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中裕能源控股有限公司

ZHONGYU ENERGY HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
(Stock Code:3633)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2022

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31st December,		
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	changes %
Turnover	12,997,322	11,344,500	14.6%
Non-HKFRS EBITDA (as defined in page 36)	1,932,267	2,079,049	(7.1)%
Unit of natural gas sold ('000 m ³)	2,854,188	2,818,011	1.3%
New piped gas connections made for industrial and commercial customers	2,591	2,422	7.0%
Sales volume of integrated energy (million kWh)	117.00	21.74	438.2%

CHAIRMAN’S STATEMENT

To our valued shareholders,

The year 2022 is the 20th anniversary of the Group’s establishment, and it is also a year full of challenges. Internationally, geopolitical issues intensified, bulk commodity prices fluctuated frequently and the aggressive interest rate hike by the US Federal Reserve triggered a global “interest rate hike”. Domestically, the recurring epidemic and continued weakness of the real estate industry have caused different levels of impact on all walks of life. Under the complex and volatile macro situation, the Group promptly adjusted its strategy and put forward the concept of “dual-wheel drive and synergetic development”. At present, the smart energy business has made a good start and is progressing in synergy with the gas business, jointly creating a new situation of high-quality development for the Group.

In 2022, the Group actively participated in the national energy revolution with the goal of “carbon peak and carbon neutrality”. Among them, the city gas segment seized market opportunities and expanded its business territory to Jiangxi Province again. The smart energy segment achieved collaborative innovation, empowered enhancement and rapid growth in business scale. Leveraging the existing regional advantages in the gas segment, the Group has achieved remarkable market expansion, enriched business types, and put high-quality projects into operation one after another. The new “dual-wheel drive” pattern of gas and smart energy has initially achieved results.

The year 2022 is also the closing year of the PRC State Council’s three-year special rectification action on production safety. The Group has always put safety and stable operation in the first place in management and operation, and has successfully become the director unit of the Safety Committee of China Gas Association. The Group continued to nurture safety talents and constantly enhanced technical protection measures to ensure zero accident in production and operation throughout the year. At the same time, in order to ensure sufficient supply of natural gas to residents in the northern area during the heating season, the Group continued to strengthen the optimization of gas sources, vigorously promote interconnection between regions, fulfill its corporate social responsibility and achieve critical breakthroughs in difficult issues. While ensuring safe operation and gas supply, the Group successfully achieved the development goal of stable growth and won the continuous trust and praise of customers and regulators.

Based on the steady development of gas business, the Group has achieved several innovative breakthroughs in integrated energy business fields such as photovoltaic, incremental power distribution, industrial steam, industrial energy saving, etc. The Group has established a smart energy business development and management system with Zhongyu characteristics. At present, the Group has signed a number of regional and integrated energy development agreements with local governments such as Linyi, Linzhang and Puyang, and is actively promoting technology exchange and innovation with multiple parties, laying a solid foundation for the future development of the smart energy business. With the gradual increase in number of projects in operation, the Group has established a set of institutionalized and standardized smart energy management system and has realized digital management of smart energy, which can meet real-time access to four types of business data: photovoltaic, charging station, energy station and regional function.

While striving to develop its business in various segments, the Group further innovated service model, optimized service quality, strengthened market competitiveness to enhance brand influence. By actively exploring green and sustainable financial instruments, the Group has enhanced its position in the capital market while reducing finance costs. Through efforts, the Group has become the first private enterprise in the domestic natural gas industry to integrate a sustainable framework (SLL) into offshore financing structure. At the same time, we continue to optimize the governance system of the listed vehicle and actively practice the concept of sustainable development under environmental, social and governance (ESG), opening new windows for more international strategic cooperation in the future.

PROSPECTS

In 2023, the international geopolitical situation is still uncertain and the price fluctuation of bulk commodities has become normal. However, with the optimization of national epidemic prevention and control measures and the continuous efforts of the central government to expand domestic demand, the impact of the epidemic on economic growth and supply chain stability is gradually receding. It is expected that China's economy will usher in an overall rebound.

In the new year, the Group will make precise efforts and respond quickly, seizing the opportunities after the easing of Covid-19 restrictions. We will grasp the new opportunities of economic recovery and policy promotion, cooperate with local economic revitalization strategies, vigorously explore industrial and commercial gas demand, and further improve the stability of gas business operating profits. At the same time, the Group will firmly grasp the trend of green and low-carbon transformation and development, and adapt to local conditions to achieve efficient synergy between city gas and smart energy.

In terms of gas business, the Group will continue to improve its official website and the level of informatisation and digitisation to promote the Group's overall healthy development. In addition, the Group will devote efforts to its main gas business, coordinate overall resources, actively explore quality projects and expand the gas business footprint in an orderly manner. The Group will also continue to develop value-added business potential and make every effort to expand markets outside its operating regions. Meanwhile, the Group will gradually improve its gas source structure, and while achieving stable supply assurance, explore domestic and international energy trading business and vertically develop the gas industry business chain.

In terms of smart energy business, the Group will expand its industrial integrated energy services, develop smart energy concession projects in industrial parks, explore the construction of energy storage and hydrogen energy demonstration projects. We will carry out research on energy digital technology, advanced technology for energy-saving renovation of industrial enterprises and other energy and carbon asset management, give full play to the advantages of the Group's technology platform and enhance its core competitiveness.

In the new year, the Group will continue to insist on the business principles of "market-oriented, customer-centered, and economic efficiency", providing customers with high-quality and efficient energy integrated services, and strive to become the "most valuable integrated energy service provider", promoting the Group to create a new situation of high-quality development.

APPRECIATION

Over the past two decades, we appreciate all Zhongyu people for their commitment and contributions to the development of the Group. The Group's achievements today do not come easy and deserve our applause.

As the epidemic comes to an end and the economy is recovering, a new journey and a bright future awaits. Let us continue to adhere to our original aspirations, be confident, resilient, and cohesive to create a better future together. On behalf of the Board of Directors, I would like to express my sincere gratitude to our customers, shareholders, investors, people from all walks of life who have been following and supporting our company, and to our dedicated and innovative colleagues.

Wang Wenliang

Chairman

Hong Kong

28th March, 2023

CEO MESSAGE

To our valued shareholders,

On behalf of the board of directors and fellow staff members, I am pleased to present our annual results for the year ended 31st December, 2022 (the “Year”).

In 2022, COVID-19 epidemic was rampant over the world, with frequent outbreaks in many places in China, causing an unprecedented impact on the national economy and the development of all walks of life. At the same time, international geopolitical risks were elevated and the great power game intensified, coupled with the continuous interest rate hikes in major economies around the world, which had a significant impact on the global economy and commodity markets. In particular, international liquefied natural gas prices fluctuated, and the domestic natural gas supply and demand pattern has undergone adjustments. The year 2022 is a crucial year for the national “14th Five Year Plan”. Against the backdrop of the continuous promotion and implementation of the “dual carbon goals”, China’s clean energy industry is undergoing a phase of change from the initial stage to rapid development, providing great development opportunities and market space for leading enterprises in the energy industry and bringing momentum for the Group’s strategic transformation. In 2022, the Group seized market opportunities in accordance with policy adjustments, paid close attention to annual operating targets, coordinated operation and production as well as epidemic prevention and control, and continued to promote refined management to ensure operational safety and stable growth, successfully achieving the annual operating targets. As at 31st December, 2022, the Group had 75 concession gas projects in 11 provinces and added 2 new concession gas projects; the urban gas business served approximately 23,964 commercial and industrial customers and 4.66 million residential households. Total natural gas sales volume also increased by 1.3% year-on-year to 2,854,188,000 cubic meters in 2022. Integrated energy sales increased by 438.2% year-on-year to 117 million kWh.

