港華智慧能源有限公司
Towngas Smart Energy Company Limited

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

2023 ANNUAL RESULTS ANNOUNCEMENT

OVERVIEW OF BUSINESS OPERATIONS

- The economic recovery for 2023 fell short of expectations. The Group has taken various measures to increase its resilience and competitiveness, and its businesses maintained steady growth. The Group's city-gas and renewable energy businesses spread across 25 provinces/autonomous regions/municipalities on the Chinese mainland.

- During the year, the Group's total gas sales volume recorded a considerable increase of 8% to 16.5 billion cubic metres. As at 31 December 2023, the Group had developed 124 zero-carbon smart industrial parks, and had signed contracts in an aggregate amount of 2.96GW photovoltaic capacity and connected 1.8GW to the grid. Turnover increased by 4.2% to RMB17,915 million, but due to the exchange rate impact, turnover in HKD decreased slightly by 1.2% to HK$19,842 million.

- After amicable negotiations, the Group exited its investment of 25% equity interest in Shanghai Gas and received the fund of RMB4,663 million during the year. Both parties will continue to establish deep and solid strategic relationships in the fields of, among others, natural gas resources, low-carbon energy, services and technologies.

- Profit attributable to shareholders of the Company increased significantly by 63.2% to HK$1,575 million. Core profit before non-operating gains and losses increased by 16.3% to HK$1,190 million (increased by 22.6% in RMB).

- A final dividend of 16 HK cents per share is proposed, increased by 6.7% compared to last year.

FINANCIAL HIGHLIGHTS

Highlights of the results of the Group's operating business for the year and the comparative figures for the corresponding last year are as follows:

	Audited For The Year Ended 31 December	
	2023	2022
Revenue, HK million dollars	**19,842**	20,073
Core profit, HK million dollars	**1,190**	1,023
Non-operating gains and losses, net, HK million dollars	**385**	(58)
Profit attributable to shareholders, HK million dollars	**1,575**	965
Basic earnings per share, HK cents	**47.74**	30.17
Gas sales volume, million cubic metres, natural gas equivalent*	**16,458**	15,246
Total photovoltaic grid connection, GW	**1.8**	0.6
Number of city-gas customers as at 31 December, million households*	**16.77**	15.93

* *Inclusive of all city-gas projects of the Group*

CHAIRMAN'S STATEMENT

"**Fully capitalising on our technological strengths, extensive experiences, resources and application scenarios, we are committed to achieving our carbon reduction targets.**"
- Dr. Lee Ka-kit

Looking back on the past year, we were pleased to witness the conclusion of the global pandemic. The resurgence of the global economy, however, has been sluggish, creating a challenging road to recovery. The international political landscape has continued to be volatile, with various regions plagued by wars and conflicts, further exacerbating the energy crisis. During the year, life on the Chinese mainland returned to normal, albeit amidst a dampened global economy. This has led to fluctuations in the country's post-pandemic recovery whilst posing challenges to the business environment.

Despite the uncertain economic prospects, the Group put an emphasis on prudence, innovation and resilience. On the one hand, we reinforced our foothold in the gas business, leveraging the untapped potential of our existing business while maintaining rigorous discipline over capital expenditure. On the other hand, we continue to develop our renewable energy business based on an asset-light model, aiming to minimise financial leverage and provide our shareholders with stable returns.

In addition, the country has been actively committed to green development over the years. As such, it has drawn up a clear emission reduction plan to achieve the "30-60" dual carbon goals. A primary focus of this plan is to explore new green energy sources to replace fossil fuels. Relevant national policies have pointed out a clear direction for our future development, and we are well aware that this is not only an undeniable responsibility but also a precious opportunity.

Since the 1990s, we have been deeply rooted on the Chinese mainland, establishing a large industrial and commercial customer base there. Starting out as a city-gas business operator, we have built an impeccable reputation for safety and service quality. Coupled with the pressing demand from industrial and commercial customers to reduce energy costs and carbon emission, this gives us a unique advantage in developing comprehensive energy management services. In the face of the new race track and other new opportunities, we are pursuing a two-pronged approach with the business development of both the natural gas and renewable energy businesses. Leveraging our professional energy management technologies and platforms, we aim to provide our customers with a full range of energy management solutions.

All our staff members will also rise to these challenges with the utmost professionalism, entrepreneurial spirit and resilience, working together for the robust development of the Group's businesses.

ANNUAL RESULTS

At the end of 2023, the Group had 536 city-gas and renewable energy projects in 25 provinces, autonomous regions and municipalities, representing an increase of 173 projects as compared to last year. The gas sales volume for the year increased by 8% compared to last year. The total number of Group customers reached 16.77 million during the year, representing an increase of 840,000 customers. The renewable energy business also developed further, with 44 zero-carbon smart industrial parks developed during the year, bringing the cumulative number of projects to 124. Turnover increased by 4.2% to RMB17,915 million, but due to the exchange rate impact, turnover in Hong Kong dollars ("HK$") decreased slightly by 1.2% to HK$19,842 million. Profit attributable to shareholders of the Company increased significantly by 63.2% to HK$1,575 million. Core profit rose by 16.3% to HK$1,190 million (increased by 22.6% in Renminbi ("RMB")).

