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香港中華煤氣有限公司

THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong under the Companies Ordinance with limited liability)

(Stock Code: 3)

PRELIMINARY ANNOUNCEMENT OF 2022 INTERIM RESULTS

OVERVIEW OF BUSINESS OPERATIONS DURING THE FIRST HALF OF 2022

- The national “dual carbon” goals and environmental protection policies have provided broad room for the development of environmentally-friendly energy-related businesses. The Group will continue to promote the collaborative development of its city-gas and renewable energy businesses, actively seek environmental protection projects and invest in innovative technology and product development. The Group’s businesses are foreseen to continue to develop steadily.
- The Group’s business development on the Chinese mainland progressed well, with a total of 556 projects, an increase of 42 (mainly renewable energy projects) since the end of 2021, spread across 28 provincial regions.
- The Company’s increase in the standard gas tariff with effect from 1st August 2022 in Hong Kong will bring an annual revenue of HK\$300 million, helping to offset some of its own rising operating costs. In the long term, the Group’s gas business in Hong Kong will benefit from an increase in land and housing supply over the next few years. When the economy returns to normal after the epidemic, the energy demand of the commercial and industrial sectors will have good growth.
- Despite various challenges such as the impact of the epidemic, rising energy prices and changes in the international environment, the Group has steadily promoted its businesses given its solid record and professional management. During the first half of the year, the volume of gas sales in both Hong Kong and the Chinese mainland still recorded an increase of 1 per cent.

FINANCIAL HIGHLIGHTS

The Directors wish to report that the Group’s unaudited profit after taxation (exclusive of the Group’s share of a decrease in revaluation value of an investment property, the International Finance Centre complex) for the six months ended 30th June 2022 amounted to HK\$3,377 million, a decrease of HK\$823 million, down by 19.6 per cent, compared to the same period last year. Inclusive of the decrease in the revaluation value of the investment property, profit after taxation attributable to shareholders of the Group amounted to HK\$3,315 million, a decrease of HK\$885 million, down by 21.1 per cent, compared to the same period last year. Basic earnings per share for the first half of 2022 amounted to HK17.8 cents. The decrease in the Group’s profit in the first half of 2022 was mainly due to a decrease in profit contribution from the mainland’s utility business resulting from a lower gross profit margin given the mainland’s tight supply and the rising cost of natural gas impacted by the severe geopolitical situation.

Highlights of the unaudited results of the Group for the six months ended 30th June 2022, as compared to the same period in 2021, are shown in the following table:

	Unaudited	
	Six months ended 30th June	
	2022	2021
Revenue before Fuel Cost Adjustment, HK million dollars	29,032	24,405
Revenue after Fuel Cost Adjustment, HK million dollars	29,721	24,728
Profit after Taxation Attributable to Shareholders, HK million dollars	3,315	4,200
Basic Earnings per Share, HK cents	17.8	22.5
Interim Dividend per Share, HK cents	12	12
Town Gas Sold in Hong Kong, million MJ	14,882	14,735
Gas Sold by City-gas Business on the Chinese mainland, million cubic metres; natural gas equivalent [#]	16,057	15,899
Number of Customers in Hong Kong as at 30th June	1,974,974	1,952,813
Number of City-gas Customers on the Chinese mainland as at 30th June [#]	36,002,287	33,015,810

[#] *Inclusive of all mainland city-gas projects of the Group*

TOWN GAS BUSINESS IN HONG KONG

Towngas has been with Hong Kong for 160 years. During the year, the Group has been holding a series of celebration activities, including the 160th anniversary celebration ceremony held on 12th August 2022, at which Mr. John Lee Ka-chiu, the Chief Executive of the Hong Kong Special Administrative Region, was invited as the officiating guest. Together with the Company's associates from different sectors, they witnessed Towngas' leveraging its past experience and progressing towards a new milestone.

The outbreak of the fifth wave of the pneumonia-causing coronavirus disease ("COVID-19") at the beginning of this year severely hit the catering sector in Hong Kong once again. As a result, during the first half of 2022, the volume of the Company's commercial and industrial gas sales decreased, whilst the volume of residential gas sales increased as the average temperature during the period was lower, all compared to the same period last year. Overall, during the first half of 2022, the total volume of gas sales in Hong Kong was 14,882 million MJ, an increase of 1 per cent, and the number of appliances sold decreased by 7.1 per cent, in contrast to a 1.1 per cent increase in the number of customers, all compared to the same period last year. The total number of customers at the end of 2022 is forecasted to reach 2 million.

The Company raised its standard gas tariff by HK1.15 cents per MJ on 1st August 2022, an increase of 4.4 per cent.

BUSINESSES ON THE CHINESE MAINLAND

Overall, including the projects of the Group's subsidiary, Towngas Smart Energy Company Limited ("Towngas Smart Energy"; stock code: 1083.HK), the Group had 556 projects on the Chinese mainland as at the end of June 2022, an increase of 42 since the end of 2021, spread across 28 provincial regions. These projects encompass upstream, midstream and downstream natural gas sectors, smart energy, water sectors, environmentally-friendly energy and telecommunications.

UTILITY BUSINESSES

The mainland economy was stable at the beginning of 2022. Yet, the spread of the COVID-19 epidemic in a number of places thereafter, coupled with the outbreak of the war between Russia and Ukraine in February this year, has disrupted the normal process of economic growth. With various challenges such as a complex and severe international environment and the spread of the epidemic, the Chinese mainland's economic growth slowed down in the first half of 2022, recording a 2.5 per cent increase in the gross domestic product for the first half of 2022 compared to the same period last year.

The total volume of city-gas sales for the Group's utility businesses for the first half of 2022 was approximately 16,100 million cubic metres, an increase of 1 per cent compared to the same period last year. As at the end of June 2022, the Group's mainland gas customers stood at 36 million, an increase of 9 per cent compared to 33.02 million as at the end of June 2021.

As at the end of June 2022, inclusive of Towngas Smart Energy, the Group had a total of 309 city-gas projects on the Chinese mainland (inclusive of city-gas projects re-invested by the Group's companies) (end of June 2021: 287 projects).