RESULTS

For the year ended 31st December, 2022, the Group recorded a turnover of HK\$12,997,322,000, representing a year-on-year increase of 14.6% (2021: HK\$11,344,500,000). The increase in turnover was mainly attributable to the increase in gas sales volume and higher average selling price of natural gas. Non-HKFERS EBITDA of the Group was HK\$1,932,267,000 (2021: HK\$2,079,049,000).

BUSINESS REVIEW

According to the latest data released by the National Bureau of Statistics of the PRC, the economy of the PRC grew by 3% in 2022. According to data from the National Development and Reform Commission of the PRC, China’s apparent natural gas consumption in 2022 was 366.3 billion cubic meters, representing a year-on-year decrease of 1.7%. This was mainly due to the frequent outbreaks of epidemics in many parts of the country and the continued tightening of preventive and control measures, which hampered industrial production in many places.

During the Year, the Group's three major business segments, namely, sales of gas, gas pipeline construction and connection and value-added services, accounted for 87.2%, 7.4% and 2.8% of the Group's turnover in 2022 respectively.

Sales of gas business continued to be the Group's largest contributor in 2022, with sales of HK\$11,331,259,000, representing an increase of 22% year-on-year. The growth in this business was mainly attributable to the success of the Group's customer diversification strategy among residential, industrial and commercial customers. Industrial and commercial customers, especially major market participants with high gas consumption, will continue to be a core contributor to the Group's results in this segment.

With the Group's efforts over the past few years, it has achieved a relatively high level of gas connection penetration in its coverage areas. As a result, the Group has been more selective and prudent in attracting new customers for gas connections in order to maintain a good profitability, cash flow and receivables. During the Year, the total number of new piped gas connection customers reached 280,807. As the Group continued to expand its coverage, the total length of the Group's existing intermediate and main pipelines increased from 26,399 km to 27,263 km with an increase of 3.3%.

The value-added services provided by its own offline retail brand "Zhongyu Phoenix" (中裕鳳凰) and online retail platform "Zhongyu iFamille" (中裕i家) have been an effective channel for the Group to enrich the business ecology and effectively increase customer stickiness. During the Year, the Group aggressively expanded its customer base, with initial results of out-of-region expansion, and consolidated its retail brand market share by expanding product portfolio and enhancing brand awareness. Turnover for the Year from value-added services amounted to HK\$361,660,000. The Group will continue to promote and enhance development of value-added services, commence the terminal information construction, activate the retail system and after-sales service system, and empower the regular businesses of subsidiaries such as retail, direct store sales, installation and maintenance, rapidly improving the performance and management effectiveness in this segment.

Over the years, the Group has been actively looking for quality city gas projects and investment opportunities, based on the surrounding areas and coordinating opportunities for the entire Group. The Group has always maintained an open, cooperative and win-win attitude and is committed to promoting cooperation with leading enterprises in the industry to complement each other's strengths and enhance the comprehensive risk resistance of the industry. In 2022, the Group's city gas concession business has spread to 11 provinces including Henan, Shandong, Hebei, Jiangsu, Anhui, Heilongjiang, Jilin, Fujian, Zhejiang, Inner Mongolia and Jiangxi.

In 2022, it is imperative for the country to promote green and low-carbon development, deepen the energy revolution, and accelerate the planning and construction of a new energy system. The implementation of the “dual carbon” target across the country has also brought more opportunities for the development of Zhongyu Group’s smart energy business. During the Year, the Group changed the name of its listed company from “Zhongyu Gas” to “Zhongyu Energy”, fully implemented the new corporate development strategy of “dual-wheel drive and transformation development”, and the smart energy Group was formally established. During the Year, the Group’s integrated energy projects, such as photovoltaic, incremental power distribution, industrial steam and industrial energy saving, were put into operation. The Zhongyu smart energy management system has been preliminarily completed.

PROSPECTS

As domestic epidemic restrictions were eased at the end of 2022, China’s economy is expected to recover steadily under the impetus of “the Outline of Strategic Planning for Expanding Domestic Demand (2022-2035)”. As all industries and occupations of the country gradually shake off the effects of the epidemic, with the promotion of the dual carbon goals, the demand for gas and various renewable energy sources will maintain growth. The overall domestic energy industry is expected to enjoy a better development prospect.

In 2023, the country will continue to promote the market-oriented reform of the oil and gas pipeline network, further promote the marketization of natural gas prices and establish a pricing mechanism for natural gas as soon as possible. At the same time, the assessment of gas business concessions is being carried out in many places, and a piped gas construction and operation pattern of “one enterprise in one city, one network in one county, urban-rural integration” has been gradually formed, leading to significant changes in the entire gas industry. As a leading enterprise in the natural gas industry, the Group will capitalize on its strengths accumulated through its intensive experience in the city gas industry and proactively seize the development opportunities in the change to build a good foundation and grow stronger.

As a sunrise industry, smart energy is characterized by rigid demand and weak cyclicity, which is of great significance to the Group’s high-quality development. In 2023, the Group’s smart energy segment will continue to advance in parallel with its multiple business types. Relying on the good customer relationships established in the gas business, the Group will dig deeper into its existing customer resources and provide customers with comprehensive energy services including energy construction, multi-energy complementation, efficiency management and smart operation and maintenance, further enhancing its market scale and brand influence.

In order to achieve a new landscape of high-quality development, the Group will implement the following key strategies in the coming year:

- (i) pay close attention to the opportunities brought by economic recovery in the post epidemic era and the strategic plan to expand domestic demand, continue to expand the Group's urban gas business landscape;
- (ii) focus on the business strategy of clean energy and smart energy, comprehensively consider the long-term development of the Group in the future, and efficiently coordinate the two businesses of gas and smart energy;
- (iii) focus on strategic cooperation opportunities with upstream resources, give full play to the interconnection advantages of midstream pipeline networks, streamline sales strategies, improve market competitiveness and innovate value-added businesses;
- (iv) constantly improve risk prevention, control, and troubleshooting capabilities, refine hierarchical control, implement safety information construction, and build professional safety management inspection teams and institutions;
- (v) continuously optimize the natural gas sales structure, effectively enhance the risk resistance of the gas market, benchmark industry price differentials, and explore international LNG trading opportunities and gas storage capacity trading business; and
- (vi) upgrade the Group's financial management, strictly control overdue receivables and strictly enforce the accountability mechanism.

The year 2023 is a crucial year for the National 14th Five Year Plan to connect the past and usher in the future. In the gas business segment, the Group will continue to focus on safety, supply assurance, low carbon and opportunities to achieve safe and stable gas supply in the region of operation and further expand its business territory. In the smart energy business segment, the Group will develop and innovate to achieve leapfrog development of integrated energy business by adapting to local conditions and synergizing efficiency. Driven by the dual carbon goal and the strategic target of expanding domestic demand, the Group will proactively grasp new development opportunities, strengthen business indicators, and strive to become the "most valuable integrated energy service provider".