Towngas Smart Energy announced its exit from its 25% equity interest in Shanghai Gas Co., Ltd. ("Shanghai Gas") after amicable negotiations with Shenergy (Group) Company Limited ("Shenergy Group") and Shanghai Gas, with a recovery of the fund of RMB4,663 million during the year. Both parties have established a deep and strong strategic relationship in the area of natural gas resources and supply chain, the renewable energy business, extended services, energy technology and low-carbon technology.

FINAL DIVIDEND

The Board recommend a final dividend of 16 HK cents per share payable to shareholders whose names are on the Register of Members of the Company as at 6 June 2024, increased by 6.7% compared to last year. The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new and fully paid shares in lieu of cash.

UTILITY BUSINESS

Given the lacklustre growth of the global economy, the Chinese mainland continued to experience weak product demand in 2023. As such, its economic recovery slowed down in the second half of the year. Under the national policy of continuing to promote the use of natural gas, national consumption has seen an overall return to positive growth. The national natural gas consumption reached approximately 394.5 billion cubic metres, representing an increase of 7.6% compared to last year. With the improvement in the supply-demand structure of the natural gas industry, rational pricing has also returned.

Benefiting from these favourable policies and the improvement in the market environment, the Group's city-gas business recorded relatively satisfactory growth. During the year, we recorded an overall gas sales volume of 16,458 million cubic metres, representing an increase of 8%. Industrial gas sales rose by 6.1%, while commercial gas sales increased by 9.0%. The number of customers reached 16.77 million, representing an increase of 840,000 customers during the year. As for city-gas projects, 4 new projects were added during the year, totalling 187 projects (inclusive of corporate reinvestment projects).

Industrial gas consumption remains a key growth area for our city-gas business. For many years, the Group focused on attracting large-scale industrial users, providing customers with integrated energy solutions through “Gas+” services to help them optimise their energy consumption structure and efficiency. This initiative has promoted the development of low-carbon and smart industrial energy solutions, further consolidating and enhancing our gas business and increasing its contribution to gross profit.

Furthermore, with the country’s encouragement and support for public institutions to adopt energy cost trusteeship services in recent years, our “Gas+” business has seen favourable progress. Through the provision of our energy-saving, carbon reduction, safe gas usage and integrated energy cost trusteeship services to government agencies, schools, hospitals and other major institutions, as well as our agreements with a number of government agencies and public institutions in the provision of services such as cooling, heating, hot water, steam, and electricity, we are contributing to the country’s carbon peak and carbon neutrality goals.

In respect of residential city-gas, in June 2023, the National Development and Reform Commission issued the “Guiding Opinions on Establishing and Improving the Upstream and Downstream Natural Gas Price Linkage Mechanism” to all provinces. This initiative introduced an automatic transmission mechanism while establishing an adjustment mechanism for city-gas prices for residential users in various regions. These mechanisms can increase or decrease prices, moving flexibly to reflect changes in supply and demand. This, in turn, has allowed us to achieve significant progress in cost pass-through.

RENEWABLE ENERGY BUSINESS

With the implementation of the “dual carbon” strategy, the country’s renewable energy development grew rapidly in 2023. During the year, the national and local governments introduced several favourable policies, including encouraging and supporting energy transition. This positive move has helped to establish order as well as good industry norms, in addition to promoting innovation in technological products and fostering a focus on the most suitable operational approach. This excellent policy environment is driving the top-quality development of the industry.

During the year, our renewable energy business achieved profitability. As at the end of 2023, the Group developed 124 zero-carbon smart industrial parks, and laid out more than 1,000 renewable energy projects in 23 provinces, autonomous regions and municipalities. The business scope in these projects spans various aspects, such as photovoltaics, energy storage, battery charging and swapping stations, and integrated energy services for industrial and commercial customers.

The first virtual power plant built by the Group for a public institution in Shenzhen was officially put into operation during the year. This project integrates photovoltaic power generation, energy storage, charging piles, distributed power supplies, and loads. During peak power consumption periods, the virtual power plant outputs excess power to the grid to ensure smooth operation. We are excited to see more similar near-zero-carbon energy projects among other regions in the future, allowing for the expansion of our business portfolio.