With regard to the water and environmental business, the Group is currently operating nine city-water projects and five food and green waste treatment projects. Under the impact of city lockdown due to the epidemic, the volume of water sales slightly decreased by 3.7 per cent for the first half of 2022 compared to the same period last year. The Group's urban organic waste resource utilisation project, located in Suzhou Industrial Park, Jiangsu province, is implementing the conversion of waste to treasure by processing and fermenting organic food waste and then purifying the product into natural gas for injection into the pipeline network, followed by processing treated solid residue into organic fertiliser for park greening. With the country's efforts to build "zero-waste cities" and the opportunity arising from the effort to reduce the burial of solid waste, the Group, in addition to continuing to strengthen the collection and treatment of food waste, is also expanding the collection and treatment of expired food and other organic waste by entering into long-term contracts with large-scale food enterprises to effectively reduce urban waste and steadily increase the output of bio-natural gas for supply to the Group's gas projects, thus creating synergies, and is now actively expanding this business into more regions.

In respect of extended businesses, the Group's "Towngas Lifestyle" brand, leveraging its VCC (Virtual Customer Centre) platform, is focusing on and actively expanding the "Smart Kitchen" business, including smart kitchen equipment, gas services and safety management, safe kitchen solutions, high-end kitchen cabinets, household insurance, and provision of health products and services through the "Moment+" online mall and offline shops. As at the end of June 2022, this platform has developed 13.56 million members and handled 13.71 million transactions relating to the gas business, including payment, meter reading, account opening, gas connection and ignition, appointment of safety inspections, maintenance and installation. During the first half of 2022, the offline shop business under the "Moment+" brand began to take off. Concurrently, Towngas Lifestyle is establishing the GREEN HUB brand, focusing on zero-carbon sports, low-carbon unpackaged retail and healthy vegetarian catering, targeting the younger high-consumption group in first-tier cities, complementing the "Moment+" urban community population.

The Group's GH-Fusion Corporation Limited set up in Zhongshan, Guangdong province, mainly supplies polyethylene (PE) pipes to gas enterprises on the Chinese mainland, and the business has been developing well. With huge market demand, its sales market has extended overseas and recorded an approximately 25 per cent increase in sales during the first half of 2022 compared to the same period last year.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

The Group established, at the end of 2021, a new business platform, EcoCeres, Inc. ("EcoCeres"), which integrates the talents, patented technologies, production facilities, scientific research facilities and other assets related to biomass utilisation business. This business platform focuses on the development of a business portfolio on green and sustainable biomass utilisation, aiming at providing solutions for achieving the global goal of carbon neutrality. In addition, in order to accelerate development and release its shareholder value more effectively, EcoCeres introduced Kerogen Capital as a strategic investor in December last year, and successfully raised about US\$100 million in funding.

For many years, EcoCeres' research and development team has been striving to develop proprietary technologies to utilise inedible bio-grease and agricultural waste as the two major renewable feedstocks, and on such base to further develop into an advanced bio-refinery platform. The team has achieved innovative scientific breakthroughs in the utilisation of both feedstocks. Furthermore, during the first quarter of this year, EcoCeres successfully used a self-developed catalyst to process hydro-treated oil ("HVO") into sustainable aviation fuel ("SAF"), thus enabling EcoCeres to become the first batch of companies around the world to obtain the accreditation of the "Carbon Offsetting and Reduction Scheme for International Aviation" (CORSA Plus). During the first half of this year, EcoCeres produced more than 7,000 tonnes of SAF for export to the European markets, further reinforcing its leading position in the fields of HVO and SAF.

The national "dual carbon" goals also bring other new energy business opportunities. ECO Environmental Investments Limited's clean coal chemical business in Inner Mongolia Autonomous Region has achieved certain results after years of equipment modification to reduce carbon emissions. A new phase of the production plan to introduce waste resources to replace raw coal has made good progress, expecting to produce high value-added low-carbon products for domestic and overseas markets in 2023. In addition, the liquefied natural gas ("LNG") business has gained momentum with the commissioning of a new plant located in the Ningxia Hui Autonomous Region after a successful trial operation. The plant uses local coke oven gas as the feedstock to produce LNG, thus reducing carbon emissions of the coking plant and providing the market nearby with clean vehicular energy and supplementing gas sources for downstream natural gas customers. The carbon material research and development team has also stepped up its pace. The research on a new generation of high-performance pitch-based carbon fibre has entered the stage of implementing the industrialisation plan. The end markets of carbon fibre products are semiconductors, LED and new energy vehicles. The goal is to establish new business segments to contribute growth momentum for the Group.

TELECOMMUNICATIONS BUSINESSES

Towngas Telecommunications Company Limited under the Group develops telecommunications businesses, including provision of connectivity, data centres and cloud computing services, in Hong Kong and the Chinese mainland. Its businesses continued to grow steadily this year, with chargeable server racks increased to 4,000 units during the first half of 2022, an increase of 16 per cent compared to the same period last year.

TOWNGAS SMART ENERGY COMPANY LIMITED (STOCK CODE: 1083.HK)

Towngas China Company Limited, a subsidiary of the Group, was renamed Towngas Smart Energy Company Limited on 14th December 2021. Leveraging its city-gas business, Towngas Smart Energy will endeavour to the development, operation and management of smart energy business.

Towngas Smart Energy recorded a profit after taxation attributable to its shareholders amounting to HK\$1,042 million during the first half of 2022, an increase of approximately 34 per cent compared to the same period last year. As at the end of June 2022, the Group held approximately 2.085 billion shares in Towngas Smart Energy, representing approximately 65.88 per cent of Towngas Smart Energy's total issued shares.

In respect of the gas business, despite the epidemic, the number of industrial customers in the first half of the year still recorded a relatively satisfactory growth due to the country's promotion of environmentally-friendly energy and the acceleration of industrial coal-to-gas conversion. Looking ahead, it is foreseen that a number of industrial customers will still plan to settle in.

As to the renewable energy business, Towngas Smart Energy introduced Affinity Equity Partners as an investor in 2021 to raise a fund of HK\$2.8 billion, helping to accelerate the development of distributed photovoltaics projects and directly supply electricity to the Group's commercial and industrial customers.

Leveraging the experience accumulated from the development and management of industrial customers of its gas business over the past years, Towngas Smart Energy focuses further on comprehensive energy management for customers in zero-carbon smart industrial parks, actively explores photovoltaic investment and operation, and also provides park and enterprise customers with value-added services such as energy digital services, carbon trading and energy conservation management. Towngas Smart Energy's mode of developing zero-carbon smart industrial parks has demonstrated its competitive edge.

