition, the Group commenced construction of a hydrogen supply project in Huludao, Liaoning Province during the year. The project will meet customers' 24-hour demand for hydrogen by extracting hydrogen through pressure swing adsorption after desulfurization and conversion of natural gas, thereby increasing revenue streams and expanding natural gas sales. This is our first hydrogen production project and will serve as a demonstrative project for the future promotion of hydrogen energy supply. The Group has also commenced technological research in hydrogen blending in natural gas pipelines, as well as hydrogen refuelling for vehicles, and has invested in the construction of a hydrogen refuelling station in Shanghai. We believe we can leverage our existing natural gas pipelines, vehicle refuelling stations and gas storage facilities to provide low-carbon energy supply to our customers and help our country achieve the goal of carbon neutrality in the future.

Value Added Business

Our customer base has been expanding in tandem with increasing penetration rate. At present, we have served more than 177,128 C/I customers and 23.21 million residential customers. The potential added value of the customer network is huge. Therefore, we actively developed value-added services driven by customers' demand, enhanced the marketing skills of frontline staff through training, built an ecosystem of employees, business partners and customers, utilising digital tools to rapidly develop diversified value added services, so as to enhance the overall profitability of our service network and customers' loyalty. In 2020, the Group actively provided customers with a variety of value added services, including 360° kitchen solutions, heating systems, security systems and other derivative products and services. We strive to deliver caring services to customers in various scenarios and become their one-stop living services steward.

Affected by the COVID-19 epidemic, the Group's value added business revenue recorded RMB1,685 million, down by 15.2%. During the severe epidemic in the first half of the year, although we reduced the direct face-to-face communications with customers, we expanded the online user base through the development of mobile applications, the online service platform and various social media channels, laying a solid foundation for the rapid growth of sales in the future. Benefiting from the Group's diversified value added services provided to customers and continuous efforts to promote high-end and smart products, gross profit margin increased by 15.7 percentage points year-on-year to 77.9%. Currently, penetration rate of value added business among the Group's existing customers is only 7%, while among the newly developed customers during the year, penetration rate was 20%, reflecting the rapid development of this business and its huge growth potential.

Expansion of Operating Regions

The Group seized the opportunity arising from industry consolidation. Leveraging on its market insight, excellent safety and operation management, flexible project development strategies, and leading integrated energy service philosophy, the Group acquired exclusive operating rights of 20 city-gas projects, which are expected to drive additional gas sales volume of 2.8 billion cubic meters in the next few years, and push forward the rapid growth of integrated energy business and value added business.

During the year, the Group acquired 100% equity interest in the gas project in Shuangcheng District, Harbin City, which is a food industrial base of Heilongjiang Province and is home to 170 enterprises with a market capacity of 125 million cubic meters of industrial gas consumption. The project is located in the centre of the Harbin-Changchun Economic Belt and the industrial corridor to revitalise north-eastern china's economy, with major railroads, highways and river routes passing through and the region known as the "southern gate" of Heilongjiang Province. In addition to natural gas sales, the project in Shuangcheng will play a key role in driving our expansion to surrounding markets. Capitalising on our integrated energy services, we are able to reach more potential energy users nearby.

The Group also obtained the 30-year concession for Sino-German Tianjin Daqiuzhuang Eco-City Park by tender. The region has a total production value of approximately RMB20 billion, accommodating some of the Top 500 private enterprises in China, Baoneng Assembly Industrial Park, PWT New Zealand, etc. Daqiuzhuang, one of the major industrial towns in Jinghai District, has a profound industrial base and the energy-intensive steel processing being its pillar industry. It tops the district with 165 large-scale industrial enterprises and a total production output of RMB37.2 billion. The Group will drive its integrated energy services and provide emission reduction solutions to end-users through natural gas sales and digitalisation, with a view to expanding our foothold in Tianjin's clean energy market.