With the ongoing deepening and refinement of electricity market reform, market-based green electricity trading is gradually becoming a standardised and scalable mechanism. Under our renewable energy electricity trading framework in Guangdong province, we have served a number of high-energy-consuming and export trading enterprises through renewable energy electricity trading. In 2023, the total amount of electricity sold by the Group was 1 billion kWh in Guangdong. The total amount of electricity sold by the Group on the Chinese mainland is expected to reach 10 billion kWh by 2025.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Towngas Smart Energy remains committed to integrating environmental, social and governance ("ESG") initiatives into our corporate governance and business operations. This unswerving policy allows us to respond to China's "30-60" dual carbon goals as well as the ESG concerns of stakeholders and capital markets on the highest levels. Towngas Smart Energy has received favourable evaluations from six major international ESG ratings and indices, including:

- CDP
- FTSE Russell
- Hang Seng Corporate Sustainability Index
- MSCI
- S&P Global
- Sustainalytics

In June 2023, Towngas Smart Energy, together with our parent company, The Hong Kong and China Gas Company Limited ("HKCG"), were ranked among the "top 1%" of Chinese enterprises in ESG rating, and were also included in the first-ever S&P Global "Sustainability Yearbook (China Edition)". Just as impressively, Towngas Smart Energy was recognised as an "Industry Mover". Subsequently, in September, we were upgraded to an AA rating in the Hang Seng Corporate Sustainability Index Series, reflecting the ongoing recognition of our quality ESG performance.

BUSINESS OUTLOOK

Looking ahead to 2024, we do not expect to see any significant improvement in the many factors affecting the external environment. However, with a series of favourable national policies and measures to stabilise the economy, boost consumption, promote energy conservation and emission reduction, as well as to increase urbanisation rates, we anticipate a steady growth in residential gas demand and maintain an optimistic outlook on its development prospects.

The government is focusing on rectifying the safety hazards of liquefied petroleum gas bottled gas in catering establishments, and the related "bottle-to-pipe" business is expected to drive the continuous increase in natural gas sales volume. With the rapid development of the new energy industry on the Chinese mainland and the increase in demand for gas from new energy automobiles, photovoltaic glass, lithium batteries, and other industrial customers, we believe the Group will enjoy a considerable increase in gas sales volume.

The government intends to revise the "Policies on the Utilisation of Natural Gas", "Regulations on the Administration of City-Gas" and "Measures for the Administration of Concession for Infrastructure and Public Utilities" to not only encourage investments in the public utility sector and ensure that reasonable returns can be obtained, but also to guide the quality development of the natural gas industry. It is anticipated that the relevant policies will have a positive impact on the development of the Group.

The outlook for the renewable energy business is promising. The country has proposed the multiplication of both wind and solar power generation during the "14th Five-Year Plan" period, with a total installed capacity of more than 1.2 billion kilowatts. As the installed capacity of wind power and photovoltaics continues to grow, energy storage will play an increasingly important role as a balancing resource. In 2023, the newly installed photovoltaic capacity exceeded 216GW on the Chinese mainland. As the upstream manufacturing capacity of the photovoltaic industry continues to grow, the price of photovoltaic components is dropping significantly. In turn, the investment cost of industrial and commercial distributed photovoltaic power station systems is being reduced, and returns on investment have increased. This situation is proving to be extremely beneficial to the growth of our photovoltaic business.

Additionally, the widening price differentials between peak and off-peak industrial electricity consumption on the Chinese mainland, coupled with the overcapacity in the battery manufacturing market, are creating enhanced arbitrage opportunities for commercial and industrial energy storage. The price of battery cells has dropped by almost 30% from previous highs. Coupled with the improvements in battery technology, where the number of battery cycles and efficiency have increased, the cost of power generation has been reduced. We therefore expect considerable growth in installed capacity for the industrial and commercial sectors.

Taking this positive environment further forward, the Central Commission for Comprehensively Deepening Reform has reviewed and approved multiple policies that emphasise the improvement in the total amount and intensity of energy consumption regulations, as well as the gradual shift to dual control of the total amount and intensity of carbon emissions. These policies will be conducive to enhancing the proportion of green power usage, increasing the demand for downstream green certification, accelerating voluntary emission reductions on the Chinese mainland, and stimulating the potential carbon asset value of clean energy. Guided by these policies, distributed photovoltaics, as one of the main green power sources and one of the main green energy sources covered by green certificates, will benefit significantly and is expected to create considerable additional revenue.

The country is vigorously developing the hydrogen energy economy. As a new energy source, hydrogen energy is an important element with unlimited growth potential. We are actively preparing for our pilot project, which blends hydrogen in our natural gas pipelines. In April 2023, the "Key Technology Research and Scale Application of Piped Hydrogen in the Field of Comprehensive Energy Supply in Towns" proposed by Weifang Hong Kong and China Gas Limited was approved by the Ministry of Science and Technology, and has now entered its research stage. The goal is to achieve a 10% hydrogen blending ratio covering 100,000 residential users. Furthermore, Foran Energy Group Co., Ltd., a company in which the Group has a stake, is actively advancing hydrogen energy services. It is constructing hydrogen production and refuelling stations in Foshan, Guangdong province, to support the development of public hydrogen-powered transportation. Moreover, Foran Energy Group Co., Ltd. is also involved in the research and development of fuel cells and the manufacturing of hydrogen energy equipment.

In general, facing the uncertain operating environment before us, we believe the Group is well prepared. We continue to carefully review the operation of each business segment to improve our overall efficiency. We will also continue to capitalise on our own advantages and innovative insights to enhance our integrated energy services for industrial and commercial customers, as well as residential users, promoting our journey towards sustainable development.