Lui Siu Keung

Chief Executive Officer

28th March, 2023

The board of directors (the “Board” or the “Directors”) of the Company is pleased to announce below the audited consolidated results of the Group for the year ended 31st December, 2022, together with the comparative figures for the corresponding period in 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2022

	NOTES	2022 HK\$'000	2021 HK\$'000
Turnover	3	12,997,322	11,344,500
Cost of sales		<u>(11,030,715)</u>	<u>(9,155,563)</u>
Gross profit		1,966,607	2,188,937
Other gains and losses	5	(524,386)	220,525
Other income	6	177,806	148,161
Selling and distribution costs		(237,251)	(246,598)
Administrative expenses		(572,191)	(590,154)
Reversal of impairment losses on financial assets and contract assets, net		2,208	1,178
Finance costs	7	(329,382)	(189,627)
Share of results of associates		32,079	50,441
Share of results of joint ventures		<u>(841)</u>	<u>(1,361)</u>
Profit before tax		514,649	1,581,502
Income tax expenses	8	<u>(271,732)</u>	<u>(318,859)</u>
Profit for the year	9	<u>242,917</u>	<u>1,262,643</u>
Profit for the year attributable to:			
Owners of the Company		174,077	1,188,997
Non-controlling interests		<u>68,840</u>	<u>73,646</u>
		<u>242,917</u>	<u>1,262,643</u>

	<i>NOTE</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year		242,917	1,262,643
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		(670,494)	185,031
Fair value gain on revaluation of pipelines included in property, plant and equipment		600,459	667,836
Deferred tax arising from revaluation of pipelines included in property, plant and equipment		(150,115)	(166,959)
Other comprehensive (expense) income for the year		(220,150)	685,908
Total comprehensive income for the year		22,767	1,948,551
Profit for the year attributable to:			
Owners of the Company		174,077	1,188,997
Non-controlling interests		68,840	73,646
		242,917	1,262,643
Total comprehensive (expense) income attributable to:			
Owners of the Company		(54,622)	1,826,885
Non-controlling interests		77,389	121,666
		22,767	1,948,551
Earnings per share	<i>11</i>		
Basic		HK6.14 cents	HK44.20 cents
Diluted		HK6.14 cents	HK44.14 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2022

	<i>NOTES</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Investment properties		7,743	8,942
Property, plant and equipment		15,351,567	14,995,812
Right-of-use assets		622,144	616,721
Goodwill		471,022	468,579
Other intangible assets		1,530,058	1,406,259
Long-term deposits, prepayments and other receivables		1,197,220	1,247,331
Interests in associates		762,102	714,292
Interests in joint ventures		16,198	18,358
Financial assets at fair value through other comprehensive income		80,158	86,257
		<u>20,038,212</u>	<u>19,562,551</u>
Current assets			
Inventories		673,037	689,895
Properties under development for sale		234,937	225,809
Trade receivables	12	1,884,906	2,047,401
Deposits, prepayments and other receivables		1,648,279	1,748,685
Amount due from a non-controlling shareholder of a subsidiary		8,503	9,173
Contract assets		482,133	515,356
Tax recoverable		3,899	4,206
Pledged bank deposits		–	48,924
Bank balances and cash		1,336,976	1,820,864
		<u>6,272,670</u>	<u>7,110,313</u>
Current liabilities			
Trade payables	13	1,683,449	1,730,216
Other payables and accrued charges		766,290	779,694
Amount due to a non-controlling shareholder of a subsidiary		3,384	–
Amount due to an associate		1,014	1,094
Contract liabilities		1,651,089	1,838,540
Borrowings		6,305,945	3,948,904
Lease liabilities		3,602	4,670
Tax payables		91,040	125,361
		<u>10,505,813</u>	<u>8,428,479</u>
Net current liabilities		<u>(4,233,143)</u>	<u>(1,318,166)</u>
Total assets less current liabilities		<u>15,805,069</u>	<u>18,244,385</u>

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Capital and reserves		
Share capital	28,297	28,338
Reserves	<u>8,099,926</u>	<u>8,630,659</u>
Equity attributable to owners of the Company	8,128,223	8,658,997
Non-controlling interests	<u>1,007,019</u>	<u>858,001</u>
Total equity	<u>9,135,242</u>	<u>9,516,998</u>
Non-current liabilities		
Deferred income and advance received	5,221	6,258
Borrowings	5,216,515	7,372,076
Lease liabilities	15,744	16,886
Deferred taxation	<u>1,432,347</u>	<u>1,332,167</u>
	<u>6,669,827</u>	<u>8,727,387</u>
	<u>15,805,069</u>	<u>18,244,385</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2022

1. AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

In the current year, the Company and its subsidiaries (collectively referred to as the “Group”) have applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1st January, 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current year has 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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

As at 31st December, 2022, the Group has net current liabilities of HK\$4,233,143,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into accounts total new bank borrowings amounting to approximately HK\$1.1 billion obtained in January and February 2023, the cash flows from the profitable operations and expected new banking facilities. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, financial instruments and investment properties that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. TURNOVER

Disaggregation of revenue from contracts with customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Types of goods or services		
Sales of gas	11,331,259	9,290,532
Gas pipeline construction	974,429	1,327,942
Value-added services	361,660	426,065
Sales of compressed natural gas or liquefied natural gas ("CNG/LNG") in vehicle filling stations	258,428	261,519
Smart energy	71,546	38,442
Total	12,997,322	11,344,500
Timing of revenue recognition		
A point in time	12,022,893	10,016,558
Over time	974,429	1,327,942
Total	12,997,322	11,344,500

All the revenue from contracts with customers are derived from the PRC.

4. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group.

Each type of product or service represents an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments are as follows:

- (a) sales of gas;
- (b) gas pipeline construction;
- (c) value-added services (including sales of stoves and provision of other related services);
- (d) operation of CNG/LNG vehicle filling stations; and
- (e) smart energy.

A subsidiary of the Group also engages in the property development in the PRC and the revenue generated from this business will be included in the consolidated revenue of the Group. There was no property sold for the year ended 31st December, 2022. The operating result and other financial information of this subsidiary's business are not separately reviewed by the CODM for the purpose of resources allocation and performance assessments.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31st December, 2022

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Value-added services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Smart energy HK\$'000	Consolidated HK\$'000
Segment revenue	<u>11,331,259</u>	<u>974,429</u>	<u>361,660</u>	<u>258,428</u>	<u>71,546</u>	<u>12,997,322</u>
Segment profit	<u>746,361</u>	<u>559,090</u>	<u>132,688</u>	<u>16,015</u>	<u>36,430</u>	<u>1,490,584</u>
Unallocated other income						26,170
Unallocated other gains and losses						(521,256)
Unallocated central corporate expenses						(151,488)
Reversal of impairment loss on other receivables						21
Finance costs						<u>(329,382)</u>
Profit before tax						<u>514,649</u>

For the year ended 31st December, 2021

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Value-added services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Smart energy HK\$'000	Consolidated HK\$'000
Segment revenue	<u>9,290,532</u>	<u>1,327,942</u>	<u>426,065</u>	<u>261,519</u>	<u>38,442</u>	<u>11,344,500</u>
Segment profit (loss)	<u>655,104</u>	<u>811,500</u>	<u>190,772</u>	<u>6,883</u>	<u>(7,372)</u>	<u>1,656,887</u>
Unallocated other income						32,548
Unallocated other gains and losses						214,338
Unallocated central corporate expenses						(131,987)
Impairment loss on other receivables						(657)
Finance costs						<u>(189,627)</u>
Profit before tax						<u>1,581,502</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Reportable segments represent the financial result of each segment without allocation of central administration costs, directors' emoluments, interest income, change in fair value of investment properties, foreign exchange gains or losses, certain sundry income, impairment losses on other receivables and finance costs. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM, accordingly, segment assets and liabilities are not presented.