As of the end of 2020, the Group had a total of 235 exclusively operated city-gas projects in China, spanning across 20 provinces and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang, Shanghai, Tianjin and Shaanxi.

Optimising Gas Sources Structure

The Group, on one hand, broadly expanded its supplier networks, and actively strived for new city gate connection to the main upstream pipeline network, so as to improve its gas receiving capacity, on the other hand, focused on unconventional gas resources in Shanxi, Shaanxi, Sichuan and Chongqing as well as the LNG resources at coastal LNG terminals, to strengthen the capability of acquiring competitive gas sources, and further reduce its overall procurement costs. The Group strived to enhance gas supply with a view to providing strong support for its market expansion.

During the year, The Group actively participated in the natural gas reform for provincial pipelines, to purchase gas sources from upstream suppliers directly, in order to realise upstream-downstream direct transaction. The Group continued to explore the procurement and distribution of unconventional natural gas resources to increase resources control capability. The Group also signed a natural gas purchase and sale agreement with BP to provide piped gas resources with an annual volume of 300,000 tons for 2 years, to provide abundant supply of clean energy and support the coal-to-gas project in the Guangdong region. The Group's overall gas purchase costs declined in 2020, with its customer-oriented principle, the Group shared part of the cost-saving with customers to stimulate their gas demand while maintaining a healthy margin.

Digitalisation & Technological Innovation

ENN Energy is committed to integrating digital and Internet technology to provide safe, stable and clean energy solutions to customers. The Group invested a total of RMB181 million during the year to improve its digital and intelligent management, and created digitalised tools to enhance customer service and experience. In terms of operation safety, the Group has completed intelligent distribution planning with "Internet of Things ("IoT") technology, online simulation technology and automation technology" and gradually established an integrated distribution and control platform featuring "all-round detection, comprehensive prediction, integrated control and self-adaptive optimisation" to provide customers with gas transmission and storage services. During the year, the Group also set up a digital monitoring system to ensure healthy operation of metering equipment at field stations, and formulate targeted plans for maintenance, repairing and calibration, which greatly improved metering accuracy and reduced maintenance costs for metering equipment. For construction, the Group launched engineering digital products incorporating IoT technology and artificial intelligence ("AI") algorithms to improve its quality and safety. During the year, the Group completed the development of 13 digital products, including IoT equipment, smart helmets, construction safety, completion data and personnel tags, and applied them online in 86 member companies. During the year, 94% of the 33,000 construction projects adopted visualisation management tools, construction quality improved significantly.

The Group focused on customer needs and extended digital products from supply side to consumption side. During the year, the Group completed product launches for customers in the areas of billing, bill optimisation, micro-gas turbine application and thermal facility operation, which improved the development capability of frontline staff. The Group also integrated AI, automated robots and graphic number recognition technologies into customer service and call centres to improve work efficiency and reduce operating costs. During the pandemic, the Group promoted online self-service meter reading function, which enabled users to perform online self-services, like meter reading, online payment, bill enquiry and electronic invoicing. The Group also broadened its online payment channels through NFC card APP, achieving an overall online gas purchase ratio to over 50% in 2020. Customers can also open accounts online, the hassle-free platform enhanced users experience. The increase in the Group's active online customers not only saved labour and communications costs, but also create a new channel to promote the Group's value added business.

Technology is the core competitiveness of an enterprise, and innovation is the power of sustainable development. In 2020, we improved our technological innovation mechanism, inspired our employees to be innovative through various measures. From nurturing innovative ideas, launching new technological projects, to promoting and adopting their successful technological innovations, employees were able to provide customers with innovative products and services, and create value for the Group. During the year, we started the constructions of 8 energy optimisation demonstration projects for industrial production processes, including pharmaceuticals and glass production. The projects aimed at improving efficiency of customers' energy supply systems and equipment, and reducing energy consumption while saving costs for customers through solutions such as cascade utilisation of energy, recycling of waste energy, improving quality and efficiency of steam. As the projects become operational and results being proved, respective technological innovations will be applied to more customers to achieve energy conservation and emission reduction as well as create values for customers. We will continue to keep up with the latest market trends, and make full use of AI, big data and Internet technologies to facilitate the Group's transformation into an intelligent enterprise.