On behalf of the Group's Board of Directors, I would like to express our tremendous gratitude to our customers, shareholders, investors, and members of the community who have long followed and supported the Group's development. Our many thanks, too, to all our dedicated colleagues who have consistently demonstrated resilience and innovation in their roles.

Lee Ka-kit
Chairman

Hong Kong, 19 March 2024

The Board of Directors is pleased to announce the audited results of the Group for the year ended 31 December 2023 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	**2023** **HK$'000**	2022 *HK$'000*
Revenue	*3*	**19,841,511**	20,073,010
Total operating expenses	*4*	**(18,177,618)**	(18,460,572)
		1,663,893	1,612,438
Other income		**192,630**	132,586
Other gains, net		**426,559**	532,256
Share of results of associates		**365,660**	(246,837)
Share of results of joint ventures		**317,531**	306,026
Finance costs	*5*	**(769,839)**	(752,763)
Profit before taxation	*6*	**2,196,434**	1,583,706
Taxation	*7*	**(385,110)**	(382,667)
Profit for the year		**1,811,324**	1,201,039
Profit for the year attributable to:			
Shareholders of the Company		**1,574,623**	964,855
Non-controlling interests		**236,701**	236,184
		1,811,324	1,201,039
		HK cents	*HK cents*
Proposed final dividend per ordinary share	*8*	**16**	15
		HK cents	*HK cents*
Earnings per share	*9*		
– Basic		**47.74**	30.17
– Diluted		**42.47**	14.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	HK$'000	*HK$'000*
Profit for the year	**1,811,324**	1,201,039
Other comprehensive (expense) income for the year		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**(301,668)**	(2,078,755)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**146,914**	(141,010)
Income tax relating to items that will not be reclassified to profit or loss	**(35,880)**	36,112
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**64,585**	44,734
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(54,579)**	(151,211)
	(180,628)	(2,290,130)
Total comprehensive income (expense) for the year	**1,630,696**	(1,089,091)
Total comprehensive income (expense) for the year attributable to:		
Shareholders of the Company	**1,448,706**	(1,287,188)
Non-controlling interests	**181,990**	198,097
Total comprehensive income (expense) for the year	**1,630,696**	(1,089,091)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment		**28,555,243**	23,500,341
Right-of-use assets		**1,012,469**	845,134
Intangible assets		**384,994**	413,533
Goodwill		**4,820,508**	5,296,236
Interests in associates		**5,251,449**	9,760,067
Interests in joint ventures		**3,803,404**	3,574,969
Loans to associates		**47,701**	49,000
Equity instruments at fair value through other comprehensive income		**1,353,339**	1,239,653
Other financial assets		**70,628**	16,927
Deposits paid for acquisition of subsidiaries		**-**	178,662
Restricted deposit		**108,691**	-
		45,408,426	44,874,522
Current assets			
Inventories		**588,608**	682,235
Loans to associates		**9,851**	53,197
Loans to joint ventures		**166,507**	171,042
Trade and other receivables, deposits and prepayments	*10*	**2,782,350**	2,912,168
Amounts due from non-controlling shareholders		**219,806**	174,422
Financial assets at fair value through profit or loss		**-**	70,064
Other financial assets		**10,708**	-
Time deposits over three months		**21,562**	5,650
Bank balances and cash		**4,080,302**	4,000,676
		7,879,694	8,069,454
Assets classified as held for sale		**176,583**	-
		8,056,277	8,069,454
Current liabilities			
Trade and other payables and accrued charges	*11*	**3,705,656**	3,067,180
Contract liabilities		**3,632,142**	3,850,134
Lease liabilities		**48,433**	23,687
Amounts due to non-controlling shareholders		**73,356**	82,298
Taxation payable		**1,412,241**	1,532,249
Borrowings – amounts due within one year		**5,499,842**	9,018,808
Loan from ultimate holding company		**28,453**	62,816
Loans from non-controlling shareholders		**-**	7,379
Loan from an associate		**24**	-
Loans from joint ventures		**27,467**	17,404
		14,427,614	17,661,955
Liabilities associated with assets classified as held for sale		**10,090**	-
		14,437,704	17,661,955
Net current liabilities		**(6,381,427)**	(9,592,501)
Total assets less current liabilities		**39,026,999**	35,282,021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 31 DECEMBER 2023

	2023	2022
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**206,846**	64,162
Borrowings – amounts due after one year	**10,782,229**	8,563,734
Deferred taxation	**839,983**	719,637
Loans from non-controlling shareholders	**15,187**	15,601
Other financial liabilities	**-**	175
Convertible bonds	**1,952,264**	2,055,619
	13,796,509	11,418,928
Net assets	**25,230,490**	23,863,093
Capital and reserves		
Share capital	**335,450**	325,862
Reserves	**22,511,762**	21,178,997
Equity attributable to shareholders of the Company	**22,847,212**	21,504,859
Non-controlling interests	**2,383,278**	2,358,234
Total equity	**25,230,490**	23,863,093

1. BASIS OF PREPARATION

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK$6,381 million as at 31 December 2023. The Group's liabilities as at 31 December 2023 included borrowings of approximately HK$5,500 million that are repayable within one year from the end of the reporting period.