Other segment information

2022

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Value-added services HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Smart energy HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:								
Net (gain) loss on disposal of property, plant and equipment	1,675	-	7	(412)	(192)	1,078	155	1,233
Depreciation of right-of-use assets	12,867	-	-	6,341	29	19,237	5,509	24,746
Depreciation of property, plant and equipment	439,078	716	2,325	11,167	3,477	456,763	10,392	467,155
Amortisation of other intangible assets	73,782	-	-	-	2,223	76,005	-	76,005
Reversal of impairment losses on								
- contract assets	-	(2,187)	-	-	-	(2,187)	-	(2,187)
- other receivables	-	-	-	-	-	-	(21)	(21)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

2021

	Sales of gas HK\$'000	Gas pipeline construction HK\$'000	Value-added services HK\$'000	Operations of CNG/LNG vehicle filling stations HK\$'000	Smart energy HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:								
Net loss on disposal of property, plant and equipment	4,336	11	-	-	78	4,425	107	4,532
Gain on disposal of right-of-use assets	(1,385)	-	-	-	-	(1,385)	-	(1,385)
Depreciation of right-of-use assets	18,799	-	-	6,599	156	25,554	5,814	31,368
Depreciation of property, plant and equipment	400,942	884	1,370	11,462	1,932	416,590	9,190	425,780
Amortisation of other intangible assets	74,122	-	-	-	2,300	76,422	-	76,422
(Reversal of impairment losses) impairment losses on								
- contract assets	-	(1,835)	-	-	-	(1,835)	-	(1,835)
- other receivables	-	-	-	-	-	-	657	657
	<u>4,336</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>4,425</u>	<u>107</u>	<u>4,532</u>

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of the total revenue of the Group.

As at 31st December, 2022, all the non-current assets of the Group (excluding financial assets) amounting to HK\$19,324,245,000 (2021: HK\$18,845,978,000) are located in the PRC.

5. OTHER GAINS AND LOSSES

	2022 HK\$'000	2021 HK\$'000
Net foreign exchange (losses) gains	(522,538)	224,472
Decrease in fair value of investment properties	(561)	(557)
Net losses on disposal of property, plant and equipment	(1,233)	(4,532)
Gain on disposal of right-of-use assets	-	1,385
Others	(54)	(243)
	<u>(524,386)</u>	<u>220,525</u>

6. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income from financial assets at amortised cost		
– Bank interest income	9,406	10,138
– Interest income on amount due from an associate	–	3,229
– Interest income from loans to employees	<u>23,319</u>	<u>23,319</u>
	32,725	36,686
Government subsidies (<i>Note</i>)	90,863	67,963
Income from investments in life insurance contracts	–	1,897
Sundry income	<u>54,218</u>	<u>41,615</u>
	<u><u>177,806</u></u>	<u><u>148,161</u></u>

Note:

During the year ended 31st December, 2022, the Group recognised government grants of HK\$1,989,000 (2021: HK\$191,000) in respect of Covid-19-related subsidies of which HK\$120,000 (2021: nil) related to Employment Support Scheme provided by the Hong Kong government.

During the year ended 31st December, 2022, the Group has received subsidies of HK\$88,874,000 (2021: HK\$67,772,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on borrowings	396,262	317,020
Interest on lease liabilities	<u>1,051</u>	<u>1,300</u>
	397,313	318,320
Amortisation on loan facilities fees relating to bank borrowings	<u>57,241</u>	<u>51,494</u>
	454,554	369,814
Total borrowing costs	454,554	369,814
Less: Amounts capitalised in construction in progress included in property, plant and equipment	<u>(125,172)</u>	<u>(180,187)</u>
	<u><u>329,382</u></u>	<u><u>189,627</u></u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.31% (2021: 5.33%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PRC Enterprise Income Tax:		
Current tax	272,387	308,771
Under (over) provision in prior years	6,536	(6,662)
Withholding tax levied on dividends paid previously not recognised	5,429	–
	<u>284,352</u>	<u>302,109</u>
Deferred taxation	<u>(12,620)</u>	<u>16,750</u>
	<u><u>271,732</u></u>	<u><u>318,859</u></u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

9. PROFIT FOR THE YEAR

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3,916	4,560
Amortisation of other intangible assets (included in cost of sales)	76,005	76,422
Depreciation of right-of-use assets	24,746	31,368
Depreciation of property, plant and equipment	467,155	425,780
Employee benefits expenses, other than directors' emoluments		
– Salaries and other benefits	462,897	430,626
– Contributions to retirement benefits schemes	97,300	90,991
	560,197	521,617
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	190,847	231,814
Cost of inventories recognised as expenses in respect of sales of gas, CNG/LNG, liquefied petroleum gas, stoves and smart energy	10,125,775	7,898,207
	10,316,622	8,130,021
(Reversal of impairment losses) impairment losses, net		
– Other receivables	(21)	657
– Contract assets	(2,187)	(1,835)
	(2,208)	(1,178)
Gross rental income from investment properties with minimal outgoings	(839)	(1,714)
Gross rental income from equipment with minimal outgoings	(8,176)	(5,815)

10. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 final dividend of HK8 cents (2021: 2020 final dividend of HK7 cents) per ordinary share	226,707	185,159
2021 special dividend of HK5 cents (2021: 2020 special dividend of nil) per ordinary share	141,691	–
2022 interim dividend of HK3 cents (2021: 2021 interim dividend of HK3 cents) per ordinary share	85,015	85,015
	<u>453,413</u>	<u>270,174</u>
Final dividend, proposed, of nil (2021: HK8 cents) per ordinary share	–	226,707
Special dividend, proposed, of nil (2021: HK5 cents) per ordinary share	–	141,691

No dividend was paid or proposed for ordinary shareholders of the Company in respect of the year ended 31st December, 2022, nor has any dividend been proposed since the end of the reporting period (2021: final dividend of HK8 cents per ordinary shares and special dividend of HK5 cents per ordinary share in respect of the year ended 31st December, 2021 in an aggregate amount of HK\$368,398,000).