SUSTAINABLE DEVELOPMENT

Enhancing ESG management

The Group attaches great importance to environmental, social and governance (ESG) management and has completed incorporating ESG metrics including safety operations, corporate governance, environmental protection and social responsibility as the KPIs of management's remuneration. In order to comply with TCFD's standards on climate change disclosure, the Group has set up dedicated working groups focusing on climate change strategy, emission reduction metrics identification and development, biodiversity policy formulation. The working groups also conducted climate change scenarios analysis and quantify related risks so as to accelerate the setting of the Group's energy conservation and emission reduction targets. Meanwhile, the Group organised ESG online training for employees, and incorporated ESG training attendance and examination as part of the criteria in employees' value assessment to cultivate and strengthen the awareness of sustainable development among employees. Thanks to the concerted effort of our employees and effective management, total greenhouse gas emissions of the Group reduced by 20.2% year-on-year.

During the year, the Group and its 11 member companies obtained ISO14001 and ISO45001 international certifications, indicating that we have reached international standards in occupational health and safety and environmental management. We will encourage more member companies to obtain such international certifications, ensuring ENN's culture of excellent occupational health and safety, as well as environmental protection can be inherited. We also continued to engage a consulting company to provide professional advice on ESG management system, policy, data disclosure, performance, best practice and other aspects, in order to further improve our ESG performance. We believe these measures will facilitate the sustainable development of the Group and contribute to a better ecosystem.

As for governance, in order to promote a culture of connectivity, build a clean eco-organisation and enhance environmental compliance management, the Company organised anti-corruption and environmental protection training for Board members and management. In addition, we also strived to promote the concept of sustainable development to our stakeholders, including requiring suppliers to obtain ISO international certification, incorporating ESG indicators in the supplier bidding process, encouraging shareholders to adopt electronic communication, and engaging all employees and stakeholders to participate in environmental activities including the "Earth Hour" campaign. In the Hang Seng Index annual review ended 30 June 2020, the Group was included in the Hang Seng ESG 50 Index and the Hang Seng Corporate Sustainability Benchmark Index for the first time, with an ESG rating of A. MSCI also upgraded the company's ESG rating to BBB in its September 2020 rating report. We will strive to operate our business aligning with China's ambition to achieve carbon emissions peak in 2030 and carbon neutrality in 2060.

Employee Health and Safety

We attach much weight to occupational health and safety of our employees in the course of business operation. Both in the scope of direct and indirect control, we endeavoured to building an excellent safety management system, reducing and containing relevant risks, performing daily monitoring and reporting any potential dangers through digital and visual management platforms, and formulating comprehensive safety guidelines and measures to ensure that the safety performance of the Group meets the highest standard.

In order to raise the awareness of safety operation of all employees, we developed a list of safety responsibilities for key positions during the year, which clarified their safety responsibilities, standards of responsibility performance, evaluation of responsibilities and reward and punishment systems, to promote the implementation of accountability mechanism for safety operations. The Group also issued a Notice on Upholding the Safety Bottom Line to Achieve Safe Development, which stipulates that in the event of a safety incident resulting in the death of an employee, the person in charge of the enterprise will be removed from his or her position, and the person in charge of the provincial company concerned will also be demoted. The Group's Risk Committee will also review major safety operation incidents and make recommendations for improvement, and will establish a database of cases for all member companies to learn from in order to prevent any recurrence.