As at 31 December 2023, the Group is able to raise approximately HK$13,237 million through a Medium Term Note Programme ("MTN Programme"), the remaining issuance amount under the debt financing instruments programme registered in the National Association of Financial Market Institutional Investors (the "Panda Bonds") amounting to approximately HK$14,851 million and unutilised facilities from banks and its parent company HKCG amounting to approximately HK$7,911 million ("Facilities"). When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$3,573 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks and has good credibility.

Taking into account of the internally generated funds, the amount of funds to be raised from the MTN Programme, the remaining issuance amount of Panda Bonds and those available Facilities, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except for the disclosure of the Group's accounting policies set out in note to the consolidated financial statements, the application of new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the other disclosures set out in these consolidated financial statements.

3. SEGMENT INFORMATION

Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors").

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors to facilitate strategic decision making.

The Group currently organises its operations into four operating divisions, which also represent the operating segments of the Group for financial reporting purposes. The principal activities of the operating and reportable segments are as follows:

Sales of piped gas business	–	Sales of piped gas and other gas-related energy
Gas connection	–	Construction of gas pipeline networks under gas connection contracts
Renewable energy business	–	Sales of renewable energy (mainly photovoltaic power) and other related energy and services
Extended business	–	Sales of gas related household appliances and related products, and other related value-added services

In prior years, the Executive Directors assessed the Group's businesses by three operating segments, namely (a) sales of piped gas and energy; (b) gas connection and (c) extended business. During the year ended 31 December 2023, the Executive Directors have reassessed and restructured its businesses into (i) sales of piped gas business; (ii) gas connection; (iii) renewable energy business and (iv) extended business. The comparative information has been restated to conform with the current year's presentation.

Segment results represent the profit before taxation earned by each segment, excluding finance costs, share of results of associates, share of results of joint ventures, other income, other gains, net and unallocated corporate expenses such as central administration costs and directors' emoluments. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

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

Information regarding these segments is presented below:

For the year ended 31 December 2023	Sales of piped gas business *HK$'000*	Gas connection *HK$'000*	Renewable energy business *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
REVENUE					
Revenue recognised at a point in time	**16,291,454**	**1,391,601**	**1,056,327**	**625,868**	**19,365,250**
Revenue recognised over time	**-**	**476,261**	**-**	**-**	**476,261**
External	**16,291,454**	**1,867,862**	**1,056,327**	**625,868**	**19,841,511**
Segment results	**893,321**	**728,233**	**84,967**	**123,183**	**1,829,704**
Other income					**192,630**
Other gains, net					**426,559**
Unallocated corporate expenses					**(165,811)**
Share of results of associates					**365,660**
Share of results of joint ventures					**317,531**
Finance costs					**(769,839)**
Profit before taxation					**2,196,434**
Taxation					**(385,110)**
Profit for the year					**1,811,324**

	Sales of piped gas business *HK$'000*	Gas connection *HK$'000*	Renewable energy business *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
For the year ended 31 December 2022 (restated)					
REVENUE					
Revenue recognised at a point in time	16,416,067	1,793,201	507,873	737,427	19,454,568
Revenue recognised over time	-	618,442	-	-	618,442
External	16,416,067	2,411,643	507,873	737,427	20,073,010
Segment results	861,576	979,294	(83,426)	75,144	1,832,588
Other income					132,586
Other gains, net					532,256
Unallocated corporate expenses					(220,150)
Share of results of associates					(246,837)
Share of results of joint ventures					306,026
Finance costs					(752,763)
Profit before taxation					1,583,706
Taxation					(382,667)
Profit for the year					1,201,039

4. TOTAL OPERATING EXPENSES

	2023	2022
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**15,124,809**	15,507,390
Staff costs	**1,306,363**	1,355,758
Depreciation and amortisation	**1,069,563**	918,126
Other expenses	**676,883**	679,298
	18,177,618	18,460,572

5. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**679,887**	680,882
Effective interest expense on convertible bonds	**79,323**	77,125
Bank charges	**6,270**	5,831
Interest on lease liabilities	**17,723**	4,608
	783,203	768,446
Less: amounts capitalised	**(13,364)**	(15,683)
	769,839	752,763

6. PROFIT BEFORE TAXATION

	2023	2022
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**18,057**	19,028
Depreciation of right-of-use assets	**53,703**	49,138
Cost of inventories sold	**16,278,678**	16,489,492
Depreciation of property, plant and equipment	**997,803**	849,960
Staff costs	**1,306,363**	1,355,758
Loss on disposal of property, plant and equipment (included in other gains, net)	**17,662**	1,535
Loss on deemed disposal of a subsidiary (included in other gains, net)	**4,597**	277
Loss on deemed partial disposal of an associate (included in other gains, net)	**31,775**	-
Impairment provision of goodwill (included in other gains, net)	**306,000**	-
Impairment loss of trade receivables, net of reversal	**22,435**	40,330
Exchange loss, net (included in other gains, net)	**-**	753
and after crediting:		
Interest income	**78,420**	66,692
Change in fair value of embedded derivative component of convertible bonds (included in other gains, net)	**101,573**	531,488
Gain on exit from investment in an associate (included in other gains, net)	**681,020**	-
Dividend income from equity instruments at fair value through other comprehensive income	**36,634**	39,252
Exchange gain, net (included in other gains, net)	**4,000**	-
Gain on disposal of right-of-use assets (included in other gains, net)	**-**	3,333