11. 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	<u>174,077</u>	<u>1,188,997</u>
	2022 '000	2021 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,833,290	2,690,155
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>2,848</u>	<u>3,667</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,836,138</u>	<u>2,693,822</u>

12. TRADE RECEIVABLES

The following is an aged analysis of trade receivables from contracts with customers net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 30 days	914,916	784,715
31 – 90 days	44,872	161,349
91 – 180 days	91,402	162,539
181 – 360 days	224,093	481,316
Over 360 days	609,623	457,482
	<u>1,884,906</u>	<u>2,047,401</u>
Trade receivables	<u>1,884,906</u>	<u>2,047,401</u>

13. TRADE PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 30 days	759,252	815,426
31 – 90 days	252,733	290,799
91 – 180 days	196,247	189,433
Over 180 days	475,217	434,558
	<u>1,683,449</u>	<u>1,730,216</u>
Trade payables	<u>1,683,449</u>	<u>1,730,216</u>

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Treasury Management and Cash Funding

The Group's funding and treasury policy is designed to maintain a diversified and balanced debt profile and financing structure. The Group continues to monitor its cash flow position and debt profile, and to enhance the cost-efficiency of funding initiatives by its centralised treasury function. In order to maintain financial flexibility and adequate liquidity for the Group's operations, potential investments and growth plans, the Group has built a strong base of funding resources and will keep exploring cost-efficient ways of financing.

Liquidity

As at 31st December, 2022, the total assets of the Group decreased by HK\$361,982,000 or 1.4% to HK\$26,310,882,000 (2021: HK\$26,672,864,000).

As at 31st December, 2022, the Group has net current liabilities of HK\$4,233,143,000 (2021: HK\$1,318,166,000). Increase in net current liabilities was mainly due to increase in borrowings due within one year.

As at 31st December, 2022, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2021: 0.8).

As at 31st December, 2022, the total borrowings and lease liabilities increased by HK\$199,270,000 or 1.8% to HK\$11,541,806,000 (2021: HK\$11,342,536,000).

As at 31st December, 2022, the Group had total net debts of HK\$10,204,830,000 (2021: HK\$9,472,748,000), measured as total borrowings and lease liabilities minus the bank balances and cash and pledged bank deposits. As at 31st December, 2022, the Group had net gearing ratio of approximately 1.12 (2021: 1.00), measured as total net debts to total equity of HK\$9,135,242,000 (2021: HK\$9,516,998,000).

Financial resources

During the year ended 31st December, 2022, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to HK\$1,462,703,000 in total were made available to the Group.

During the year ended 31st December, 2022, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2022, all of the bank and other borrowings were on normal commercial terms.

The Group's borrowing was not affected by seasonality.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB"), Hong Kong dollars or United States dollars and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB in 2022, exchange loss arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the year. The Group may, as it thinks fit, seek suitable financial instruments to hedge against potential depreciation of RMB in the future. As at 31st December, 2022, the Group did not, but was actively exploring opportunities to, employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2022, the Group had a total of 5,067 employees (2021: 4,876) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK\$637,100,000 (2021: HK\$592,971,000). The growth was mainly due to the increase in the number of headcount of the Group. Around 99.7% of the Group's employees are based in the PRC.

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2022, no pledged bank deposit (2021: RMB40,000,000) was used to secure the short-term general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year under review, the Group did not conduct any significant investments, or material acquisitions or disposal of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2022, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2022, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets contracted for but not provided in the consolidated financial statements was HK\$144,487,000 (2021: HK\$149,021,000).

CONTINGENT LIABILITIES

As at 31st December, 2022, the Group did not have any contingent liabilities (2021: nil).

BUSINESS REVIEW

During the year ended 31st December, 2022, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; (ii) development of smart energy; (iii) sales of stoves and provision of other related value-added services; and (iv) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Piped Gas Distribution Projects

As at 31st December, 2022, the Group had 75 gas projects with exclusive rights in the PRC. During the year, the Group obtained concession right to operate 2 additional natural gas projects in Jiangsu Province and Jiangxi Province.

SMART ENERGY BUSINESS DEVELOPMENT

With the reform of the domestic energy market and the national strategy emphasizing “green development” and “clean and low-carbon, safety and efficiency”, environmental protection policies and “dual carbon goals (carbon peak and neutrality)” have become one of the biggest driving forces for the Group to develop clean energy projects. The Group has established the “one body, three wings” business layout strategy in early 2020, with “city gas” as the “body” and “value-added business and new retail”, “smart energy” and “energy trading” as its “wings”, and strives to become the most valuable integrated energy service provider in the PRC. In view of the launch of a series of new energy policies and rural energy transformation policies in various regions, opportunities for the smart energy group to develop diversified businesses such as distributed energy, photovoltaic rooftop and charging stations were created. In line with the countywide rooftop distributed photovoltaic development pilot scheme of the National Energy Administration, the Group’s subsidiaries signed framework agreements on the promotion of countywide rooftop distributed photovoltaic with several local governments to expand the smart energy business coverage by relying on its own advantages in the gas project concession area. During the year, the Group steadily promoted the development of integrated energy business and the cumulative number of projects in operation reached 98. The Group also actively sought to increase its market share in the clean transportation energy market. The sale of electricity throughout the year increased by 438.2% to 117.00 million kWh as compared with the same period of last year.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.

The major operational data of the Group for the year ended 31st December, 2022 together with the comparative figures for the corresponding period last year are as follows:

	2022	2021	Increase/ (Decrease)
Number of operational locations (<i>Note a</i>)	75	73	2
– Henan Province	28	28	–
– Hebei Province	21	21	–
– Jiangsu Province	8	7	1
– Shandong Province	4	4	–
– Jilin Province	4	4	–
– Fujian Province	1	1	–
– Heilongjiang Province	2	2	–
– Zhejiang Province	2	2	–
– Anhui Province	3	3	–
– Inner Mongolia	1	1	–
– Jiangxi Province	1	–	1
Connectable population ('000) (<i>Note b</i>)	23,487	22,007	6.7%
Connectable residential households ('000)	6,697	6,274	6.7%
New piped gas connections by the Group made during the year			
– Residential households	280,807	381,876	(26.5)%
(i) “Coal-to-gas” projects	35,193	91,074	(61.4)%
(ii) Non “Coal-to-gas” projects	245,614	290,802	(15.5)%
– Industrial customers	374	312	19.9%
– Commercial customers	2,217	2,110	5.1%
Accumulated number of connected piped gas customers			
– Residential households	4,662,392	4,357,324	7.0%
– Industrial customers	3,919	3,519	11.4%
– Commercial customers	20,045	17,723	13.1%
Penetration rate of residential pipeline connection (<i>Note c</i>)	69.6%	69.5%	0.1%

	2022	2021	Increase/ (Decrease)
Unit of piped natural gas sold to retail customers ('000 m ³)	2,309,842	2,237,830	3.2%
– Residential households	794,828	649,115	22.4%
– Industrial customers	1,378,882	1,442,913	(4.4)%
– Commercial customers	136,132	145,802	(6.6)%
Unit of gas sold to wholesale customers ('000 m ³)	489,490	511,951	(4.4)%
– Piped natural gas	219,628	280,298	(21.6)%
– LNG	269,862	231,653	16.5%
Total unit of gas sold ('000 m ³)	2,799,332	2,749,781	1.8%
Number of CNG/LNG vehicle filling stations			
– Accumulated	56	64	(8)
– Under construction	7	7	–
Unit of natural gas sold to vehicles ('000 m ³)	54,856	68,230	(19.6)%
Total length of existing intermediate and main pipelines (km)	27,263	26,399	3.3%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.53	2.49	1.6%
– Industrial customers	3.85	2.95	30.5%
– Commercial customers	3.87	3.34	15.9%
– Wholesale customers	3.45	2.19	57.5%
– Wholesale customers (LNG)	4.15	3.07	35.2%
– CNG/LNG vehicle filling stations	4.07	3.18	28.0%
Average purchase cost of natural gas (RMB per m ³) (Note d)	2.97	2.33	27.5%
Average connection fee for residential households (RMB)			
– “Coal-to-gas” projects	3,034	2,945	3.0%
– Non “Coal-to-gas” projects	2,552	2,495	2.3%
Accumulated number of integrated energy projects in operation	98	43	127.9%
Sales volume of integrated energy (million kWh)	117.00	21.74	438.2%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

Note b: The information is quoted from the website of the PRC government.