Encountering the outbreak of COVID-19 last year, the Group has implemented various policies to keep its employees healthy and safe, including regular disinfection at office areas, daily monitoring of the physical health of its employees, utilising iCome platform for daily epidemic report mechanism to ensure the orderly implementation of epidemic prevention, etc. As a leading enterprise in the public utilities sector, ENN Energy was determined to ensure the safety of people's livelihood and gas usage during the outbreak, strengthened the promotion of epidemic prevention knowledge both internally and externally, and ensured all departments were working closely together to protect frontline employees, through providing masks, protective suits, goggles and other supplies, ensuring employees provide services to customers safely.

Green Finance

In September 2020, the Group successfully issued its first offshore green bond of US$750 million due 2030, with a coupon rate of 2.625%, which was certified by Vigeo Eiris and Hong Kong Quality Assurance Agency as a green financial instrument. The green bond issuance was well received by investors and the bond has now been added to the HKEX Sustainable & Green Exchange (STAGE), providing investors with a convenient way to understand the Group's green development. According to the Group's green finance framework, the Group intends to use the net proceeds to fund and/or refinance green projects including renewable energy, energy efficiency, pollution prevention and control, which will facilitate Group's transition to a low-carbon business portfolio and contribute to the carbon reduction of our customers and our country. The green bond was also recognized as the "Best Green Bond" in the Renewable/Transitional Energy category of the Asset Magazine's 2020 Triple A Sustainable Capital Markets Regional Awards.

OUTLOOK

The Chinese government is committed to establishing the "dual circulation" development model which primarily aims at strengthening its domestic market through "internal circulation". The improvement of domestic consumption shall drive the steady recovery of the economy, and fully demonstrate the resilience and vitality of China's economic development. China's economic growth rebounded rapidly to 6.5% in the fourth quarter of last year, returning to the pre-pandemic level. Looking forward to 2021, with rapid growth in domestic industrial and commercial activities and effective pandemic prevention and control, China will remain as the major global industrial producer, stimulating the growth of energy consumption in the region. Moreover, President Xi Jinping announced at the General Assembly of the United Nations last year that China aims to hit peak carbon emissions in 2030 and to achieve carbon neutrality in 2060, which is a welcome boost to the boom of natural gas and renewable energy. The year 2021 marks the beginning of our 14th Five-Year Plan, the Chinese government will continue to push forward environmental governance and to promote the optimisation and adjustment of the nation's energy structure. The governance of highly polluted and high-energy-consuming industrial enterprises and the replacement of coal by clean energy shall remain in top priority, therefore, natural gas and integrated energy business which can incorporate renewable energy sources as primary energy will play an important role in the plan.

In the past year, China's continuous progress and further implementation of natural gas market reform brought both opportunities and challenges to the gas industry. The National Oil & Gas Pipeline Network Group Co. (PipeChina) was officially put into operation, the first batch of shippers completed registration, and major pipelines including West-East Natural Gas Pipeline, China-Myanmar Pipeline, China-Russia Eastern Pipeline, Yulin-Jinan Pipeline and Taian-Qingdao-Weihai Pipeline and six LNG terminals in Beihai, Tianjin, Shenzhen, Fangchenggang, Guangdong and Hainan released remaining capacities to the public, all of which signified the separation of pipeline transmission and sales, and the open-up of third-party access has preliminarily achieved. This promoted the diversification of natural gas supply, bringing opportunities for city-gas distributors to procure domestic and overseas natural gas sources independently and reduce the cost for end-users. In addition, Guangdong and Zhejiang provinces have issued direct supply policies for high-volume industrial users, pursuant to which customers can select gas suppliers independently. The direct supply policy brings challenges to city-gas operators, but also brings more opportunities for us to expand direct supply to large-usage customers outside our city-gas concessions. In the future, city-gas operators with strong gas sourcing capabilities can explore new growth potential capitalising on this policy.