7. TAXATION

	2023	2022
	HK$'000	*HK$'000*
The charge comprises:		
People's Republic of China ("PRC") Enterprise Income Tax ("EIT")		
– current year	**223,448**	330,555
Deferred taxation	**161,662**	52,112
	385,110	382,667

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (2022: 15% to 25%).

Following the 2020 edition of Catalogue of Encouraged Industries in Western Region (Order No. 40 2021) released by the National Development and Reform Commission of the PRC in 2021, certain subsidiaries which are operating in the Western China have been granted a concessionary tax rate of 15% by the local tax bureau.

Regarding the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"), as the Group is operating in jurisdictions where the Pillar Two legislation has not been enacted or substantially enacted, the Group is yet to apply the temporary exception during the year. Additional disclosures will be made when the Pillar Two legislation is enacted or substantially enacted in the future.

8. DIVIDENDS

During the year, a final dividend in respect of the year ended 31 December 2022 of approximately HK$487,182,000 (2022: HK$473,419,000 in respect of the year ended 31 December 2021) was recognised as distribution, being 15 HK cents per ordinary share (2022: 15 HK cents per ordinary share).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of 16 HK cents (2022: 15 HK cents) per ordinary share, in an aggregate amount of approximately HK$536,717,000 (2022: HK$487,182,000) has been proposed by the Board and is subject to approval by shareholders at the annual general meeting and compliance with the Companies Act of the Cayman Islands.

9. EARNINGS PER SHARE

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

	2023	2022
	HK$'000	*HK$'000*
<u>Earnings</u>		
Profit for the year attributable to shareholders of the Company for the purpose of basic earnings per share	**1,574,623**	964,855
Effect of dilutive potential ordinary shares:		
Interest expense on convertible bonds	**79,323**	77,125
Change in fair value of embedded derivative component of convertible bonds	**(101,573)**	(531,488)
Profit for the year attributable to shareholders of the Company for the purpose of diluted earnings per share	**1,552,373**	510,492

	Number of shares	
	2023	2022
	'000	*'000*
<u>Number of shares</u>		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of basic earnings per share	**3,298,521**	3,197,552
Effect of dilutive potential ordinary shares:		
Convertible bonds	**356,454**	352,207
Share options	**469**	104
Weighted average number of subscription shares	**1**	2,552
Weighted average number of subscription shares that would have issued at market	**(1)**	(2,347)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,655,444**	3,550,068

The weighted average number of ordinary shares in issue for the calculation of basic and diluted earnings per share for both years presented have been adjusted for the effect of shares held by the trustee pursuant to the share award scheme.

The computation of diluted earnings per share for the year ended 31 December 2022 does not assume the issue of remaining subscription shares because the subscription price of those shares was higher than the average market price.

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2023	2022
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**1,464,668**	1,538,048
Prepayments	**541,501**	715,002
Other receivables and deposits	**776,181**	659,118
	2,782,350	2,912,168

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables net of allowance of credit losses presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	2023	2022
	HK$'000	*HK$'000*
0 to 90 days	**1,039,121**	1,217,418
91 to 180 days	**224,505**	52,244
Over 180 days	**201,042**	268,386
	1,464,668	1,538,048

11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2023	2022
	HK$'000	*HK$'000*
Trade payables	**2,140,337**	1,682,468
Consideration payable for acquisitions of businesses	**176,968**	74,464
Other payables and accruals	**1,385,681**	1,308,972
Amount due to ultimate holding company (note)	**2,670**	1,276
	3,705,656	3,067,180

Note: The amount is unsecured, interest-free and repayable on demand.

The Group normally receives credit terms of 0 to 60 days from its suppliers. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2023	2022
	HK$'000	*HK$'000*
0 to 90 days	**1,100,516**	945,467
91 to 180 days	**376,030**	209,601
181 to 360 days	**299,408**	204,877
Over 360 days	**364,383**	322,523
	2,140,337	1,682,468

12. EVENT AFTER THE REPORTING PERIOD

On 22 November 2023, Chao Sheng Investments Limited ("Chaosheng"), a wholly-owned subsidiary of the Company which holds 60% equity interest in Chaozhou Fengxi Hong Kong and China Gas Co., Ltd. ("Fengxi Gas"), entered into a joint venture agreement with an independent third party and two wholly-owned subsidiaries of HKCG. Pursuant to the joint venture agreement, Chaosheng will contribute RMB149,500 in cash as initial registered capital of the joint venture company and further contribute 60% equity interest in Fengxi Gas to the joint venture company and will hold an equity interest of 14.95% in the joint venture company. On 7 March 2024, the transfer of 60% equity interest in Fengxi Gas has been completed.