Note c: The penetration rates of residential pipeline connection refers to the accumulated number of the Group’s connected residential households to the estimated aggregate number of connectable residential households in its operation regions expressed in percentages.

Note d: The amounts do not include the average distribution costs of natural gas, which is RMB0.19 per m³ (2021: RMB0.17 per m³).

FINANCIAL REVIEW

Overall

The Group's turnover for the year ended 31st December, 2022 increased by 14.6% to HK\$12,997,322,000 (2021: HK\$11,344,500,000). The gross profit decreased to HK\$1,966,607,000 (2021: HK\$2,188,937,000) as a result of the decline in revenue from gas pipeline construction with relatively high gross profit margin. The Group's profit attributable to owners of the Company decreased by 85.4% to HK\$174,077,000 (2021: HK\$1,188,997,000). The basic and diluted earnings per share attributable to the owners of the Company were HK6.14 cents and HK6.14 cents respectively for the year ended 31st December, 2022, as compared with that of HK44.20 cents and HK44.14 cents respectively for the corresponding period last year.

Non-HKFRS profit attributable to owners of the Company amounted to HK\$694,407,000 (2021: HK\$963,347,000). Non-HKFRS basic and diluted earnings per share attributable to the owners of the Company for the period under review were HK24.51 cents (2021: HK35.81 cents) and HK24.48 cents (2021: HK35.76 cents) respectively.

Turnover

An analysis of the Group's turnover by products and services for the year, together with the comparative figures for the corresponding period last year, are as follows:

	2022 HK\$'000	Year ended 31st December,		Increase/ (Decrease)	
		% of total	2021 HK\$'000		% of total
Sales of Gas	11,331,259	87.2%	9,290,532	81.9%	22.0%
Gas Pipeline Construction	974,429	7.4%	1,327,942	11.7%	(26.6)%
Value-added Services	361,660	2.8%	426,065	3.8%	(15.1)%
Sales of CNG/LNG in Vehicle					
Filling Stations	258,428	2.0%	261,519	2.3%	(1.2)%
Smart Energy	71,546	0.6%	38,442	0.3%	86.1%
Total	<u>12,997,322</u>	<u>100%</u>	<u>11,344,500</u>	<u>100%</u>	<u>14.6%</u>

The turnover for the year ended 31st December, 2022 amounted to HK\$12,997,322,000 (2021: HK\$11,344,500,000). The increase in revenue from sales of gas was partially offset by the decline in revenue from gas pipeline construction and valued-added services.

Sales of gas

Sales of gas for the year ended 31st December, 2022 amounted to HK\$11,331,259,000 (2021: HK\$9,290,532,000), representing an increase of 22.0% over the corresponding period last year.

Sales of gas for the year ended 31st December, 2022 contributed 87.2% of the total turnover of the Group, as compared with the percentage of 81.9% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of revenue from sales of gas by customers.

Sales of gas by customers

	Year ended 31st December,				Increase/ (Decrease)
	2022 HK\$'000	% of total	2021 HK\$'000	% of total	
Industrial customers	6,186,829	54.6%	5,155,944	55.5%	20.0%
Residential households	2,344,278	20.7%	1,950,373	21.0%	20.2%
Commercial customers	612,840	5.4%	587,074	6.3%	4.4%
Wholesale customers	2,187,312	19.3%	1,597,141	17.2%	37.0%
Total	<u>11,331,259</u>	<u>100%</u>	<u>9,290,532</u>	<u>100%</u>	<u>22.0%</u>

Industrial customers

The sales of gas to the Group's industrial customers for the year ended 31st December, 2022 increased by 20.0% to HK\$6,186,829,000 from HK\$5,155,944,000 for the corresponding period last year. During the year ended 31st December, 2022, the Group connected 374 new industrial customers. In 2021, global economy gradually recovered and certain social distancing measures were relaxed after COVID-19 vaccine worldwide rollout. Benefiting from effective pandemic prevention and control, domestic consumption in the PRC rebounded and the demand for natural gas was boosted. However, the cases of COVID-19 increased in 2022, the demand for gas from industrial customers were adversely impacted as factories were temporarily closed. During the year under review, the piped natural gas usage provided by the Group to its industrial customers decreased by 4.4% to 1,378,882,000 m³ (2021: 1,442,913,000 m³). Such decrease was offset by the increase in selling price. In response to higher cost of natural gas from suppliers for gas sales, the average selling price of natural gas for industrial customers for the year under review was adjusted upward by 30.5% to RMB3.85 per m³ (2021: RMB2.95 per m³).

The sales of gas to our industrial customers for the year ended 31st December, 2022 contributed 54.6% of the total sales of gas of the Group (2021: 55.5%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the year ended 31st December, 2022 increased by 20.2% to HK\$2,344,278,000 from HK\$1,950,373,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the increase in construction work for gas pipeline connection and the growth in population in the Group's existing project cities in the PRC. Since the outbreak of the COVID-19 pandemic, people developed new lifestyle and spent more time at home both working and learning. Furthermore, after years of promotion of clean energy heating plan, more residential households are willing to use natural gas for indoor heating in the winter, which increased the indoor gas consumption of residential households as well. During the year under review, the Group provided new natural gas connections for 280,807 residential households and the piped natural gas usage provided by the Group to residential households increased by 22.4% to 794,828,000 m³ (2021: 649,115,000 m³). The average selling price of natural gas for residential customers increased by 1.6% to RMB2.53 per m³ (2021: RMB2.49 per m³).

The sales of gas to our residential households for the year under review contributed 20.7% of the total sales of gas of the Group (2021: 21%).

Commercial customers

The sales of gas to our commercial customers for the year ended 31st December, 2022 increased by 4.4% to HK\$612,840,000 from HK\$587,074,000 for the corresponding period last year. The sales of gas to commercial customers for the year under review contributed 5.4% of the total sales of gas of the Group (2021: 6.3%). During the year ended 31st December, 2022, the Group connected 2,217 new commercial customers. As at 31st December, 2022, the number of commercial customers of the Group reached 20,045, representing an increase of 13.1% as compared with 17,723 commercial customers as at 31st December, 2021.

The demand for gas from commercial customers were adversely impacted during the COVID-19 pandemic. With the social distancing policies in the PRC, residents stay home and social activities decreased. The demand of gas by restaurants, schools and recreational facilities decreased. The gas consumption of commercial customers decreased by 6.6% to 136,132,000 m³ (2021: 145,802,000 m³) for the year under review. Such decrease was offset by the increase in selling price. In response to higher cost of natural gas from suppliers for gas sales, the average selling price of natural gas for commercial customers for the year was adjusted upwards by 15.9% to RMB3.87 per m³ (2021: RMB3.34 per m³).