The national power market reform made progress with increasing participating entities and transaction scale, as well as improving rules for medium- and long-term transactions and spot trading pilot. We are developing an open power trading system with wider coverage and a wider variety of trading products, which will provide favourable conditions for the Group to develop power trading services on a large scale and expand to the supply and consumption market. Meanwhile, the first pilot project of market-oriented transactions of distributed power generation in China has been completed and put into operation in Changzhou, Jiangsu Province at the end of 2020, achieving a substantial breakthrough in "cross-boundary electricity trading" of distributed energy across electrical grids. The demonstration of Jiangsu Province will drive the market-oriented transactions of distributed power generation, laying a solid foundation for the expansion and quality improvement of distributed energy and the development of integrated energy business.

In 2021, the Group will continue to strengthen operational digitalisation and technological innovation to develop business with higher quality. We will seize the opportunity of environmental governance to develop new C/I customers and residential customers, and improve the penetration rate of natural gas in existing projects. At the same time, the Group will also expand its market footholds outside its concession areas to seize opportunities from industry consolidation during economic downturn, actively explore quality projects which are close to our existing projects, especially those with huge industrial gas and integrated energy demand through M&A to boost sales volume. In terms of expanding integrated energy business that supports future development, the Group will accelerate the market development of various types of industrial parks, utilise locally abundant renewable energy sources, to promote the integrated energy model of multi-supply of heating, electricity and gas, multi-energy sources utilisation, and multi-technology adoption, so as to provide customers with low-carbon energy solutions. In terms of value added business, the Group strives to understand the needs of customers, and provide safe and diversified value added products and services, including security systems, heating systems and smart kitchens solutions to our customers, so as to enhance customer's stickiness and drive the Group's profit growth.

FINANCIAL RESOURCES REVIEW

Financial Resources and Liquidity

The Group's capital mainly derived from cash inflow of its business operations, financing, investment income and equity. The main factors influencing the Group's future cash balance are cash flow from operation, capital expenditures and repayment of debts.

An analysis of the Group's cash, current and non-current debts is as follows:

	2020 *RMB million*	**2019** *RMB million*	**Increased/ (Decreased) by** *RMB million*
Bank balances and cash (excluding restricted bank deposits)	8,630	7,373	1,257
Long-term debts (including bonds)	12,714	11,650	1,064
Short-term debts (including bonds)	6,970	7,495	(525)
Total debts	19,684	19,145	539
Net debts[1]	11,054	11,772	(718)
Total equity	36,172	31,020	5,152
Net gearing ratio[2]	30.6%	37.9%	(7.3ppt)
Net current liabilities	9,665	11,773	(2,108)
Unutilised credit facilities	12,001	13,448	(1,477)

Working Capital Management

The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB8,630 million, an increase of RMB1,257 million from the beginning of the year, mainly reflecting the increase in debt and operating income.

If further liquidity is required, the Group can withdraw the standby committed credit provided by the correspondent bank. As at 31 December 2020, these credit facilities reached RMB12,001 million (2019: RMB13,448 million), allowing the Group to obtain additional liquidity when necessary.

In addition, the Company also prudently manages receivables, payables and inventory turnover days. As at 31 December 2020, the Group's receivable turnover days are 11 days (2019: 12 days), payable turnover days are 38 days (2019: 35 days), and inventory turnover days are 8 days (2019: 7 days), the turnover days for two years are similar.

As at 31 December 2020, the Group's operating cash inflow was RMB9,696 million, which was sufficient to meet the Group's capital expenditures, external dividends and financial costs. Free cash flow[3] rose 12.0% to approximately RMB3,016 million.