The Group started to develop its city-gas business in Xian, Shaanxi province, in 2006 and has been providing safe and reliable gas supply services for the city over the years, which is highly appreciated by the local government and the community. Recently, Towngas Smart Energy has successfully acquired zero-carbon industrial park projects in Xian Economic and Technology Development Zone and Huyi District, and will develop diversified businesses such as distributed photovoltaics, charging stations, smart energy conservation, and carbon management in the industrial parks. Towngas Smart Energy also plans to invest in Xixian New District, Gaoxin District and other regions in the future to help Xian achieve its "dual carbon" goals.

Moving forward, Towngas Smart Energy will continue to focus on investing in the Beijing-Tianjin-Hebei region, Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area, providing industry leaders in sectors such as steel, papermaking and data centres with carbon-neutral solutions. Towngas Smart Energy has established demonstration projects for zero-carbon industrial parks and zero-carbon factories in Taizhou, Jiangsu province and Tangshan, Hebei province which provide large-scale promotion and replication values and help expedite the development of zero-carbon smart industrial parks. In addition, Towngas Smart Energy has increased its investment in energy management technologies, including establishing an energy ecological platform for zero-carbon industrial parks, promoting carbon asset custody and green power trading services so as to boost its energy and carbon service capabilities for broadening its business prospects.

In terms of energy innovation, Towngas Smart Energy established Towngas Energy Academy this year to attract and lead scientific research in partnership with other scientific institutions to jointly transform breakthroughs in scientific research into viable commercial projects. In this regard, Towngas Smart Energy also cooperated with Tsinghua University earlier to set up a joint research centre for virtual power plant technologies in zero-carbon smart industrial parks, seeking to overcome technological bottlenecks as well as to drive the development and technological progress of energy Internet and new power systems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

As early as 2019, the Group began to disclose relevant information with reference to the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”). A comprehensive assessment was conducted in 2020 to analyse the transition risks and opportunities of the Group’s energy-related businesses in Hong Kong and the Chinese mainland under different climate scenarios. In 2021, the Group further assessed the physical risks from climate change and conducted a scenario analysis to understand the resilience of the Group’s key facilities in Hong Kong and the Chinese mainland against the severity and nature of physical risks that change over time.

The Group became a signatory of the Methane Guiding Principles (MGP) and a TCFD supporter in 2022, with a commitment to strengthen disclosure and efforts to reduce the impacts of climate change and methane emissions in the natural gas value chain. At the same time, the Group has been ranked by various international ESG ratings and achieved good results, enabling investors and other stakeholders to have a more comprehensive understanding of the Company’s performance in sustainable development. The Group also received the “Excellence in Practice Award 2021-2022” from an international association - The Association for Talent Development, in recognition of the Company’s efforts in cultivating an innovation and value creation culture.

The Group is committed to becoming carbon neutral by 2050 through energy transition and innovation. This year, the Group was granted the Commitment to Net-Zero Certificate by the Hong Kong Quality Assurance Agency (HKQAA) and the ISO 14064-1:2018 certification for corporation’s quantification and reporting of greenhouse gas (GHG) emissions by the British Standards Institution (BSI).

As a socially responsible company, the Group has made every effort to respond to the fifth wave of the COVID-19 epidemic in Hong Kong and launched a series of measures within a short period of time, including a three-month “Credit Period Extension Scheme for the Catering Industry”, in an effort to relieve the urgent needs of catering operators. Concurrently, the Company also redeployed its manpower and assembled a team of 200 to construct a 1.5-kilometre new gas pipeline in only four days to provide a stable and safe gas supply to around 10,000 quarantined persons and 4,000 persons working at the Lok Ma Chau Loop makeshift hospital. In addition, the Company has partnered with the Hong Kong Housing Society and the Christian Family Service Centre to send soup packs and supermarket cash coupons to over 10,000 grassroots families so as to provide timely support for subdivided flat residents, elderly singletons and doubletons.

Looking ahead, the Group will continue to improve its ESG performance in accordance with the established ESG approach, increase board diversity and implement executive compensation incentives schemes, and move forward in sustainable development.

FINANCING PROGRAMMES

In order to tap funding in a timely and flexible manner, the Group established a medium term note programme in 2009 under HKCG (Finance) Limited, a wholly-owned subsidiary of the Group. Medium term notes totalling HK\$1,517 million, with a tenor of 3 to 10 years, have been issued so far in 2022. In line with the Group's long-term business investments, as at 30th June 2022, the total nominal amount of medium term notes issued has reached HK\$19.9 billion with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 2.8 per cent per annum and an average tenor of 15 years. The Group updated the programme during 2021 and increased the maximum issue size from US\$3 billion to US\$5 billion, introducing more flexibility for future financing.

The Group's another listed company, Towngas Smart Energy, established a new medium term note programme through a subsidiary with a maximum issue size of US\$2 billion in 2021. A sustainability-linked bond of US\$200 million with a tenor of 5 years and a coupon rate at 4.0 per cent per annum have been issued so far in 2022, being the first energy company issuing sustainability-linked bond in Hong Kong. As at 30th June 2022, the total nominal amount of medium term notes issued has reached RMB2 billion with tenors ranging from 3 to 5 years, mainly at fixed interest rates with an average of 3.8 per cent per annum and an average tenor of 4 years. This medium term note programme helps Towngas Smart Energy to expand its sources of funding and strengthen its financial position.

Furthermore, the Group also made use of perpetual securities for long-term funding. As at 30th June 2022, the Group had Perpetual Subordinated Capital Securities (the "Perpetual Securities") of US\$300 million, issued in February 2019, with a coupon rate at 4.75 per cent per annum. The Perpetual Securities are redeemable at the option of the Group in February 2024 or thereafter every six months on the coupon payment date.