Wholesale Customer

The sales of gas to our wholesale customers for the year end 31st December, 2022 increased by 37.0% to HK\$2,187,312,000 from HK\$1,597,141,000 for last year. The sales of gas to wholesale customers for the year under review contributed 19.3% of the total sales of gas of the Group (2021: 17.2%).

During the year under review, piped natural gas usage provided by the Group to its wholesale customers decreased by 21.6% to 219,628,000 m³ (2021: 280,298,000 m³). The impact of decline in volume of natural gas sold was offset by the increase in selling price. The average selling price of natural gas for wholesale customers for the year under review was adjusted upwards by 57.5% to RMB3.45 per m³ (2021: RMB2.19 per m³).

During the year under review, the LNG provided by the Group to its wholesale customers increased by 16.5% to 269,862,000 m³ (2021: 231,653,000 m³) and the average selling price of LNG for wholesale customers for the year under review was adjusted upwards by 35.2% to RMB4.15 per m³ (2021: RMB3.07 per m³).

Gas Pipeline Construction

Revenue from gas pipeline construction for the year ended 31st December, 2022 amounted to HK\$974,429,000, representing a decrease of 26.6% over last year. It contributed 7.4% of the total turnover of the Group, as compared with the percentage of 11.7% of last year. The following table sets forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

	Year ended 31st December,				Increase/ (Decrease)
	2022 HK\$'000	% of total	2021 HK\$'000	% of total	
Residential households					
– “Coal-to-gas” projects	124,309	12.8%	323,099	24.3%	(61.5)%
– Non “Coal-to-gas” projects	729,690	74.9%	874,040	65.8%	(16.5)%
Non-residential customers	120,430	12.3%	130,803	9.9%	(7.9)%
Total	974,429	100%	1,327,942	100%	(26.6)%

In 2017, the PRC government launched the “coal-to-gas” policy as one of its major priorities to fight against air pollution. The Group followed the “coal-to-gas” conversion policy and carried out a number of conversion projects in different regions of the PRC. The Group carefully selected new projects and focused on projects with better profitability and recoverability, such as projects partly sponsored by local governments. Since 2021, the decline in government-sponsored projects available caused a drop in connections made by the Group. The revenue from gas pipeline construction for residential households for “coal-to-gas” projects for the year ended 31st December, 2022 decreased by 61.5% to HK\$124,309,000 from HK\$323,099,000 for last year. During the year ended 31st December, 2022, the Group provided new natural gas connections for 35,193 residential households (2021: 91,074) under “coal-to-gas” projects and the average connection fee was RMB3,034 (2021: RMB2,945).

During the year ended 31st December, 2022, revenue from gas pipeline construction for residential households for non “coal-to-gas” projects decreased by 16.5% to HK\$729,690,000 from HK\$874,040,000 for last year. The drop was mainly attributable to the decrease in construction work for gas pipeline connection completed by the Group for residential households for non “coal-to-gas” projects to 245,614 from 290,802 for last year. The average connection fee slightly rose to RMB2,552 in 2022 from RMB2,495 in 2021.

The gross profit margin for gas pipeline construction for the year under review remained relatively stable at 70.4% (2021 : 72.3%).

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year ended 31st December, 2022, revenue from gas pipeline construction for non-residential customers decreased by 7.9% to HK\$120,430,000 from HK\$130,803,000 for last year.

As at 31st December, 2022, the Group’s penetration rates of residential pipeline connection amounted to 69.6% (2021: 69.5%) (calculated by the accumulated number of the Group’s connected residential households over the estimated aggregate number of connectable residential households in regions it operates in and expressed in percentages). In view of the favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions when suitable opportunities arise.

Value-added Services

Revenue from value-added services for the year ended 31st December, 2022 amounted to HK\$361,660,000 (2021: HK\$426,065,000), representing a decrease of 15.1% over last year. It contributed 2.8% of the total turnover of the Group, as compared with 3.8% of last year.

Since 2017, the Group placed greater efforts in value-added services such as sales of stoves and safe and reliable kitchenware, including gas water heaters, gas cooking appliances and wall-hang boilers under its own brand name, “Zhongyu Phoenix” (中裕鳳凰), to residential customers. The decrease in revenue of value-added services for the year under review was mainly due to a decrease in the sales of wall-hang boilers by 69.1% to HK\$48,987,000 from HK\$158,285,000 for last year, as a result of reduced number of “coal-to-gas” projects. During the year ended 31st December, 2022, other than sales of wall-hang boilers, revenue from sales of stoves and provision of other related services amounted to HK\$312,673,000 (2021: HK\$267,780,000), representing a growth of 16.8% as compared to last year. With the increasing number of connected residential customers and brand recognition developed in recent years, as well as the establishment of the online shopping platform “Zhongyu iFamille” (中裕i家), the independent supply platform, customer service platform and customer online community, the value-added services is expected to contribute stable revenue to the Group.

Sales of CNG/LNG in Vehicle Filling Stations

Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2022 amounted to HK\$258,428,000 (2021: HK\$261,519,000), representing a slight decrease of 1.2% compared to last year. The unit of natural gas sold to vehicles declined by 19.6% to 54,856,000 m³ (2021: 68,230,000 m³) and the average selling price of natural gas for CNG/LNG vehicle filling stations increased by 28.0% to RMB4.07 per m³ (2021: RMB3.18 per m³) for the year ended 31st December, 2022.

During the year ended 31st December, 2022, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 2.0% (2021: 2.3%) of the total turnover of the Group. As at 31st December, 2022, the Group had 56 CNG/LNG vehicle filling stations and 7 CNG/LNG vehicle filling stations under construction in the PRC.

Smart energy

Revenue from smart energy for the year ended 31st December, 2022 increased by 86.1% to HK\$71,546,000 from HK\$38,442,000 for last year. Leveraging the huge market and customer base of its gas projects, the Group is currently establishing an extensive network of new businesses in China, including natural gas-fired distributed energy, photovoltaic power generation and charging stations. It seeks to comprehensively utilise energy with years of cumulative experience in market development and technical innovation, in an effort to provide customers with highly efficient integrated energy that addresses their needs for gas, heating, electricity and cooling. The smart energy business contributed 0.6% (2021: 0.3%) of the total turnover of the Group for the year ended 31st December, 2022. The Group will continuously explore the operation model of energy business, and promote the expansion of energy projects to meet the diversified energy demand of customers.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2022 was 15.1% (2021: 19.3%). The decline in overall gross profit margin for the year ended 31st December, 2022 was mainly due to decrease of gross profit margin of gas pipeline construction and sales of gas.

The gross profit margin for the sales of piped natural gas decreased to 10.1% (2021: 11.1%) as the increment of average purchase cost of natural gas outweighed the increment of average selling price of natural gas for residential households. The Group's energy trading business has been strengthened to secure stable gas supply from different sources and contracts have been signed with suppliers to secure more piped gas supply with lower average cost. The gross profit margin for gas pipeline construction remained stable at 70.4% for the year under review (2021: 72.3%). The gross profit margin for value-added services increased to 73.4% (2021: 67.9%) due to a reduction in the sales of low-gross-profit-margin wall-hang boilers in 2022 and an increase in the value added services fee and selling price of other gas applicants. The gross profit margin for the sales of CNG/LNG in vehicle filling stations increased to 9.4% (2021: 3.4%) as a result of increase in average selling price of CNG/LNG sold in vehicle refilling station. The gross profit margin of smart energy slightly increased to 26.7% (2021: 25.0%) as a result of an increase in number of integrated energy projects and supply of integrated energy during the year under review.