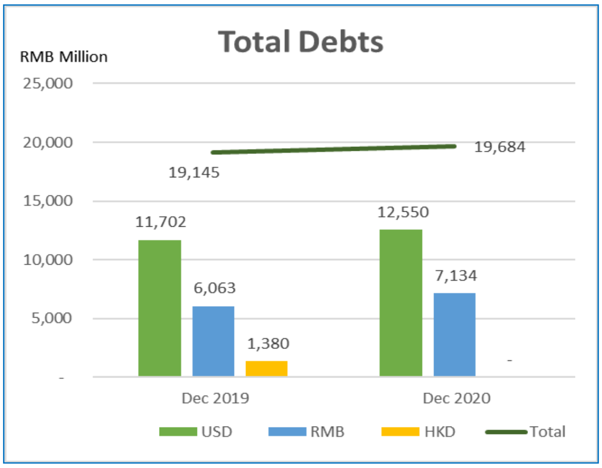
[1]Net debts = Total debts - Bank balances and cash (excluding restricted bank deposits)
[2]Net gearing ratio = Net debts / Total equity x 100%
[3]Free cash flow = Cash flow from operating activities - capital expenditure - financing cost + dividend income

Therefore, we do not over-reliance on borrowing, but only to maintain an appropriate scale of bank loans, other loans and corporate bonds to finance our operations.

Borrowings Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability and flexibility of the Group's capital and debts structure. As at 31 December 2020, the Group's total debts amounted to RMB19,684 million, representing an increase of RMB539 million compared to the total debts as of 31 December 2019, mainly due to the issuance of USD750 million green bonds during the year. As a result, the Group's net gearing ratio reduced to 30.6% as at 31 December 2020 (2019: 37.9%).

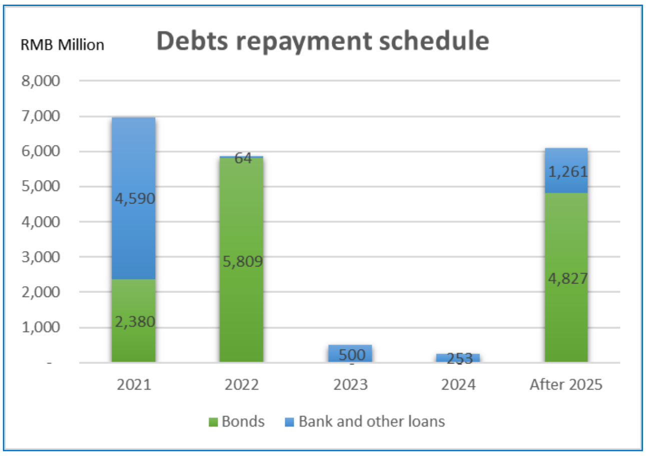
Foreign exchange risk management



As at 31 December 2020, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,936 million (2019: USD1,681 million and HK$1,540 million), equivalent to approximately RMB12,550 million (2019: RMB13,082 million), and among which 68.0% (2019: 67.3%) is long-term debt. In managing foreign exchange risk arising from bonds and loans denominated in foreign currencies, the Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms of which are in line with that of the Group's foreign debts. Such foreign currency derivative contracts can mitigate the foreign exchange risk arising from the interest and principal payments of such foreign debts. As of 31 December 2020, the Group has hedged debt principal of USD750 million (2019: USD785 million) and the hedge ratio of long-term USD debts reached 40.9% (2019: 62.0%). In view of the existence of fluctuation in RMB/USD rate, the Group will continue to closely monitor the foreign exchange market and strive to use foreign currency derivative contracts to mitigate the impact on its results when deemed appropriate.

The impact of debt repayment on cash flow

The Group seeks to maintain strict control over the debt level and strike a balance between duration of debt and cost of financing. In managing borrowings, the Group will seek to spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.



The senior notes will mature in May 2021, and the Group plans to repay it with its own funds and bank borrowings. The Company can also use the wholly-owned subsidiary's RMB5,000 million green bond quota as approved by the National Development and Reform Commission on 19 January 2020. Therefore, the Group has sufficient resources to repay the borrowings.

NET CURRENT LIABILITIES

The Group's current liabilities mainly include a large amount of receipts in advance of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

During the year, in response to market changes, the Group replaced certain short-term loans with long-term loans. As such, at 31 December 2020, the Group's short-term debt to total debt ratio decreased to 35.4% as compared to 39.1% at the end of last year. Net current liabilities maintain at similar level to last year at RMB9,665 million (2019: RMB11,773 million).