EMPLOYEES AND PRODUCTIVITY

As at 30th June 2022, the number of employees engaged in the town gas business in Hong Kong was 2,076 (30th June 2021: 2,104), the number of customers was 1,974,974, and each employee served the equivalent of 951 customers, an increase of 2.5 per cent compared to the same period last year. Inclusive of employees engaged in businesses such as telecommunications, liquefied petroleum gas vehicular refilling stations and engineering contractual works, the total number of the Group's employees engaged in businesses in Hong Kong was 2,379 as at the end of June 2022 compared to 2,451 as at the end of June 2021. Related manpower costs amounted to HK\$615 million for the first half of 2022, an increase of HK\$7 million compared to the same period last year. The Group will continue to offer employees rewarding careers based on their capabilities and performance and arrange a variety of training programmes in order to constantly enhance the quality of its customer services.

Exclusive of businesses in Hong Kong, the total number of the Group's employees on the Chinese mainland and other places outside Hong Kong was approximately 53,690 as at the end of June 2022, an increase of approximately 2,110 compared to the same period last year.

DIVIDEND

The Directors have declared an interim dividend of HK12 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 6th September 2022. The Register of Members will be closed from Monday, 5th September 2022 to Tuesday, 6th September 2022, during which period no share transfers will be effected. Dividend warrants will be posted to shareholders on Thursday, 15th September 2022.

BUSINESS OUTLOOK FOR 2022

The first TERA-Award smart energy innovation competition jointly launched by the Group and State Power Investment Corporation Limited has been successfully held, and 208 projects from 23 countries and regions have been received. The research results are mostly in the fields of hydrogen energy, new energy batteries, and energy internet projects, which fully reflect the innovation trend of zero-carbon technology. The Group will continue to hold the second competition to seek innovative technologies, products and solutions in the field of smart energy to help the country achieve the “dual carbon” goals.

The Company predicts steady growth in its number of gas customers in Hong Kong during 2022. The Company’s increase in the standard gas tariff with effect from 1st August 2022 will bring an annual revenue of HK\$300 million, helping to offset some of its own rising operating costs. The Group will continue to broaden sources of revenue, cut expenditure and costs appropriately, optimise workflow, and endeavour to promote smart innovation to enhance customer services and operational efficiency. These initiatives collectively serve to maintain the stable development of its gas business in Hong Kong. In the long term, the Group’s gas business in Hong Kong will benefit from an increase in land and housing supply over the next few years. When the economy returns to normal after the epidemic, the energy demand of the commercial and industrial sectors will have good growth. The Group is also studying the extraction of hydrogen from the town gas pipeline for supply to hydrogen refilling stations for franchised buses, in order to solve the safety problem of hydrogen transportation, aiming at promoting the application of environmentally-friendly energy in Hong Kong and expanding into new business realms.

In respect of the mainland businesses, although the epidemic on the Chinese mainland was brought under control in June this year, the Group’s utility business development was still under pressure as the mainland’s economic growth slowed down in the first half of this year. The situation is expected to be more optimistic in the second half of the year. With the Group’s endeavour to diversify gas sources in the past few years, gas sources have been gradually increased and more choices are available for the Group. Coupled with its gas storage facility in underground salt caverns in Jintan District, Changzhou, Jiangsu province, the Group is able to effectively reduce overall cost of gas sources.

The Group’s business in Hong Kong has been very stable for many years. After over 20 years of development of the city-gas business on the Chinese mainland, the Group has also established a solid foundation for this business, upholding a leading position in the industry across various aspects encompassing operational management, territory coverage, technical experience, human resources, corporate brand names and sales channels, and are recognised by the government and different sectors of the society. Under the national “dual carbon” goals and guidance of green and low-carbon transformation, the Group will promote the collaborative development of its city-gas and renewable energy businesses, actively seek environmental protection projects and invest in innovative technology and product development. The Group’s businesses are foreseen to continue to develop steadily.

Lee Ka-kit
Chairman

Lee Ka-shing
Chairman

Hong Kong, 19th August 2022

FINANCIAL INFORMATION

Highlights of the Group's interim financial statements for the first six months ended 30th June 2022 are shown below. The unaudited interim financial statements have been reviewed by the Company's Board Audit and Risk Committee and external auditor, PricewaterhouseCoopers.

CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30TH JUNE

	Note	2022 HK\$M	2021 HK\$M
Revenue	3	29,721.0	24,727.6
Total operating expenses	4	(25,214.6)	(19,943.0)
		<u>4,506.4</u>	<u>4,784.6</u>
Other gains, net	5	620.0	125.9
Interest expense		(802.5)	(641.3)
Share of results of associates		736.2	1,080.3
Share of results of joint ventures		69.8	691.0
		<u>5,129.9</u>	<u>6,040.5</u>
Profit before taxation			
Taxation	6	(1,073.4)	(1,172.0)
		<u>4,056.5</u>	<u>4,868.5</u>
Profit for the period			
Attributable to:			
Shareholders of the Company		3,314.7	4,200.0
Holders of perpetual capital securities		55.8	55.3
Non-controlling interests		686.0	613.2
		<u>4,056.5</u>	<u>4,868.5</u>
Dividends	7	2,239.2	2,239.2
Earnings per share – basic, HK cents	8	17.8	22.5
Earnings per share – diluted, HK cents	8	15.9	22.5

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30TH JUNE**

	2022	2021
	HK\$M	HK\$M
Profit for the period	4,056.5	4,868.5
Other comprehensive income:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Movement in reserve of equity investments at fair value through other comprehensive income	(134.6)	(243.1)
Exchange differences	(515.0)	87.4
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Movement in reserve of debt investments at fair value through other comprehensive income	(15.6)	(0.7)
Change in fair value of cash flow hedges	27.0	8.9
Share of other comprehensive income of associates	10.0	5.1
Exchange differences	(2,650.3)	473.6
Other comprehensive (loss)/income for the period, net of tax	(3,278.5)	331.2
Total comprehensive income for the period	778.0	5,199.7
Total comprehensive income attributable to:		
Shareholders of the Company	601.2	4,508.5
Holders of perpetual capital securities	55.8	55.3
Non-controlling interests	121.0	635.9
	778.0	5,199.7