Apart from the above event, there have been no other material events occurring after the reporting period.

FINANCIAL REVIEW

Revenue

In 2023, the Group's consolidated gas sales volume amounted to 4,823 million cubic metres, representing an increase of 7.4% over last year. The cost pass-throughs of piped gas were further improve, with cost pass-throughs having already been achieved among the majority of the industrial and commercial customers and with residential cost pass-throughs realised in multiple cities where the Group's city-gas projects are located. Nonetheless, the depreciation of RMB has offset the growth in revenue. Consequently, the revenue from sales of piped gas was at a level that was essentially flat compared to last year. Meanwhile, the real estate sector on the Chinese mainland remained in doldrums, leading to a decrease in household gas connection. On the consolidated basis, the Group had 411,000 new household connections, representing a decrease of 23.0% compared to last year, leading to a decline in gas connection revenue. Turnover increased by 4.2% to RMB17,915 million, but due to the exchange rate impact, turnover in HKD decreased slightly by 1.2% to HK$19,842 million.

Business Segments	2023 *HK$ million*	2022 *HK$ million* (restated)
Sales of piped gas business	16,292	16,416
Gas connection	1,868	2,412
Renewable energy business	1,056	508
Extended business	626	737
Total	19,842	20,073

Total Operating Expenses

Total operating expenses of the Group included gas fuel, stores and materials used, staff costs, depreciation and amortisation, and other expenses. Total operating expenses of the Group in 2023 amounted to HK$18,178 million, representing a decrease of 1.5% compared to last year.

	2023 *HK$ million*	2022 *HK$ million*
Gas fuel, stores and materials used	15,125	15,507
Staff costs	1,306	1,356
Depreciation and amortisation	1,070	918
Other expenses	677	679
Total	18,178	18,460

Total operating expenses and its ratio to total revenue remained constant compared to last year.

Other Gains, Net

Other gains, net decreased by 19.7% to HK$427 million as compared to HK$532 million in last year, mainly due to the decrease in gain from change in fair value of embedded derivative component of convertible bonds by HK$429 million, the gain on exit from the equity interest in Shanghai Gas of HK$681 million and impairment provision of goodwill of HK$306 million.

Share of Results of Associates

In 2023, the share of results of associates amounted to a profit of HK$366 million, representing an increase of HK$613 million compared to last year's loss of HK$247 million. According to the capital reduction agreement entered into between the Company, Shenergy Group and Shanghai Gas, the Group is only required to share the loss of Shanghai Gas of HK$92 million for the period from 1 January 2023 to 28 February 2023, as compared to last year's share of the loss of Shanghai Gas of HK$589 million.

Share of Results of Joint Ventures

In 2023, share of results of joint ventures increased by 3.8% from HK$306 million last year to HK$318 million (increased by 9.3% in RMB).

Finance Costs

In 2023, the finance costs of the Group increased by 2.3% from HK$753 million last year to HK$770 million.

Profit for the Year

In 2023, profit attributable to shareholders of the Company amounted to HK$1,575 million, representing an increase of 63.2% compared to last year. Excluding non-operating gains and losses (i.e. gain from change in fair value of embedded derivative component of convertible bonds of HK$102 million, the net gain of HK$589 million on exit from the equity interest in Shanghai Gas and share of its results and impairment provision of goodwill of HK$306 million), core profit amounted to HK$1,190 million, increased by 16.3% (increased by 22.6% in RMB). Basic earnings per share amounted to 47.74 HK cents, representing an increase of 58.2% compared to last year.

FINANCIAL POSITION

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate financing facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 31 December 2023, the Group's borrowings amounted to HK$16,282 million (31 December 2022: HK$17,583 million), of which HK$5,500 million (31 December 2022: HK$9,019 million) represented borrowings due within 1 year, HK$10,038 million (31 December 2022: HK$8,537 million) represented borrowings due between 1 to 5 years, and HK$744 million (31 December 2022: HK$27 million) represented borrowings due over 5 years. Other than the HK$12,392 million (31 December 2022: HK$12,355 million) in borrowings which bore interests at fixed rates, the Group's other borrowings were arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred on the Chinese mainland and most transactions, assets and liabilities were stated in RMB. As a result, the Group bore currency risk from fluctuations of RMB exchange rate for non-RMB denominated deposits and borrowings. The Group's borrowings denominated in RMB amounted to HK$14,323 million (31 December 2022: HK$15,624 million) and the remaining HK$1,959 million borrowings were denominated mainly in United States dollars ("USD") as at the end of the year (31 December 2022: HK$1,959 million borrowings were denominated mainly in USD). Cross currency swaps contracts were made to hedge foreign currency risk for the most of non-RMB denominated borrowings so as to reduce risk arising from fluctuations of RMB. Apart from the borrowings as mentioned above, the Group also has RMB loans amounted to approximately HK$28 million (31 December 2022: HK$63 million), approximately HK$27 million (31 December 2022: HK$17 million) and approximately HK$15 million (31 December 2022: HK$23 million) from the parent company, HKCG, joint ventures, and non-controlling shareholders on a fixed interest rate basis respectively.