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Directors are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

CREDIT RATING

During the year, the Group's credit ratings given by three international rating agencies (Standard & Poor's, Moody's and Fitch Ratings) remained favorable. United Credit Ratings Co., Ltd., the largest domestic credit rating agency, also maintains the highest AAA credit rating and "stable" outlook for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for onshore business investment. These ratings reflect the Group's sound financial position which can generate highly visible and stable operating cash flow. The management of the Company believes that the good credit rating will continue to provide the Group with sufficient financial resources for its long-term development.

Although the Group has strong financial strength and very stable operating cash flow, limited by Standard & Poor's group credit methodology, the long-term credit rating of the Company was lowered from BBB+ (Watch Negative) to BBB (Stable) after the completion of the re-organisation at the level of the Company's controlling shareholder. However, there is a two-notche isolation between the Company and its controlling shareholder to reflect the Company's independence from the controlling shareholder and good corporate governance, which is a rare case in the Asia Pacific region.

As of the date of this announcement, the credit ratings of the Company are summarised below:

	Standard & Poor's	Moody's	Fitch Ratings
Long-term credit rating	BBB	Baa2	BBB
Outlook	Stable	Stable	Stable

The Group's strong financial profile, with further improved operating cash flow during the year and well-managed debt maturities, will support the Company to maintain its current or even achieve higher credit ratings.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group has no significant contingent liabilities.

FINANCIAL GUARANTEE LIABILITY

As at 31 December 2020, the Group had issued guarantees to banks to secure loan facilities granted to an associate and joint ventures. The guaranteed facilities amount utilised was approximately RMB775 million (2019: RMB726 million).

CAPITAL EXPENDITURES AND COMMITMENTS

(a) Capital expenditures

The Group's capital expenditure in 2020 amounted to RMB6,741 million (2019: RMB8,922 million), mainly used for piped gas projects, integrated energy projects and acquisition of new projects.

(b) Capital commitments

As at 31 December 2020 and 2019, the Group's capital commitments are as follows:

	2020	**2019**
	RMB million	*RMB million*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	899	1,021
Capital commitments in respect of		
- investments in joint ventures	518	495
- investments in associates	469	518
- other equity investments	2	259

(c) Other commitments

Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and lasts for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivative financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

COMMODITY PRICE RISK MANAGEMENT

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. Except for the abovementioned foreign currency-denominated debts, the foreign exchange risk faced by the Group mainly comes from LNG international procurement business denominated in USD and linked to the international crude oil price.

International LNG Procurement Contracts

At present, the Group has three international long-term LNG procurement contracts, all of which have achieved normalised operation. The pricing of the international procurement is mainly indexed to the price of crude oil on the international energy market. In order to deal with the price exposure generated by international procurement, the Group has established a series of risk management policies and commodity hedging mechanism by hedging a reasonable proportion of planned annual LNG purchase and sale, to minimise the adverse impact of international energy price fluctuations on the Group's business, and also stabilise the Company's international LNG procurement costs and reduce commodity price risks.

The Group adopted hedge accounting policy since 1 January 2020 in order to better associate the hedging instruments entered into to manage the physical trading exposure, as well as minimises the volatility to the profit and loss statement arising from the fair value change in hedging instruments. The Group has recognised realised gains on changes in fair value arising from commodity derivative contracts of RMB171 million (2019: RMB178 million) and unrealised gain of RMB32 million (2019: RMB633 million). The Group will continue to maintain its stringent risk management strategy, proving its determination to establish good corporate governance practice.