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30TH JUNE 2022**

	Note	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
Assets			
Non-current assets			
Property, plant and equipment		71,100.5	72,221.5
Investment property		849.0	849.0
Right-of-use assets		2,784.9	2,938.7
Intangible assets		5,466.3	5,607.2
Associates		35,227.7	36,149.9
Joint ventures		11,998.6	12,575.2
Financial assets at fair value through other comprehensive income		1,827.4	2,170.5
Financial assets at fair value through profit or loss		5,087.5	5,047.6
Derivative financial instruments		326.7	331.8
Retirement benefit assets		184.0	184.0
Other non-current assets		5,959.0	5,804.1
		<u>140,811.6</u>	<u>143,879.5</u>
Current assets			
Inventories		3,311.7	3,140.7
Trade and other receivables	9	9,097.4	9,148.9
Loan and other receivables from associates		517.5	418.8
Loan and other receivables from joint ventures		720.1	535.9
Loan and other receivables from non-controlling shareholders		266.6	306.6
Derivative financial instruments		4.4	2.1
Time deposits over three months		72.7	77.9
Time deposits up to three months, cash and bank balances		10,166.1	10,557.0
		<u>24,156.5</u>	<u>24,187.9</u>
Current liabilities			
Trade payables and other liabilities	10	(17,043.0)	(18,487.6)
Amounts due to joint ventures		(278.3)	(189.5)
Loan and other payables due to non-controlling shareholders		(136.2)	(159.4)
Provision for taxation		(1,237.9)	(931.0)
Borrowings		(16,279.4)	(18,255.2)
Derivative financial instruments		(160.0)	(511.0)
		<u>(35,134.8)</u>	<u>(38,533.7)</u>
Total assets less current liabilities		<u>129,833.3</u>	<u>129,533.7</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (Continued)
AS AT 30TH JUNE 2022

	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
Non-current liabilities		
Deferred taxation	(7,102.6)	(7,225.4)
Borrowings	(41,478.0)	(36,855.9)
Derivative financial instruments	(281.9)	(856.9)
Other non-current liabilities	(2,840.9)	(2,756.7)
	<u>(51,703.4)</u>	<u>(47,694.9)</u>
	<u>-----</u>	<u>-----</u>
Net assets	<u>78,129.9</u>	<u>81,838.8</u>
Capital and reserves		
Share capital	5,474.7	5,474.7
Reserves	58,313.9	61,951.7
	<u>63,788.6</u>	<u>67,426.4</u>
Shareholders' funds	63,788.6	67,426.4
Perpetual capital securities	2,384.5	2,384.2
Non-controlling interests	<u>11,956.8</u>	<u>12,028.2</u>
Total equity	<u>78,129.9</u>	<u>81,838.8</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements, which do not constitute the Group's statutory consolidated financial statements, have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

As at 30th June 2022, the Group was in a net current liabilities position of approximately HK\$11 billion. This is mainly because of management utilisation of the relatively favourable short term borrowings under the low interest rate environment in recent years. Taking into consideration the Group's available facilities, history of obtaining external financing and the Group's expected cash flows from operations, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis.

The financial information relating to the year ended 31st December 2021 that is included in the condensed consolidated interim financial information for the six months ended 30th June 2022 as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those set out in the annual report for the year ended 31st December 2021.

The Group has adopted the following amendments to standards which are effective for the Group's financial year beginning 1st January 2022 and relevant to the Group.

Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020
AG5 (revised)	Merger Accounting for Common Control Combinations

The adoption of the amendments to standards has no significant impact on the Group's results and financial position or any substantial changes in Group's accounting policies.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31st December 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2. Financial risk management and fair value estimation of financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31st December 2021. There have been no changes in the risk management policies since year end.

The Group's financial instruments are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 30th June 2022 and 31st December 2021.

HK\$M	Level 1		Level 2		Level 3		Total	
	At 30th June 2022	At 31st December 2021						
Financial assets								
Financial assets at fair value through profit or loss								
- Debt securities	256.5	284.2	-	-	-	-	256.5	284.2
- Equity investments	1,417.5	1,498.0	-	-	3,413.5	3,265.4	4,831.0	4,763.4
Derivative financial instruments	-	-	80.5	71.1	250.6	262.8	331.1	333.9
Financial assets at fair value through other comprehensive income								
- Debt securities	89.4	139.2	-	-	-	-	89.4	139.2
- Equity investments	1,344.8	1,599.0	-	-	393.2	432.3	1,738.0	2,031.3
Total financial assets	<u>3,108.2</u>	<u>3,520.4</u>	<u>80.5</u>	<u>71.1</u>	<u>4,057.3</u>	<u>3,960.5</u>	<u>7,246.0</u>	<u>7,552.0</u>
Financial liabilities								
Other payables	-	-	-	-	154.0	154.0	154.0	154.0
Derivative financial instruments	-	-	206.4	591.3	235.5	776.6	441.9	1,367.9
Total financial liabilities	<u>-</u>	<u>-</u>	<u>206.4</u>	<u>591.3</u>	<u>389.5</u>	<u>930.6</u>	<u>595.9</u>	<u>1,521.9</u>

There are no changes in valuation techniques during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2. Financial risk management and fair value estimation of financial instruments (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swaps is calculated as the present value of the estimated future cash flows based on observable foreign exchange rates and yield curves.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is calculated as the present value of future cash flows based on the forward exchange rates at the end of the reporting period.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

- Financial assets include a total of approximately HK\$3.1 billion (2021: approximately HK\$3.2 billion) of an unlisted equity investment and its related derivative, which are considered entirely as financial assets at fair value through profit or loss. In respect of the unlisted equity investment, the fair value is determined based on the discounted cash flow model. The significant unobservable inputs include discount rate of 13.0 per cent (2021: 12.0 percent), sales price, sales volume and expected free cash flows of the investee. The fair value decreases with the increase in the discount rate, and increases with the increase in the sales price, sales volume or expected free cash flows of the investee. In respect of the related derivative, the fair value is determined based on the binomial and black scholes models. The significant unobservable inputs, except for those included in the fair value of the unlisted equity investment, mainly include 54.8 per cent (2021: 47.9 per cent) expected volatility of the fair value of the unlisted equity investment. The fair value increases with the increase in the expected volatility.
- Financial assets also include derivative financial instrument of approximately HK\$0.3 billion (2021: approximately HK\$0.3 billion), the fair value is determined based on the binomial model. The significant unobservable inputs include discount rate of 14.0 per cent (2021: 10.2 per cent) and share price expected volatility of the fair value of the underlying equity instrument of 41.7 per cent (2021: 36.2 per cent). The fair value movement was caused by the change in discount rate and share price expected volatility.
- Financial assets also include unlisted equity investments of approximately HK\$0.7 billion (2021: approximately HK\$0.5 billion), the fair values of which are determined with reference to their attributable net assets values and recent comparable transaction price, where available, being significant unobservable inputs. The fair value increases with the increase in the attributable net assets value and recent comparable transaction price, where available.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