In June 2023, the Group successfully issued 1-year and 3-year Panda Bonds for the first time on the Chinese mainland, raising a total of RMB1.5 billion with a weighted average interest rate of 3.27% per annum. Among them is the first sustainability-linked Panda Bonds issued by a Hong Kong enterprise on the Chinese mainland, which was over-subscribed by 1.6 times.

As at 31 December 2023, the Group's cash and cash equivalents together with time deposits and restricted deposits amounted to HK$4,214 million (31 December 2022: HK$4,006 million), of which 99% (31 December 2022: 99%) are RMB-denominated and the rest are denominated in HK$ and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at 31 December 2023 was 35.8% (31 December 2022: 39.7%).

As at 31 December 2023, the Group is able to raise approximately HK$13,237 million under the MTN Programme, the issuance amount of the Panda Bonds approximately HK$14,851 million and unutilised facilities from banks and HKCG amounting to approximately HK$7,911 million.

The operating and capital expenditure of the Group is funded by cash flows from operations, internal liquidity, financing arrangements with banks, the MTN Programme, Panda Bonds, convertible bonds and equity funding. The Group maintains a strong liquidity position with its cash and cash equivalents on hand, unutilised credit facilities, its MTN Programme and Panda Bonds. We have adequate financial resources to meet our contractual obligations and operating requirements. Benefiting from our good credit ratings, the Group enjoys favourable interest rates on bank loans and notes.

CREDIT RATINGS

Moody's Investors Service maintained the issuer rating of Towngas Smart Energy at "Baa1" with a "stable" outlook rating. Standard & Poor's also affirmed the long-term corporate credit rating of Towngas Smart Energy at "BBB+" and its rating outlook as "stable". In addition, China Chengxin International also maintained the credit rating of Towngas Smart Energy at "AAA" and its rating outlook as "stable". These ratings reflect the credit rating agencies' recognition of the Group's stable business and credit profile.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2023.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group had 24,220 employees. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. Our employees are provided with on-the-job training as well as optimal benefits packages, which include medical welfare, retirement plans, year-end bonuses, as well as other incentives. We encourage a work-life balance among our employees. At the same time, we make every effort to improve their work environment on a continuing basis. Our aim is to help them unleash their full potential, creating a full life for themselves while also contributing to the Group.

FINAL DIVIDEND

The Board recommended the payment of a final dividend from the share premium account of the Company of 16 HK cents per share (2022 final: 15 HK cents per share) payable to shareholders whose names are on the register of members on 6 June 2024, which is subject to approval by shareholders at the Annual General Meeting ("AGM") and compliance with the Companies Act of the Cayman Islands.

The proposed final dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid shares in lieu of cash in whole or in part under the scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, rank pari passu in all respects with the existing shares in issue on the date of the allotment and issue of the new shares except that they shall not be entitled to the proposed final dividend. The circular containing details of the Scrip Dividend Scheme and the relevant election form is expected to be sent to shareholders on or about 14 June 2024.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the new shares to be issued under the Scrip Dividend Scheme.

It is expected that the cheques for cash dividends and the share certificates to be issued under the Scrip Dividend Scheme will be sent by ordinary mail to shareholders at their own risk on or about 12 July 2024.

CLOSURE OF REGISTER OF MEMBERS

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

(1) from 24 May 2024 to 29 May 2024, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM; and

(2) from 4 June 2024 to 6 June 2024, both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM.

All completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share transfer office of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 23 May 2024 and 3 June 2024 respectively.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 29 May 2024. For details of the AGM, please refer to the Notice of AGM which is expected to be published on or about Wednesday, 17 April 2024.

CORPORATE GOVERNANCE

The Company had complied with all applicable code provisions as set out in the Corporate Governance Code contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year.

The Company has a board audit and risk committee (the "Board Audit and Risk Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls systems.

A meeting of the Board Audit and Risk Committee was held on 27 February 2024 to review the Group's audited consolidated financial statements for the year ended 31 December 2023 in conjunction with the Group's internal auditor and Deloitte Touche Tohmatsu, the Group's external auditor.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023, except that the trustee of the share award scheme of the Company (the "Share Award Scheme"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 950,000 issued shares of the Company at a total consideration of approximately HK$3,172,000.

By Order of the Board
Peter Wong Wai-yee
Executive Director and Chief Executive Officer

Hong Kong, 19 March 2024

At the date of this announcement, the Board comprises:

Non-Executive Directors:
LEE Ka-kit *(Chairman)*
LIU Kai Lap Kenneth

Independent Non-Executive Directors:
Moses CHENG Mo-chi
Brian David LI Man-bun
LOH Kung Wai Christine

Executive Directors:
Peter WONG Wai-yee *(Chief Executive Officer)*
Martin KEE Wai-ngai *(Chief Operating Officer – Gas Business)*
John QIU Jian-hang *(Chief Operating Officer – Renewable Business)*