The Group has implemented a world leading Energy Trading Risk Management System (ETRM) and developed a corresponding Mobile APP Management System, both of which can combine derivatives' trading with physical trading to achieve a comprehensive and accurate digital risk management with high-frequency and multi-dimension. In addition, the Group will optimise existing hedging strategy, trading authorisation and risk management policies continuously, to better manage the risks associated with the Group's international LNG procurement.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with the management the accounting principles and practices adopted by the Group and discuss auditing, risk management, internal control and financial reporting matters. The Audit Committee also maintains an appropriate relationship with the Company's independent auditor and provides advice and comments to the Board.

A meeting of the Audit Committee was held on 19 March 2021 to review with the management on the Group's annual results and the Audited Consolidated Financial Statements for the year ended 31 December 2020.

DISTRIBUTABLE RESERVES

According to the applicable laws of the Cayman Islands, the Company's reserve available for distribution as at 31 December 2020 amounted to RMB3,930 million.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

2021 is the twentieth anniversary of the Group being listed, to thank the long-term support from our shareholders, the Board now recommends a final dividend of HK$2.10 (2019: HK$1.67) (equivalent to approximately RMB1.77 (2019: RMB1.50)) per ordinary share and a special dividend of HK$0.32 (2019: Nil) (equivalent to approximately RMB0.27 (2019: Nil)) per ordinary share payable to shareholders of the Company whose names are on the register of members on Tuesday, 18 May 2021, the pay-out ratio is about 37% of the Group's core profits. The resolution on the final dividend and special dividend are subject to approval by the shareholders in the forthcoming AGM and will be paid to shareholders of the Company on or before Friday, 23 July 2021.

For the purpose of ascertaining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 5 May 2021 to Monday, 10 May 2021, both days inclusive. In order to qualify for the right to attend and vote at the AGM, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 4 May 2021.

For the determination of entitlement to the final dividend to be approved at the AGM, the register of members of the Company will be closed from Monday, 17 May 2021 to Tuesday, 18 May 2021, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates should be lodged with Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Friday, 14 May 2021.

The address of Computershare Hong Kong Investor Services Limited is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During year 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the scheme rules and trust deed of the Share Award Scheme, purchased over-the-counter a total of 270,000 shares of the Company at a total consideration of HK$19,027,495.

As at 31 December 2020, there were 2,685,100 shares of the Company held in the trust under the Share Award Scheme, approximately 0.24% of the issued share capital of the Company. During the year, the Company has granted notional gain of 62,000 Award Shares to two outperformed employees under the scheme to reflect their changes in roles and commitment subsequent to the grant of share options to them under the 2012 Scheme, the Award Prices were also HK$76.36, and the vesting of the notional gains (if any) were subject to the fulfillment of their respective performance targets. For details about the Company's Share Award Scheme, reference would be made to the announcement on the adoption of the share award scheme issued by the Company on 30 November 2018.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions by the directors of the Company. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the year.

Senior managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) of the Company, have also been requested to comply with the provisions of the Model Code.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year of 2020, the Company has complied all the Code Provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

DISCLOSURE OF INFROMATION AND PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE AND COMPANY WEBSITE

The Annual Results announcement has been published on the Company's website at www.ennenergy.com and the Stock Exchange's HKEXnews website at www.hkexnews.hk.

The Company's 2020 Annual Report will be available on the websites of the Company and the Stock Exchange's HKEXnews on and before or after Wednesday, 7 April 2021, and despatch to shareholders.

By order of the Board
ENN ENERGY HOLDINGS LIMITED
WANG YUSUO
Chairman

Hong Kong, 22 March 2021

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Wang Yusuo (Chairman), Mr. Zheng Hongtao (Vice Chairman), Mr. Zhang Yuying (President) and Mr. Wang Dongzhi; two non-executive directors, namely Mr. Wang Zizheng and Mr. Jin Yongsheng; and four independent non-executive directors, namely Mr. Ma Zhixiang, Mr. Yuen Po Kwong, Mr. Law Yee Kwan, Quinn and Ms. Yien Yu Yu, Catherine.