Other gains and losses

The Group recognised other net losses of HK\$524,386,000 in 2022 (2021: other net gains of HK\$220,525,000). The amount mainly derived from net foreign exchange loss of HK\$522,538,000 (2021: gain of HK\$224,472,000) mainly arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB in 2022.

Every year, the Group performs impairment assessment under expected credit loss model according to HKFRS 9 on trade receivables and contract assets based on provision matrix except for the debtors with credit-impaired balances which are assessed individually. During the year ended 31st December, 2022, the Group made a reversal of impairment loss of HK\$2,187,000 on contract assets (2021: HK\$1,835,000) in consideration of the likelihood of recovery of those aged receivables. In addition, the Group recognised a reversal of impairment loss of HK\$21,000 (2021: impairment loss of HK\$657,000) on other receivables, based on the individual assessment of the recoverability of the relevant receivables. The amount was considered as credit-impaired and full provision has been made.

Other income

Other income increased to HK\$177,806,000 in 2022 from HK\$148,161,000 in 2021. The balance in 2022 represented the bank interest income of HK\$9,406,000 (2021: HK\$10,138,000), interest income on amount due from an associate of nil (2021: HK\$3,229,000), interest income from loans to employees of HK\$23,319,000 (2021: HK\$23,319,000), government subsidies of HK\$90,863,000 (2021: HK\$67,963,000), income from investments in life insurance contracts of nil (2021: HK\$1,897,000) and sundry income of HK\$54,218,000 (2021: HK\$41,615,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs decreased by 3.8% to HK\$237,251,000 in 2022 from HK\$246,598,000 in 2021. Administrative expenses decreased by 3.0% to HK\$572,191,000 in 2022 from HK\$590,154,000 in 2021. The decrease was mainly attributable to (i) decreased insurance expenses as two life insurance contracts were terminated in 2021; (ii) decreased charitable and other donations in the PRC; and (iii) decreased consultancy fee paid as system updates and integration of new IT systems were completed in 2021.

Finance costs

Finance costs increased by 73.7% to HK\$329,382,000 in 2022 from HK\$189,627,000 in 2021. The increase was mainly attributable to increment of effective interest rate.

Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries of the Company is 25% for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2022, withholding tax amounting to HK\$5,429,000 (2021: nil) was charged by the PRC tax authority on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2022 amounted to HK\$271,732,000 (2021: HK\$318,859,000).

Non-HKFRS EBITDA

For the purposes of this announcement, non-HKFRS EBITDA is defined as earnings from continuing operations before finance costs, taxation, depreciation, amortisation, foreign exchange gain/loss, impairment losses/reversal of impairment losses and share option expenses. Non-HKFRS EBITDA is a non-HKFRS measure used by the management for monitoring the core business performance of the Group. The Company considers that the non-HKFRS EBITDA can provide shareholders and potential investors of the Company with useful supplementary information on the performance of the Group’s core operations. Foreign exchange gain/loss and share option expenses are considered not directly resulting from the actual business activities of the Group. They, together with the impairment losses/reversal of impairment losses, are non-cash items which we do not believe are reflective of the core operating performance of the Group. The non-HKFRS EBITDA may not be comparable to similar measures presented by other companies.

The Group's non-HKFRS EBITDA was approximately HK\$1,932,267,000 for the year ended 31st December, 2022, representing a decrease of 7.1% as compared with that of approximately HK\$2,079,049,000 for last year.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was HK\$174,077,000 in 2022, representing a decrease of 85.4% as compared with that of HK\$1,188,997,000 in 2021.

Excluding the net foreign exchange loss of HK\$522,538,000 (2021: gain of HK\$224,472,000) and reversal of impairment loss of HK\$2,208,000 (2021: HK\$1,178,000), non-HKFRS profit attributable to owners of the Company would amount to HK\$694,407,000 (2021: HK\$963,347,000). Similar to the non-HKFRS EBITDA, the non-HKFRS profit attributable to owners of the Company is a non-HKFRS measure used by the management for monitoring the actual operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net profit margin

For the year ended 31st December, 2022, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 1.3% (2021: 10.5%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK6.14 cents and HK6.14 cents respectively in 2022, as compared with that of HK44.20 cents and HK44.14 cents respectively in 2021.

The non-HKFRS basic and diluted earnings per share attributable to the owners of the Company (calculated by reference to the non-HKFRS profit attributable to owners of the Company which excludes the net foreign exchange gain/loss, impairment losses/reversal of impairment losses and share option expenses, if any, as the numerator) for the year ended 31st December, 2022 were HK24.51 cents (2021: HK35.81 cents) and HK24.48 cents (2021: HK35.76 cents) respectively. Similar to the non-HKFRS EBITDA, the non-HKFRS basic and diluted earnings per share attributable to the owners of the Company are non-HKFRS measures used by the management for monitoring the actual operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$2.87 as at 31st December, 2022, representing a decrease of 6.2% as compared with that of HK\$3.06 as at 31st December, 2021.

DIVIDENDS

The Board recommended the payment of an interim dividend of HK3 cents (2021: HK3 cents) per ordinary share in the year ended 31st December, 2022 to shareholders whose names appear on the register of members of the Company on 20th October, 2022 and the interim dividend was paid on 15th November, 2022.

The Board does not recommend the payment of a final dividend for the year end 31st December, 2022 (2021: final dividend of HK8 cents per ordinary share and a special dividend of HK5 cents per ordinary share).

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Part 2 of Appendix 14 of the Listing Rules. During the year under review, the Company has complied with all the applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company during the year ended 31st December, 2022.

AUDIT COMMITTEE

The Company’s Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, all being independent non-executive Directors, has reviewed with the Company’s management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the annual results of the Group for the year ended 31st December, 2022. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31st December, 2022.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkex.com.hk under “Latest Listed Company Information” and the Company at www.zhongyuenergy.com under “Announcement And Circulars” respectively. The annual report of the Company for the year ended 31st December, 2022 will be despatched to the shareholders in April 2023 and will be published on the websites of the HKEX and the Company accordingly.

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 31st December, 2022 as set out in this announcement have been agreed by the Group’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 this announcement.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company’s register of members on Friday, 2nd June, 2023 will be eligible to attend and vote at the forthcoming annual general meeting of the Company. The Company’s transfer books and register of members will be closed from Tuesday, 30th May, 2023 to Friday, 2nd June, 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to attend and vote at the forthcoming annual general meeting of the Company, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Monday, 29th May, 2023.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (Chairman), Mr. Yiu Chi Shing (Vice Chairman), Mr. Lui Siu Keung (Chief Executive Officer), Mr. Jia Kun (Executive President), Mr. Lu Zhaoheng and Mr. Li Yan as the executive Directors, and Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, as the independent non-executive Directors.

By Order of the Board
ZHONGYU ENERGY HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 28 March, 2023