2. Financial risk management and fair value estimation of financial instruments (Continued)

- Financial liabilities include contingent consideration of approximately HK\$0.2 billion (2021: approximately HK\$0.2 billion), which is resulted by the further acquisition of a subsidiary in 2015 under other payables in level 3. The fair value is determined based on discounted cash flow model. The fair value is determined based on discounted cash flow model. The significant unobservable inputs include discount rate of 3.1 per cent (2021: 3.1 per cent) and the rate of probability on the outflow of resources will be required to settle the obligation. The fair value movement, if any, was caused by the change in the discount rate and the changes in the rate of probability.
- Financial liabilities also include embedded derivative component of convertible bonds of approximately HK\$0.2 billion (2021: approximately HK\$0.8 billion), the fair value of which is determined based on binomial option pricing model. The significant unobservable inputs include share price expected volatility of 37.6 per cent (2021: 34.1 per cent). The fair value of convertible bonds increases with the increase in the share price expected volatility.

The following table presents the changes in level 3 instruments of the Group for the period ended 30th June 2022 and year ended 31st December 2021:

HK\$M	Financial assets		Financial liabilities	
	At 30th June 2022	At 31st December 2021	At 30th June 2022	At 31st December 2021
At beginning of period/year	3,960.5	3,752.2	930.6	154.0
Additions	292.9	164.8	-	409.4
Change in fair value	(14.3)	(47.7)	(522.0)	358.6
Exchange differences	(181.8)	91.2	(19.1)	8.6
At end of period/year	<u>4,057.3</u>	<u>3,960.5</u>	<u>389.5</u>	<u>930.6</u>

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial statements approximate their fair values.

3. Segment information

The Group's principal activities are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses ("New Energy") in Hong Kong and the Chinese mainland. The revenue comprises the following:

	Six months ended 30th June	
	2022 HK\$M	2021 HK\$M
Gas sales before fuel cost adjustment	21,535.9	17,819.9
Fuel cost adjustment	688.9	323.1
Gas sales after fuel cost adjustment	<u>22,224.8</u>	<u>18,143.0</u>
Gas connection income	1,780.9	1,412.6
Equipment sales and maintenance services	1,619.2	1,624.1
Water and related sales	880.7	738.5
Oil and coal related sales	734.1	593.9
Biomass utilisation businesses (previously known as "Hydro-treated vegetable oil related sales")	1,289.2	1,222.2
Other sales	1,192.1	993.3
	<u>29,721.0</u>	<u>24,727.6</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3. Segment information (Continued)

The chief operating decision-maker has been identified as the executive committee members (the “ECM”) of the Company. The ECM reviews the Group’s internal reporting in order to assess performance and allocate resources. The ECM considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance of (a) gas, water and related businesses; (b) New Energy; and (c) property business. Gas, water and related businesses are further evaluated on a geographic basis (Hong Kong and the Chinese mainland).

The ECM assesses the performance of the operating segments based on a measure of adjusted profit before interest, tax, depreciation and amortisation (the “adjusted EBITDA”). Other information provided, except as noted below, to the ECM is measured in a manner consistent with that in the condensed consolidated interim financial statements.

The segment information for the six months ended 30th June 2022 and 2021 provided to the ECM for the reportable segments is as follows:

2022 HK\$M	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Chinese mainland</u>				
Revenue recognised at a point in time	5,454.3	19,837.1	3,068.4	-	74.1	28,433.9
Revenue recognised over time	-	535.7	-	-	469.2	1,004.9
Finance and rental income	-	-	251.3	30.9	-	282.2
	<u>5,454.3</u>	<u>20,372.8</u>	<u>3,319.7</u>	<u>30.9</u>	<u>543.3</u>	<u>29,721.0</u>
Adjusted EBITDA	2,544.0	3,274.4	605.1	18.4	80.8	6,522.7
Depreciation and amortisation	(434.2)	(972.0)	(232.3)	-	(96.3)	(1,734.8)
Unallocated expenses						(281.5)
						4,506.4
Other gains, net						620.0
Interest expense						(802.5)
Share of results of associates (note)	-	654.9	(50.8)	131.6	0.5	736.2
Share of results of joint ventures	-	64.9	0.1	5.1	(0.3)	69.8
Profit before taxation						5,129.9
Taxation						(1,073.4)
Profit for the period						<u>4,056.5</u>

Note

Share of results of associates includes share of fair value loss of HK\$62.0 million (2021: nil) related to the Group’s investment in the International Finance Centre complex held via an associate for the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3. Segment information (Continued)

2021 HK\$M	<u>Hong Kong</u>	<u>Gas, water and related businesses Chinese mainland</u>	<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
Revenue recognised at a point in time	5,080.9	15,970.6	2,532.3	-	88.7	23,672.5
Revenue recognised over time	-	402.4	-	-	393.5	795.9
Finance and rental income	-	-	231.4	27.8	-	259.2
	<u>5,080.9</u>	<u>16,373.0</u>	<u>2,763.7</u>	<u>27.8</u>	<u>482.2</u>	<u>24,727.6</u>
Adjusted EBITDA	2,569.7	3,594.3	444.5	15.5	89.5	6,713.5
Depreciation and amortisation	(436.2)	(866.4)	(199.0)	-	(87.7)	(1,589.3)
Unallocated expenses						(339.6)
						<u>4,784.6</u>
Other gains, net						125.9
Interest expense						(641.3)
Share of results of associates	-	773.3	90.5	216.8	(0.3)	1,080.3
Share of results of joint ventures	-	687.2	0.7	5.1	(2.0)	691.0
Profit before taxation						<u>6,040.5</u>
Taxation						(1,172.0)
Profit for the period						<u><u>4,868.5</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3. Segment information (Continued)

The segment assets at 30th June 2022 and 31st December 2021 are as follows:

30th June 2022 HK\$M	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Chinese mainland</u>				
Segment assets	18,544.3	97,707.2	18,938.0	15,720.1	4,313.6	155,223.2
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,827.4
Financial assets at fair value through profit or loss						5,087.5
Time deposits, cash and bank balances excluded from segment assets						1,390.4
Others (note)						1,439.6
Total assets						<u>164,968.1</u>
31st December 2021 HK\$M	<u>Gas, water and related businesses</u>		<u>New Energy</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Chinese mainland</u>				
Segment assets	18,952.2	100,401.4	18,398.3	15,752.3	4,591.5	158,095.7
Unallocated assets:						
Financial assets at fair value through other comprehensive income						2,170.5
Financial assets at fair value through profit or loss						5,047.6
Time deposits, cash and bank balances excluded from segment assets						1,314.0
Others (note)						1,439.6
Total assets						<u>168,067.4</u>

Note

Other unallocated assets mainly include other receivables other than those included under segment assets, retirement benefit assets, derivative financial instruments and loan and other receivables from non-controlling shareholders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

3. Segment information (Continued)

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the six months ended 30th June 2022 is HK\$6,354.3 million (2021: HK\$5,875.5 million), and the revenue from external customers in the Chinese mainland and other geographical locations is HK\$23,366.7 million (2021: HK\$18,852.1 million).

At 30th June 2022, the total of non-current assets other than financial instruments located in Hong Kong is HK\$35,251.0 million (31st December 2021: HK\$35,093.8 million), and the total of non-current assets other than financial instruments located in the Chinese mainland and other geographical locations is HK\$98,319.0 million (31st December 2021: HK\$101,235.8 million).

4. Total operating expenses

	Six months ended 30th June	
	2022	2021
	HK\$M	HK\$M
Stores and materials used	19,377.6	14,502.5
Manpower costs	1,856.1	1,728.9
Depreciation and amortisation	1,755.9	1,605.7
Other operating items	2,225.0	2,105.9
	<u>25,214.6</u>	<u>19,943.0</u>

5. Other gains, net

	Six months ended 30th June	
	2022	2021
	HK\$M	HK\$M
Net investment gains	99.5	263.7
Provision for assets	-	(116.3)
Change in fair value of embedded derivative component of convertible bonds	522.0	-
Others	(1.5)	(21.5)
	<u>620.0</u>	<u>125.9</u>

6. Taxation

	Six months ended 30th June	
	2022	2021
	HK\$M	HK\$M
Current taxation	886.1	985.6
Deferred taxation relating to the origination and reversal of temporary differences and withholding tax	187.3	186.4
	<u>1,073.4</u>	<u>1,172.0</u>

The prevailing income tax rates of Hong Kong, the Chinese mainland and Thailand are 16.5 per cent (2021: 16.5 per cent), 15 per cent to 25 per cent (2021: 15 per cent to 25 per cent) and 50 per cent (2021: 50 per cent) respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

7. Dividends

	Six months ended 30th June	
	2022	2021
	HK\$M	HK\$M
2021 Final, paid, of HK23 cents per ordinary share (2020 Final: HK23 cents per ordinary share)	4,291.8	4,087.4
2022 Interim, proposed, of HK12 cents per ordinary share (2021 Interim: HK12 cents per ordinary share)	2,239.2	2,239.2
	<u>6,531.0</u>	<u>6,326.6</u>

8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$3,314.7 million (2021: HK\$4,200.0 million) and the weighted average of 18,659,870,098 shares (2021: 18,659,870,098 shares) in issue during the period. As there were no dilutive potential ordinary shares of the Company outstanding during the period, the weighted average number of shares used in calculating diluted earnings per share is the same as calculating basic earnings per share.

	Six months ended 30th June	
	2022	2021
	HK\$M	HK\$M
Earnings		
Profit attributable to shareholders for the purpose of basic earnings per share	3,314.7	4,200.0
Effect of dilutive potential ordinary shares		
Interests on convertible bonds, attributable to shareholders	25.4	-
Change in fair value of embedded derivative component of convertible bonds, attributable to shareholders	(343.9)	-
Reduction in share of Towngas Smart Energy Company Limited's profits	(35.5)	-
Profit attributable to shareholders for the purpose of diluted earnings per share	<u>2,960.7</u>	<u>4,200.0</u>

9. Trade and other receivables

	At 30th June	At 31st December
	2022	2021
	HK\$M	HK\$M
Trade receivables (note)	3,810.5	4,211.8
Payments in advance	1,815.9	1,783.4
Other receivables	3,471.0	3,153.7
	<u>9,097.4</u>	<u>9,148.9</u>

Note

The Group has established credit policies for different types of customers. The credit periods offered for trade receivables, which are subject to periodic review by management, range from 30 to 60 days except for gas receivables of the Company which are due by 8 working days after billing date. The aging analysis of the trade receivables, net of impairment provision, is as follows:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

9. Trade and other receivables (Continued)

	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
0 - 30 days	3,294.3	3,726.0
31 - 60 days	144.0	101.5
61 - 90 days	101.5	101.2
Over 90 days	270.7	283.1
	<u>3,810.5</u>	<u>4,211.8</u>

10. Trade payables and other liabilities

	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
Trade payables (note a)	3,557.0	4,120.9
Other payables and accruals (note b)	4,723.4	5,368.9
Contract liabilities (note c)	8,646.4	8,894.8
Lease liabilities (notes d and e)	116.2	103.0
	<u>17,043.0</u>	<u>18,487.6</u>

Notes

- (a) The aging analysis of the trade payables is as follows:

	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
0 - 30 days	1,130.2	1,790.5
31 - 60 days	424.6	583.2
61 - 90 days	511.3	617.6
Over 90 days	1,490.9	1,129.6
	<u>3,557.0</u>	<u>4,120.9</u>

- (b) The balances mainly represent accrual for services or goods received from suppliers.
- (c) The balances mainly represent non-refundable advance received from customers for utility connection services, provision of gas and provision of maintenance services.
- (d) The contractual maturities of the Group's lease liabilities were as follows:

	At 30th June 2022 HK\$M	At 31st December 2021 HK\$M
Within 1 year	116.2	103.0
Over 1 year #	244.4	223.3
	<u>360.6</u>	<u>326.3</u>

Non-current lease liabilities are included in other non-current liabilities.

- (e) The interest expense on lease liabilities for the period amounting to HK\$9.4 million (2021: HK\$7.0 million) is included in the profit or loss.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 5th September 2022 to Tuesday, 6th September 2022, both days inclusive, during which period no transfer of shares will be registered. **In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 2nd September 2022.**

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 30th June 2022, the Group had a net current borrowings position of HK\$6,041 million (31st December 2021: HK\$7,620 million) and long-term borrowings of HK\$41,478 million (31st December 2021: HK\$36,856 million). In addition, banking facilities available for use amounted to HK\$18,000 million (31st December 2021: HK\$21,200 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, debt and equity financing. The Group has adequate and stable sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Financing structure

In May 2009, the Group established a US\$1 billion Medium Term Note Programme (the "Programme") which gives the Group the flexibility to issue notes at favourable terms and timing. In June 2021, the Programme was updated with the size increased to US\$5 billion. In addition, our major listed subsidiary company Towngas Smart Energy Company Limited ("Towngas Smart Energy") also established its Medium Term Note Programme of US\$2 billion in June 2021, which will add flexibility and capacity to its financing in future. In April 2022, Towngas Smart Energy issued its first 5-year Sustainability-Linked Bond (the "SLB") and raised a total of US\$200 million. As at 30th June 2022, the Group issued notes in the total nominal amount of HK\$22,349 million (31st December 2021: HK\$21,876 million) with maturity terms ranging from 3 to 40 years in Renminbi, Australian dollar, Japanese yen, United States dollar and Hong Kong dollar under the Programme (the "MTNs"). The carrying value of the issued MTNs as at 30th June 2022 was HK\$22,005 million (31st December 2021: HK\$21,299 million).

As at 30th June 2022, the Group's borrowings amounted to HK\$57,757 million (31st December 2021: HK\$55,111 million). Convertible bonds ("CB") of nominal amount at RMB1,836 million were issued by Towngas Smart Energy to a strategic investor in November 2021 and the carrying value of the debt component of the issued CB as at 30th June 2022 was HK\$1,895 million (31st December 2021: HK\$1,957 million). While the vast majority of the notes and CB mentioned above together with the bank and other loans of HK\$9,574 million (31st December 2021: HK\$9,522 million) had fixed interest rate and were unsecured, the remaining bank and other loans were unsecured and had a floating interest rate, of which HK\$12,293 million (31st December 2021: HK\$10,221 million) were long-term bank loans and HK\$11,990 million (31st December 2021: HK\$12,112 million) had maturities within one year on revolving credit or term loan facilities. As at 30th June 2022, the maturity profile of the Group's borrowings was 28 per cent within 1 year, 17 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 19 per cent over 5 years (31st December 2021: 33 per cent within 1 year, 13 per cent within 1 to 2 years, 33 per cent within 2 to 5 years and 21 per cent over 5 years).

The RMB, AUD and JPY notes issued and the USD SLB issued by Towngas Smart Energy are hedged to Hong Kong dollar or Renminbi respectively by currency swaps. Except for some borrowings of certain subsidiaries are arranged in or hedged to their functional currency in Renminbi, the Group's borrowings are primarily denominated in Hong Kong dollar and local currency of subsidiaries in the Chinese mainland. The Group therefore has no significant exposure to foreign exchange risk.

In February 2019, the Group re-issued Perpetual Subordinated Guaranteed Capital Securities (the "Perpetual Capital Securities") of US\$300 million and the proceeds were mainly used to refinance the 2014 first-issued perpetual capital securities redeemed in January 2019. The Perpetual Capital Securities are at a distribution rate of 4.75 per cent per annum for the first five years and thereafter at fixed distribution rate. With no fixed maturity and the distribution payment can be deferred at the discretion of the Group, and the Perpetual Capital Securities are redeemable at the Group's option on or after 12th February 2024, they are accounted for as equity in the financial statements. The Perpetual Capital Securities are guaranteed by the Company. The issuance helps strengthen the Group's financial position, improve its financing maturity profile and diversify its funding sources.

The gearing ratio [net borrowings / (total equity + net borrowings)] for the Group as at 30th June 2022 remained healthy at 38 per cent (31st December 2021: 35 per cent).

Guarantee

As at 30th June 2022 and 31st December 2021, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any associates, joint ventures or third parties.

Currency profile

The Group's operations and activities are predominantly based in Hong Kong and the Chinese mainland. As such, its cash, cash equivalents or borrowings are mainly denominated in Hong Kong dollar, Renminbi or United States dollar, whereas borrowings for the Group's subsidiaries, associates and joint ventures in the Chinese mainland are predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's financial investments in securities

Under the guidance of the Group's Treasury Committee, financial investments have been made in equity and debt securities. As at 30th June 2022, the relevant investments in securities amounted to HK\$249 million (31st December 2021: HK\$360 million). The performance of the Group's financial investments in securities was satisfactory.

OTHER INFORMATION

Corporate governance

During the six months ended 30th June 2022, the Company complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Model code for dealing in securities by Directors

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Model Code”). Following specific enquiries by the Company, all Directors confirmed that they had fully complied with the required standard set out in the Model Code throughout the six months ended 30th June 2022.

Purchase, sale or redemption of listed securities

During the six months ended 30th June 2022, the trustee of the share award scheme adopted by Towngas Smart Energy (a listed subsidiary of the Company) on 17th August 2021 (the “TSEL Share Award Scheme”), pursuant to the terms of the rules and trust deed of the TSEL Share Award Scheme, purchased on The Stock Exchange of Hong Kong Limited a total of 6,965,000 shares of Towngas Smart Energy at a total consideration of HK\$29,897,000.

Saved as mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June 2022.

By Order of the Board
John Ho Hon-ming
*Executive Director, Chief Financial Officer and
Company Secretary*

Hong Kong, 19th August 2022

As at the date of this announcement, the Board of the Company comprises:

Non-executive Directors: Dr. Lee Ka-kit (Chairman), Dr. Lee Ka-shing (Chairman),
Dr. Colin Lam Ko-yin and Mr. Andrew Fung Hau-chung

Independent Non-executive Directors: Dr. the Hon. Sir David Li Kwok-po, Prof. Poon
Chung-kwong and Dr. the Hon. Moses Cheng Mo-chi

Executive Directors: Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming

