

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

2023 ANNUAL RESULTS ANNOUNCEMENT

OVERVIEW OF BUSINESS OPERATIONS

- In 2023, the Group's overall business performed well with steady progress, consolidating the development of the gas business while expanding the renewable energy business through an asset-light strategy. The Group also ventured into new energy sectors, such as hydrogen energy and green methanol.
- The Hong Kong gas business maintained stability with a rise of 24,574 in the number of customers. However, due to above-average temperatures in 2023 and the impact of residents leaving the city for consumption, the total volume of gas sales was 27,125 million MJ (equivalent to approximately 800 million cubic metres of natural gas), a slight drop of 1 per cent compared to the previous year.
- The mainland businesses exceeded expectations, securing a total of 774 projects across 29 provincial regions, representing an increase of 150 projects compared to the previous year. Notably, the total volume of gas sales increased by 8 per cent compared to the previous year, while the number of city-gas customers recorded a growth of 7.8 per cent. The renewable energy business continued to expand, with cumulative contracted photovoltaic capacity 2.96 GW and grid-connected photovoltaic installation capacity 1.8 GW.
- Profit after taxation attributable to shareholders of the Group for the year amounted to HK\$6,070 million, an increase of HK\$822 million, up by 16 per cent, compared to 2022. Basic earnings per share for the year amounted to HK32.5 cents. Core profit before non-operating gains and losses increased by 11 per cent to HK\$5,894 million. After excluding the Group's share of a revaluation surplus from an investment property, International Finance Centre, the profit after taxation of the Group for the year amounted to HK\$5,570 million, an increase of HK\$260 million, up by 5 per cent, compared to 2022.
- A final dividend of HK23 cents per share is proposed. The total dividend payout for the whole year shall be maintained at HK35 cents per share.

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 31st December	
	2023	2022
Revenue, HK million dollars	56,971	60,953
Core profit, HK million dollars	5,894	5,325
Non-operating gains and losses, net, HK million dollars	176	(77)
Profit attributable to shareholders, HK million dollars	6,070	5,248
Basic earnings per share, HK cents	32.5	28.1
Town Gas Sold in Hong Kong, million MJ	27,125	27,398
Gas Sold by City-gas Business on the Chinese mainland, million cubic metres, natural gas equivalent*	34,699	32,066
Number of Customers in Hong Kong as at 31st December, thousand	2,020	1,995
Number of City-gas Customers on the Chinese mainland as at 31st December, thousand*	40,186	37,293

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

CHAIRMEN’S STATEMENT

“Leading energy innovation and sustainable development, we are fully committed to creating a green future for our planet.”

– Dr. Lee Ka-kit

“We will keep fostering social harmony and well-being, while continuing to ignite hope and radiate warmth and compassion.”

– Dr. Lee Ka-shing

Although the pandemic that lasted for three years is now over, escalation in international and regional tensions has worsened the energy crisis which disrupts the global supply chain and economy. The presence of various unclear factors has created a challenging business environment, and consumer confidence has yet to be strengthened. The Group inevitably faced various challenges over the past year. Despite this, benefiting from the country’s unswerving promotion of environmental protection and the “30-60” dual carbon goals, with increasing efforts to stabilise the economy and promote consumption, the Group’s development continued to remain stable during the year.

In the face of an uncertain economic outlook, the Group employed a strategy of stability and adaptability to enhance its business resilience. On the one hand, we strengthened the development of the gas business and exercised strict control over capital expenditures. On the other hand, we optimised our corporate structure, seizing opportunities to divest non-core businesses and pursuing the development of the renewable energy business through an asset-light strategy. These actions aimed to deleverage and provide shareholders with stable returns.

At the same time, the Group has been actively aligning with the policies of the HKSAR Government to venture into new energy businesses. During the year, a range of new projects, including hydrogen energy and green methanol, have been systematically initiated. This report will showcase our efforts and achievements over the past year, as well as the challenges we faced and the room for progress. We will uphold the core values of safety, environmental protection, creativity, and quality service, as we continue demonstrating our resilience and strength, and utilise “Smart Energy for a Brighter Future”.

THE YEAR'S RESULTS

The Group progressed steadily and seized market opportunities with high sensitivity in 2023. By improving the energy supply chain, strengthening in-depth cooperation with upstream, midstream and downstream business partners, integrating resources, reducing costs and creating value, the overall volume of gas sales grew steadily during the year. We also focused on the development of green energy by layout planning and investing in related businesses, driving the sustainable development of the Group's businesses, enhancing employee capabilities and striving for the best interests of shareholders and investors.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK\$6,070 million, an increase of HK\$822 million, up by 16 per cent, compared to 2022. Basic earnings per share for the year amounted to HK32.5 cents. After excluding the Group's share of a revaluation surplus from International Finance Centre investment property, the profit after taxation of the Group for the year amounted to HK\$5,570 million, an increase of HK\$260 million, up by 5 per cent, compared to 2022.

During the year, the Group invested approximately HK\$10.2 billion in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and the Chinese mainland.

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 13th June 2024. Including the interim dividend of HK12 cents per share paid on 8th September 2023, the total dividend payout for the whole year shall be HK35 cents per share.

TOWN GAS BUSINESS IN HONG KONG

Hong Kong's economy grew moderately during the year. The full resumption of normal travel in February 2023 drove the number of tourists visiting Hong Kong to increase, benefiting the gas market in the catering and hotel sectors, which led to an increase in Hong Kong's commercial and industrial gas sales by 9.3 per cent. However, due to the impact of climate warming, the temperatures throughout the year were higher than normal, with the average temperature from June to August 2023 hitting the highest ever. In addition, residential gas sales were affected by the increasing number of local residents travelling to the Chinese mainland for consumption and eating out. Overall, the total volume of gas sales in Hong Kong for 2023 was approximately 27,125 million MJ (equivalent to approximately 800 million cubic metres of natural gas), a slight decrease of 1 per cent compared to 2022. As at 31st December 2023, the number of customers of the Company was 2,019,656, an increase of 24,574, representing an increase of 1 per cent compared to the number at the end of 2022.

With nearly half of the town gas composition being hydrogen, we have positioned hydrogen energy as one of the highly prioritised businesses within the Group. During the year, the Group signed a Memorandum of Understanding with Bravo Transport Services Limited (the parent company of Citybus) to explore the use of hydrogen as an alternative source of fuel for public buses, marking a new chapter in the development of hydrogen energy transportation in Hong Kong. Additionally, we constructed a gas pipeline hydrogen extraction facility for a recreational venue in Sai Kung. This facility serves as a pilot project for charging electric vehicles, marking it as the first of its kind in Hong Kong to explore this innovative application of hydrogen energy, which is in line with the Government's strategy for new energy development.

BUSINESSES ON THE CHINESE MAINLAND

The growth of our utility businesses on the Chinese mainland was impeded due to continued sluggish real estate investment, coupled with a decrease in exports to Europe, the United States and other regions. However, driven by consumption, catering, and high-tech manufacturing industries, the annual GDP growth of the mainland still reached 5.2 per cent. Also, the urbanisation rate has increased to 66 per cent, which is positive for the city-gas business. Furthermore, international natural gas prices have fallen from the peak in 2023, causing the average price difference of city gas in mainland cities to rebound.

The Group's total volume of gas sales for 2023 was approximately 34,700 million cubic metres, an increase of 8 per cent compared to 2022. During the year, the Group's mainland gas customers stood at approximately 40.19 million, an increase of 7.8 per cent compared to 2022, representing a better-than-expected business progress. As at the end of 2023, inclusive of the Group's subsidiary, Towngas Smart Energy Company Limited ("Towngas Smart Energy"; stock code: 1083.HK), the Group had a total of 320 city-gas projects on the Chinese mainland, representing an increase of 5 projects compared to the previous year. During the year, the Group continued to promote the "Gas+" service to help commercial and industrial customers save energy and increase efficiency with professional integrated energy solutions.

During the year, the Group strengthened the coordination and management of its gas supply chain-related business and repurposed the underground salt caverns located in Jintan district, Changzhou, Jiangsu province into a natural gas storage facility with a total storage capacity of 400 million cubic metres. This development has enhanced the Group's ability to handle peak demand during high-demand seasons and improved the gross profit margin of its gas business. In addition, the No. 2 and No. 6 storage tanks of the second phase of the receiving terminal project at Caofeidian district, Tangshan, Hebei province, in which the Group invests, are expected to be commissioned in 2024. The Group's shale gas liquefaction project located in Weiyuan county, Neijiang, Sichuan province, has commenced commissioning and the volume of gas sales per year is approximately 200 million cubic metres.

The Group's water and environmental sanitation businesses recorded stable growth during the year, with the volume of sewage treatment increasing by 1 per cent compared to 2022. The sewage treatment project (phase one) in Wujin National High-Tech Industrial Zone, Changzhou, commenced trial operation in early November 2023, with a daily treatment capacity of 30,000 tonnes, providing industrial wastewater treatment services to industrial enterprises in the Zone. The Group also successfully won the bid for an integrated franchise project for collecting, transporting, and disposing of municipal waste in Wujin district, Changzhou. This project includes a municipal solid waste incineration plant with a designed capacity of 1,500 tonnes per day.

The Group's renewable energy business accomplished remarkable success and achieved profitability in 2023. As at the end of 2023, the Group had 354 renewable energy projects, representing an increase of 171 projects compared with the preceding year. These projects encompass photovoltaics, energy storage, charging and swapping power stations, and integrated energy services for industrial and commercial customers. During the year, 1.6 GW of distributed photovoltaic capacity was newly contracted, while 1.2 GW was added to the grid-connected capacity.

At the end of 2023, Towngas Smart Energy had 536 city-gas and renewable energy projects, representing an increase of 173 projects compared with the preceding year. In particular, the renewable energy segment continued to grow, with 44 zero-carbon smart industrial parks developed during the year. As at 31st December 2023, Towngas Smart Energy had developed 124 zero-carbon smart industrial parks, and had signed contracts in an aggregate amount of 2.96 GW photovoltaic capacity and connected 1.8 GW to the grid.

Towngas Smart Energy declared exit from its investment of 25 per cent equity interest in Shanghai Gas Co., Ltd and received its fund of RMB4,663 million on 2nd August 2023.

In 2023, Towngas Smart Energy recorded a profit attributable to its shareholders amounted to HK\$1,575 million, a substantial increase of 63.2 per cent compared to 2022. As at the end of 2023, the Group held approximately 2,255 million shares in Towngas Smart Energy, representing approximately 67.24 per cent of Towngas Smart Energy's total issued shares.

Our extended businesses achieved steady growth during the year as we provide high-quality services to 42 million household customers in Hong Kong and the Chinese mainland. The security chip "TGSE CHIP", which we jointly developed with StarFive and ChinaFive, has been successfully used in the Group's smart IoT gas meters on the Chinese mainland, with a sales volume of over 1.6 million units. Smart gas meters equipped with "TGSE CHIP" can further protect users' information security. In the future, "TGSE CHIP" can be applied to smart kitchens, smart homes and other scenarios.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The year 2023 was a year of fruitful achievements for the Group’s environmental, social, and governance (“ESG”) efforts. During the year, Towngas and Towngas Smart Energy were both ranked among the Chinese companies with the “Top 1% S&P Global ESG Score” and included in the first-ever S&P Global Sustainability Yearbook (China Edition). In addition, the Group has been consistently selected in the Hang Seng Sustainable Development Index for 13 years in a row, and our rating has been upgraded from “AA” to “AA+”. These notable accomplishments highlight our commitment to ESG issues, and our achievements have received widespread recognition and acknowledgement.

The Group is committed to achieving carbon neutrality through energy transition and innovation by 2050. Furthermore, during the year, we developed a decarbonisation strategy for our gas business in Hong Kong. This strategy includes the phased introduction and utilisation of zero-carbon fuels, such as green methanol, green hydrogen, and biomethane, to replace fossil fuels. Our target is to reduce the overall carbon intensity of gas usage by 36 per cent, reaching a level of 0.15 kg CO₂e/kWh by 2035, compared to 2019 and achieve carbon neutrality by 2050 or earlier. In addition to reducing greenhouse gas emissions generated during our operations, we also started integrating Internal Carbon Price (ICP), along with ESG Due Diligence, into our investment decision-making processes in 2023 to seize the opportunities brought by the Group’s low-carbon transition.

With regard to corporate governance, the Group elevated the ESG Committee to the Board level during the year. The committee is chaired by the Managing Director and supported by 16 working sub-committees with an aim to enhance overall ESG performance across all business operations. The variable compensations of the Managing Director and senior executives are linked to ESG material issues, including climate change. This affirmed the Group’s commitment to integrate ESG for driving performance improvement.

As Towngas transitions from a traditional utility company into an integrated clean energy supplier, we will remain fully committed in our efforts to achieve a Just Transition and a low-carbon economy in a fair and equitable manner.

BUSINESS OUTLOOK FOR 2024

The global political situation remains volatile stepping into 2024, with the added complexity of elections in some countries and regions. Despite these challenges, the Group is fortunate to operate in a stable business environment in Hong Kong, supported by our strong ties to the motherland. As a result, we expect steady growth in the number of customers in Hong Kong throughout 2024.

In the 2023 Policy Address and the Budget released in February 2024, the HKSAR Government emphasised its commitment to promoting the use of sustainable aviation fuel (“SAF”) by airlines in Hong Kong, as well as providing green methanol bunkering facilities for local and ocean-going vessels. EcoCeres, Inc., in which the Group holds shares, has already implemented its developed technology two years ago, using waste vegetable oil and animal fats to produce SAF. The company is currently in the progress to increase the production capacity. Upon the completion of a new plant in Malaysia within two years, more SAF is expected to be supplied to the airlines. Additionally, the Group’s green methanol production in the Inner Mongolia Autonomous Region is projected to reach an annual output capacity of 120,000 tonnes in coming years, catering for the needs of the shipping industry. The plant was certified under ISCC EU and ISCC PLUS schemes for the second consecutive year in July 2023. After delivering the first batch of green methanol to overseas customers in October 2023, the Group has planned to expand the production capacity in order to meet the future needs of the upcoming low-carbon marine fuel market.

With respect to mainland businesses, the country has been steadily progressing towards the “30-60” dual carbon goals. During the year, there have been policy revisions to promote the high-quality and efficient development of natural gas, which is considered the cleanest fossil fuel. Recognising the substantial growth potential of natural gas, the Group is promoting its “Gas+” business to provide energy service solutions to customers in strategic areas, leveraging technology and management to assist them in achieving energy conservation and carbon reduction. With great potential for business development in this area, it is expected that the Group’s gas sales business will experience growth in 2024.

The Group’s renewable energy project development is expected to continue to progress well in 2024. Following the expansion of the scale of wind power and photovoltaic installations, energy storage will play an increasingly important role as a balancing resource. Through cooperation with multiple parties, the Group is driving its renewable energy business by delivering safe and efficient energy storage services. This segment also serves as a significant pillar for profit growth.

Looking ahead, the application of energy will move towards a more diverse and efficient approach. In line with the principles of green development, natural gas and renewable energy, along with their integrated utilisation, are the key directions for the Group’s development. The Group is highly confident in its future business prospects, as it upholds the mission of leading energy innovation and sustainable development. With unrelenting dedication, we strive to build a green future for our planet.

Lee Ka-kit
Chairman

Lee Ka-shing
Chairman

Hong Kong, 20th March 2024

The Board of Directors has pleasure in presenting a summary of results of the Group for the year ended 31st December 2023 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December 2023

	Note	2023 HK\$ Million	2022 HK\$ Million
Revenue	4	56,971.1	60,953.4
Total operating expenses	5	(48,833.8)	(52,591.7)
		8,137.3	8,361.7
Other gains, net	6	324.9	531.0
Interest expense		(2,214.6)	(1,775.8)
Share of results of associates		2,361.1	865.2
Share of results of joint ventures		565.7	201.5
Profit before taxation		9,174.4	8,183.6
Taxation	7	(2,003.1)	(1,859.2)
Profit for the year		7,171.3	6,324.4
Attributable to:			
Shareholders of the Company		6,070.1	5,247.9
Holders of perpetual capital securities		108.4	111.5
Non-controlling interests		992.8	965.0
		7,171.3	6,324.4
Dividends	8	6,531.0	6,531.0
Earnings per share – basic, HK cents	9	32.5	28.1
Earnings per share – diluted, HK cents	9	31.6	26.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2023

	2023	2022
	HK\$	HK\$
	Million	Million
Profit for the year	7,171.3	6,324.4
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	110.0	(138.2)
Remeasurements of retirement benefit	(27.8)	(42.5)
Exchange differences	(327.8)	(913.7)
<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	5.0	(18.2)
Change in fair value of cash flow hedges	(28.0)	(14.7)
Share of other comprehensive income/(loss) of associates	3.3	(11.5)
Exchange differences	(1,424.1)	(4,757.4)
Other comprehensive loss for the year, net of tax	(1,689.4)	(5,896.2)
Total comprehensive income for the year	5,481.9	428.2
Total comprehensive income/(loss) attributable to:		
Shareholders of the Company	4,690.0	328.6
Holders of perpetual capital securities	108.4	111.5
Non-controlling interests	683.5	(11.9)
	5,481.9	428.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31st December 2023

	Note	2023 HK\$ Million	2022 HK\$ Million
Assets			
Non-current assets			
Property, plant and equipment		71,276.6	71,818.8
Investment property		1,001.1	996.5
Right-of-use assets		2,140.2	2,813.3
Intangible assets		4,463.2	5,340.2
Associates		36,064.1	34,178.1
Joint ventures		10,884.1	11,163.0
Financial assets at fair value through other comprehensive income		1,830.5	1,763.3
Financial assets at fair value through profit or loss		1,706.5	4,715.3
Derivative financial instruments		76.6	298.4
Retirement benefit assets		105.4	134.7
Other non-current assets		5,795.5	6,536.7
		<u>135,343.8</u>	<u>139,758.3</u>
		-----	-----
Current assets			
Inventories		2,567.0	3,426.3
Trade and other receivables	10	9,924.6	10,662.8
Loan and other receivables from associates		752.3	415.6
Loan and other receivables from joint ventures		510.9	612.8
Loan and other receivables from non-controlling shareholders		248.8	224.0
Financial assets at fair value through profit or loss		1,374.8	70.1
Derivative financial instruments		18.4	5.9
Time deposits over three months		66.0	52.3
Time deposits up to three months, cash and bank balances		8,972.1	13,241.2
		<u>24,434.9</u>	<u>28,711.0</u>
		-----	-----
Assets held-for-sale		<u>2,198.9</u>	-
		-----	-----

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
As at 31st December 2023

	Note	2023 HK\$ Million	2022 HK\$ Million
Current liabilities			
Trade payables and other liabilities	11	(19,926.8)	(22,004.3)
Loan and other payables to associates		(72.2)	-
Loan and other payables to joint ventures		(629.7)	(263.4)
Loan and other payables to non-controlling shareholders		(85.9)	(163.4)
Provision for taxation		(1,619.3)	(1,410.8)
Borrowings		(14,709.4)	(19,680.9)
Redeemable perpetual securities		(2,343.6)	-
Derivative financial instruments		(37.6)	-
		<u>(39,424.5)</u>	<u>(43,522.8)</u>
		<u><u>(39,424.5)</u></u>	<u><u>(43,522.8)</u></u>
Liabilities directly associated with assets held-for-sale			
		(717.2)	-
		<u>(717.2)</u>	<u>-</u>
		<u><u>(717.2)</u></u>	<u><u>-</u></u>
Total assets less current liabilities			
		121,835.9	124,946.5
		<u>121,835.9</u>	<u>124,946.5</u>
		<u><u>121,835.9</u></u>	<u><u>124,946.5</u></u>
Non-current liabilities			
Deferred taxation		(6,924.3)	(6,926.7)
Borrowings		(40,715.9)	(39,623.1)
Derivative financial instruments		(170.8)	(294.3)
Loan from a joint venture		(110.0)	(113.1)
Other non-current liabilities		(2,896.2)	(2,850.6)
		<u>(50,817.2)</u>	<u>(49,807.8)</u>
		<u><u>(50,817.2)</u></u>	<u><u>(49,807.8)</u></u>
Net assets			
		71,018.7	75,138.7
		<u>71,018.7</u>	<u>75,138.7</u>
		<u><u>71,018.7</u></u>	<u><u>75,138.7</u></u>
Capital and reserves			
Share capital		5,474.7	5,474.7
Reserves		54,378.1	55,752.8
		<u>59,852.8</u>	<u>61,227.5</u>
Shareholders' funds			
		59,852.8	61,227.5
		<u>59,852.8</u>	<u>61,227.5</u>
Perpetual capital securities			
		-	2,384.2
		<u>-</u>	<u>2,384.2</u>
		<u><u>-</u></u>	<u><u>2,384.2</u></u>
Non-controlling interests			
		11,165.9	11,527.0
		<u>11,165.9</u>	<u>11,527.0</u>
		<u><u>11,165.9</u></u>	<u><u>11,527.0</u></u>
Total equity			
		71,018.7	75,138.7
		<u>71,018.7</u>	<u>75,138.7</u>
		<u><u>71,018.7</u></u>	<u><u>75,138.7</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Hong Kong and China Gas Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) have been diversified into different fields of businesses and principally engage in the production, distribution and marketing of gas, water supply, renewable energy businesses and emerging energy businesses in Hong Kong and the mainland of the People’s Republic of China (the “PRC”). The Group is also engaged in property development and investment activities in Hong Kong.

The financial figures in respect of the announcement of the Group’s results for the year ended 31st December 2023 have been agreed by the Company’s auditor, PricewaterhouseCoopers Hong Kong (“PwC”), to the amount set out in the Group’s audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and consequently no assurance has been expressed by PwC on this announcement.

As at 31st December 2023, the Group was in a net current liabilities (including assets held-for-sale and liabilities directly associated with assets held-for-sale) position of approximately HK\$13.5 billion. This is mainly because of management’s utilisation of short term borrowings which amounted to HK\$14.7 billion as at 31st December 2023 and maturity of the US\$300 million perpetual capital securities had been reclassified to current liabilities upon serving of the redemption notice. 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 consolidated financial statements have been prepared on a going concern basis.

The financial information relating to the years ended 31st December 2023 and 2022 included in this announcement of 2023 annual results does not constitute the Group’s statutory annual consolidated financial statements for those years 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 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31st December 2023 in due course.

The Company’s auditor has reported on the consolidated financial statements of the Group for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. Changes in accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to both years presented, unless otherwise stated.

The Group has adopted the following amendments to standards which are effective for the Group’s financial year beginning 1st January 2023 and relevant to the Group.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. 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 Group's financial instruments are measured in the consolidated 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 31st December 2023 and 2022.

HK\$ Million	Level 1		Level 2		Level 3		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Financial assets								
Financial assets at fair value through profit or loss								
- Debt securities	263.1	248.4	-	-	-	-	263.1	248.4
- Equity investments	2,520.0	1,218.3	-	-	298.2	3,318.7	2,818.2	4,537.0
Derivative financial instruments	-	-	95.0	62.5	-	241.8	95.0	304.3
Financial assets at fair value through other comprehensive income								
- Debt securities	60.9	87.1	-	-	-	-	60.9	87.1
- Equity investments	1,351.4	1,257.4	-	-	418.2	418.8	1,769.6	1,676.2
Total financial assets	<u>4,195.4</u>	<u>2,811.2</u>	<u>95.0</u>	<u>62.5</u>	<u>716.4</u>	<u>3,979.3</u>	<u>5,006.8</u>	<u>6,853.0</u>
Financial liabilities								
Other payables	-	-	-	-	-	154.0	-	154.0
Derivative financial instruments	-	-	113.9	93.6	94.5	200.7	208.4	294.3
Total financial liabilities	<u>-</u>	<u>-</u>	<u>113.9</u>	<u>93.6</u>	<u>94.5</u>	<u>354.7</u>	<u>208.4</u>	<u>448.3</u>

There are no changes in valuation techniques during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. 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 year. 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 unlisted equity investments of approximately HK\$0.7 billion (2022: approximately HK\$0.8 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.
- As at 31st December 2022, financial assets include a total of approximately HK\$2.9 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 15.0 per cent, 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 expected volatility of the fair value of the unlisted equity investment. The fair value increases with the increase in the expected volatility. These financial assets were transferred from level 3 to level 1 during 2023.
- As at 31st December 2022, financial assets also include derivative financial instrument of approximately HK\$0.2 billion, the fair value is determined based on the binomial model. The significant unobservable inputs include discount rate of 15.8 per cent and share price expected volatility of the fair value of the underlying equity instrument of 42.4 per cent. The fair value movement was caused by the change in discount rate and share price expected volatility. Based on the latest discussion with the counter-party, the derivative financial instrument arrangement has been ceased during 2023. As a result, the fair value of the derivative financial instrument as at 31st December 2023 was reduced to zero.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- As at 31st December 2022, financial liabilities include contingent consideration of 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 significant unobservable inputs include discount rate of 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. Based on the latest discussion with the counter-party, such obligation is released. As a result, the fair value of the contingent consideration as at 31st December 2023 was reduced to zero.
- Financial liabilities also include embedded derivative component of convertible bonds of approximately HK\$0.1 billion (2022: approximately HK\$0.2 billion), the fair value of which is determined based on binomial option pricing model. The significant unobservable inputs include share price expected volatility of 43.3 per cent (2022: 39.9 per cent). The fair value of embedded derivative component 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 year ended 31st December 2023 and 2022:

HK\$ Million	Financial assets		Financial liabilities	
	2023	2022	2023	2022
At 1st January	3,979.3	3,960.5	354.7	930.6
Additions	73.6	366.9	-	-
Disposals	(137.3)	(59.0)	-	-
Change in fair value	(1,728.3)	43.0	(255.6)	(531.5)
Exchange differences	(96.1)	(332.1)	(4.6)	(44.4)
Transfer to level 1	(1,374.8)	-	-	-
At 31st December	<u>716.4</u>	<u>3,979.3</u>	<u>94.5</u>	<u>354.7</u>

There were transfer from level 3 to level 1 during the year.

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

4. Segment information

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

	2023 HK\$ Million	2022 HK\$ Million
Gas sales before fuel cost adjustment	41,460.4	42,267.5
Fuel cost adjustment	1,058.0	1,348.2
Gas sales after fuel cost adjustment	<u>42,518.4</u>	<u>43,615.7</u>
Gas connection income	2,951.7	3,589.8
Equipment sales and maintenance services	3,147.6	3,389.4
Water and related sales	1,584.0	1,785.4
Biomass utilisation businesses	1,382.0	4,013.0
Renewable energy businesses	1,056.3	507.9
Oil and coal related sales	770.2	1,272.0
Other sales	3,560.9	2,780.2
	<u>56,971.1</u>	<u>60,953.4</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. 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 product and geographical perspectives. From a product perspective, management assesses the performance of (a) gas, water, renewable energy and related businesses; (b) New Energy; and (c) property business. Gas, water, renewable energy 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 consolidated financial statements.

The segment information provided to the ECM for the reportable segments is as follows:

2023 HK\$ Million	<u>Gas, water, renewable energy 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	10,402.8	41,227.2	2,447.3	-	257.8	54,335.1
Revenue recognised over time	-	1,003.4	-	-	1,023.7	2,027.1
Finance and rental income	-	-	541.0	67.9	-	608.9
	<u>10,402.8</u>	<u>42,230.6</u>	<u>2,988.3</u>	<u>67.9</u>	<u>1,281.5</u>	<u>56,971.1</u>
Adjusted EBITDA	5,250.2	5,878.5	604.8	39.6	141.7	11,914.8
Depreciation and amortisation	(867.7)	(2,150.0)	(299.9)	-	(213.1)	(3,530.7)
Unallocated expenses						(246.8)
						8,137.3
Other gains, net (note 6)						324.9
Interest expense						(2,214.6)
Share of results of associates (note)	-	1,257.4	225.4	878.6	(0.3)	2,361.1
Share of results of joint ventures	-	556.8	0.3	10.8	(2.2)	565.7
Profit before taxation						9,174.4
Taxation						(2,003.1)
Profit for the year						<u>7,171.3</u>

Note

Share of results of associates includes an increase of HK\$500.0 million (2022: a decrease of HK\$62.0 million) being the Group’s shared change in valuation of investment properties at the International Finance Centre complex for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

2022 HK\$ Million	<u>Hong Kong</u>	<u>Gas, water, renewable energy 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	10,589.9	39,982.7	7,410.2	-	224.4	58,207.2
Revenue recognised over time	-	1,134.0	-	-	1,036.1	2,170.1
Finance and rental income	-	-	511.9	64.2	-	576.1
	<u>10,589.9</u>	<u>41,116.7</u>	<u>7,922.1</u>	<u>64.2</u>	<u>1,260.5</u>	<u>60,953.4</u>
Adjusted EBITDA	5,186.1	5,448.9	1,261.0	36.4	114.0	12,046.4
Depreciation and amortisation	(874.6)	(1,914.0)	(465.8)	-	(191.7)	(3,446.1)
Unallocated expenses						(238.6)
						<u>8,361.7</u>
Other gains, net (note 6)						531.0
Interest expense						(1,775.8)
Share of results of associates (note)	-	704.0	(156.7)	316.4	1.5	865.2
Share of results of joint ventures	-	191.7	0.5	10.4	(1.1)	201.5
Profit before taxation						<u>8,183.6</u>
Taxation						(1,859.2)
Profit for the year						<u>6,324.4</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

The segment assets at 31st December 2023 and 2022 are as follows:

2023 HK\$ Million	<u>Gas, water, renewable energy and related businesses</u>		<u>New</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Chinese mainland</u>	<u>Energy</u>			
Segment assets	18,524.1	99,194.2	16,708.8	16,309.1	3,999.2	154,735.4
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,830.5
Financial assets at fair value through profit or loss						3,081.3
Time deposits, cash and bank balances excluded from segment assets						1,253.9
Others (note)						1,076.5
Total assets						<u>161,977.6</u>
2022 HK\$ Million	<u>Gas, water, renewable energy and related businesses</u>		<u>New</u>	<u>Property</u>	<u>Other segments</u>	<u>Total</u>
	<u>Hong Kong</u>	<u>Chinese mainland</u>	<u>Energy</u>			
Segment assets	19,005.7	97,585.7	22,261.6	15,846.5	4,729.7	159,429.2
Unallocated assets:						
Financial assets at fair value through other comprehensive income						1,763.3
Financial assets at fair value through profit or loss						4,785.4
Time deposits, cash and bank balances excluded from segment assets						1,179.0
Others (note)						1,312.4
Total assets						<u>168,469.3</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 CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information (Continued)

No liabilities are included in the internal reporting that are used by the ECM to assess performance and allocate resources. Accordingly, no segment liabilities are presented.

The Company is domiciled in Hong Kong. The Group's revenue from external customers in Hong Kong for the year ended 31st December 2023 is HK\$11,989.6 million (2022: HK\$12,487.8 million), and the revenue from external customers in the Chinese mainland and other geographical locations is HK\$44,981.5 million (2022: HK\$48,465.6 million).

At 31st December 2023, the total of non-current assets other than financial instruments located in Hong Kong is HK\$35,981.0 million (2022: HK\$35,636.5 million), and the total of non-current assets other than financial instruments located in the Chinese mainland and other geographical locations is HK\$95,749.2 million (2022: HK\$97,344.8 million).

5. Total operating expenses

	2023	2022
	HK\$ Million	HK\$ Million
Stores and materials used	34,996.0	39,308.9
Manpower costs	3,879.3	3,741.0
Depreciation and amortisation	3,541.8	3,525.4
Other operating items	6,416.7	6,016.4
	<u>48,833.8</u>	<u>52,591.7</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Other gains, net

	2023 HK\$ Million	2022 HK\$ Million
Business restructuring (note a):		
Net gain on disposal of subsidiaries	4,677.2	-
Impairment losses for assets	(2,148.4)	-
Remeasurement loss on assets classified as held-for-sale	(678.8)	-
Realised losses on an equity investment and related derivatives	(1,729.4)	-
	<u>120.6</u>	<u>-</u>
	-----	-----
Towngas Smart Energy Company Limited's ("Towngas Smart Energy") exit of Shanghai Gas Co., Ltd.:		
Gain on disposal of an associate	681.0	-
	<u>681.0</u>	<u>-</u>
	-----	-----
Other items:		
Impairment losses for assets (note b)	(1,089.3)	(240.0)
Gain on disposal of an associate engaged in water business	89.4	-
Loss on deemed disposal of a subsidiary and associates	(40.5)	-
Change in fair value of embedded derivative component of convertible bonds	101.6	531.5
Net investment gains	457.7	98.1
Fair value gain on investment property	4.6	145.0
Ineffective portion on cash flow hedges	(0.2)	(3.6)
	<u>(476.7)</u>	<u>531.0</u>
	=====	=====
	<u>324.9</u>	<u>531.0</u>
	=====	=====

Notes

- (a) During the year, the Group underwent business restructuring in a bid to streamline and rationalise the whole New Energy business segment, with an aim of achieving a significant reduction in carbon emission. As part of the restructuring, the Group disposed its partial interest in EcoCeres, Inc. to a strategic investor, with the investment turned from a subsidiary to an associate which resulted in a net gain on disposal of approximately HK\$4.7 billion.

Combining the factors of business restructuring plan as mentioned above and the volatility of commodity price environment, certain non-core and non-performing New Energy and other businesses had been scaled down or disposed of, resulting in impairment or disposal losses. This mainly included impairment provision against property, plant and equipment in relation to a chemical production project, vehicular fuel stations and data centres located in the Chinese mainland of HK\$719.9 million, HK\$148.7 million and HK\$469.7 million respectively. In addition, the Group has reached agreements to dispose its logistics and coal investments and therefore has reclassified those net assets as assets held-for-sale during the year, with a combined remeasurement loss of HK\$678.8 million being recognised for the year ended 31st December 2023.

In June 2023, the Group reached an agreement to dispose an unlisted equity investment, which principally owns a coking coal mine and related coke production and coke-gas conversion facility, resulting in realised losses on financial assets and related derivatives of HK\$1,729.4 million and impairment losses of loan receivables and prepayment of HK\$844.7 million for the year ended 31st December 2023.

- (b) The amount mainly included impairment provision against goodwill and property, plant and equipment related to certain city-gas projects in the Chinese mainland of HK\$959.7 million (2022: impairment provision against goodwill in relation to a city-gas joint venture in the Chinese mainland of HK\$145.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Taxation

The amount of taxation charged to the profit or loss represents:

	2023 HK\$ Million	2022 HK\$ Million
Current taxation - provision for Hong Kong Profits Tax at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits for the year	753.8	815.5
Current taxation - provision for other jurisdictions income tax at the prevailing rates on the estimated assessable profits for the year (note)	1,034.5	837.6
Current taxation - over provision in prior years	(10.4)	(8.3)
Deferred taxation - origination and reversal of temporary differences	101.9	132.5
Withholding tax	123.3	81.9
	<u>2,003.1</u>	<u>1,859.2</u>

Note

The prevailing income tax rates of the Chinese mainland and Thailand range from 15 per cent to 25 per cent (2022: 15 per cent to 25 per cent) and 50 per cent (2022: 50 per cent) respectively.

8. Dividends

	2023 HK\$ Million	2022 HK\$ Million
Interim, paid of HK12 cents per ordinary share (2022: HK12 cents per ordinary share)	2,239.2	2,239.2
Final, proposed of HK23 cents per ordinary share (2022: HK23 cents per ordinary share)	4,291.8	4,291.8
	<u>6,531.0</u>	<u>6,531.0</u>

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$6,070.1 million (2022: HK\$5,247.9 million) and the weighted average of 18,659,870,098 shares (2022: 18,659,870,098 shares) in issue during the year. As there were no dilutive potential ordinary shares of the Company outstanding during the year, the weighted average number of shares used in calculating diluted earnings per share is the same as calculating basic earnings per share.

	2023 HK\$ Million	2022 HK\$ Million
Earnings		
Profit attributable to shareholders for the purpose of basic earnings per share	6,070.1	5,247.9
Effect of dilutive potential ordinary shares:		
Interests on convertible bonds, attributable to shareholders	53.3	51.2
Change in fair value of embedded derivative component of convertible bonds, attributable to shareholders	(68.3)	(357.3)
Reduction in share of subsidiaries' and an associate's profits	(162.1)	(37.5)
Profit attributable to shareholders for the purpose of diluted earnings per share	<u>5,893.0</u>	<u>4,904.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Trade and other receivables

	2023	2022
	HK\$ Million	HK\$ Million
Trade receivables (note)	4,590.6	4,435.6
Payments in advance	1,801.8	2,173.6
Other receivables	3,532.2	4,053.6
	<u>9,924.6</u>	<u>10,662.8</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:

	2023	2022
	HK\$ Million	HK\$ Million
0 - 30 days	3,880.4	3,924.7
31 - 60 days	120.8	132.2
61 - 90 days	139.3	95.1
Over 90 days	450.1	283.6
	<u>4,590.6</u>	<u>4,435.6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade payables and other liabilities

	2023 HK\$ Million	2022 HK\$ Million
Trade payables (note a)	4,806.1	4,272.7
Other payables and accruals (note b)	6,275.5	5,600.4
Contract liabilities (note c)	8,719.2	8,583.1
Lease liabilities	126.0	154.2
Preferred shares (note d)	-	3,393.9
	<u>19,926.8</u>	<u>22,004.3</u>

Notes

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

	2023 HK\$ Million	2022 HK\$ Million
0 - 30 days	1,698.8	1,773.6
31 - 60 days	738.0	552.1
61 - 90 days	722.1	572.0
Over 90 days	1,647.2	1,375.0
	<u>4,806.1</u>	<u>4,272.7</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) As at 31st December 2022, balance represented the carrying value of preferred shares issued by EcoCeres, Inc., a non-wholly owned subsidiary of the Group. The subsidiary has become an associate during the year and is therefore equity-accounted for.

FINANCIAL RESOURCES REVIEW

Liquidity and capital resources

As at 31st December 2023, the Group had a net current borrowings position of HK\$8,015 million (31st December 2022: HK\$6,387 million) and long-term borrowings of HK\$40,716 million (31st December 2022: HK\$39,623 million). In addition, banking facilities available for use amounted to HK\$25,300 million (31st December 2022: HK\$21,400 million).

The operating and capital expenditures of the Group are funded by cash flow from operations, internal liquidity, banking facilities, bond 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. Medium term notes totalling HK\$1,708 million, with a tenor of 3 years, have been issued in 2023. In line with the Group’s long-term business investments, as at 31st December 2023, the total nominal amount of medium term notes issued has reached HK\$21.6 billion with tenors ranging from 2 to 40 years, mainly at fixed interest rates with an average of 3.4 per cent per annum and an average tenor of 13.7 years. 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 add flexibility and capacity to its financing in future, and thus strengthening its financial position. In April 2022, Towngas Smart Energy issued its first 5-year Sustainability-Linked Bond (the “SLB”) and raised a total of US\$200 million at a coupon rate at 4.0 per cent per annum. As at 31st December 2023, the total nominal amount of medium term notes issued has reached RMB2.0 billion with tenors ranging from 3 to 5 years, mainly at fixed interest rates with an average of 4.2 per cent per annum and an average tenor of 4 years. The carrying value of the issued notes in Renminbi, Australian dollar, Japanese yen, United States dollar and Hong Kong dollar under the Programmes (the “MTNs”) as at 31st December 2023 was HK\$23,754 million (31st December 2022: HK\$23,850 million).

To further diversify the funding sources, Towngas Smart Energy issued its first 1-year and 3-year panda bonds on the Chinese mainland in June 2023 (the “Panda Bonds”), raising a total of RMB1.5 billion with an average annual interest rate of 3.27%. Among them is the first sustainability-linked Panda Bond issued by a Hong Kong enterprise on the Chinese mainland. The carrying value of the Panda Bonds as at 31st December 2023 was HK\$1,650 million.

As at 31st December 2023, the Group’s borrowings amounted to HK\$57,769 million (31st December 2022: HK\$59,304 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 31st December 2023 was HK\$1,858 million (31st December 2022: HK\$1,855 million). While the majority of the notes and CB mentioned above together with some bank and other loans had fixed interest rate and were unsecured, a certain portion of notes and the remaining bank and other loans were unsecured and had a floating interest rate, of which HK\$15,822 million (31st December 2022: HK\$12,075 million) were long-term and HK\$5,996 million (31st December 2022: HK\$13,444 million) had maturities

within one year. As at 31st December 2023, the maturity profile of the Group's borrowings was 30 per cent within 1 year, 19 per cent within 1 to 2 years, 33 per cent within 2 to 5 years and 18 per cent over 5 years (31st December 2022: 33 per cent within 1 year, 13 per cent within 1 to 2 years, 36 per cent within 2 to 5 years and 18 per cent over 5 years).

As at 31st December 2023, the RMB, AUD and JPY notes issued and the USD SLB issued by Towngas Smart Energy are hedged to Hong Kong dollars or Renminbi respectively by currency swaps. Except for the borrowings under Towngas Smart Energy and that of the subsidiaries in the Chinese mainland are arranged in or hedged to their functional currency in Renminbi, the Group's borrowings are primarily denominated in Hong Kong dollars after swap (Hong Kong dollars: HK\$30,508 million; Renminbi: HK\$2,550 million; US dollars: HK\$2,344 million). 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. On 22nd December 2023, the Group announced that it will redeem all of the Perpetual Capital Securities on the first call date of 12th February 2024. In this connection, the Perpetual Capital Securities were re-classified as redeemable perpetual securities under current liabilities as at 31st December 2023. The redemption was completed on 14th February 2024 after payment has been made in accordance with terms and conditions of the Perpetual Capital Securities.

The gearing ratio [net borrowings / (total equity + net borrowings)] for the Group as at 31st December 2023 remained healthy at 41 per cent (31st December 2022: 38 per cent).

Guarantee

As at 31st December 2023 and 2022, 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 dollars, Renminbi or United States dollars, 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.

EMPLOYEES AND PRODUCTIVITY

As at the end of 2023, the number of employees engaged in the town gas business in Hong Kong was 2,135 (2022 year end: 2,110), the number of customers was 2,019,656, and each employee served the equivalent of 946 customers. Inclusive of employees engaged in businesses such as telecommunications and contractual engineering works, the total number of employees engaged in businesses in Hong Kong was 2,364 as at the end of 2023 compared to 2,352 as at the end of 2022. Related manpower costs amounted to HK\$1,278 million for 2023, an increase of HK\$21 million compared to 2022. 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 enhance the quality of the Group's customer services constantly.

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 54,080 as at the end of 2023, an increase of approximately 210 compared to 2022.

DIVIDEND

The Board now recommends a final dividend of HK23 cents per share payable to shareholders of the Company whose names are on the register of members of the Company on 13th June 2024. The necessary resolution will be proposed at the forthcoming Annual General Meeting on 4th June 2024, and if passed, dividend warrants will be posted on 24th June 2024.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement of shareholders to the right to attend and vote at the forthcoming Annual General Meeting (or any adjournment thereof), the register of members of the Company will be closed from Thursday, 30th May 2024 to Tuesday, 4th June 2024, both days inclusive, during which period no share transfer will be effected. 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 Wednesday, 29th May 2024.

In order to determine shareholders who qualify for the proposed final dividend, the register of members of the Company will be closed from Tuesday, 11th June 2024 to Thursday, 13th June 2024, both days inclusive, during which period no share transfer will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration no later than 4:30 p.m. on Friday, 7th June 2024.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Tuesday, 4th June 2024. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about Wednesday, 24th April 2024.

CORPORATE GOVERNANCE

During the year ended 31st December 2023, the Company complied with all the 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 of Hong Kong Limited.

The Board Audit and Risk Committee has reviewed the Group's consolidated financial statements for the year ended 31st December 2023, including the accounting principles and practices adopted by the Group, in conjunction with the Group's internal auditor and PricewaterhouseCoopers, the Group's external auditor.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December 2023, the trustee of the share award scheme (the “TSEL Share Award Scheme”) adopted by Towngas Smart Energy (a listed subsidiary of the Company), 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 950,000 shares of Towngas Smart Energy at a total consideration of approximately HK\$3,172,000.

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 year ended 31st December 2023.

By Order of the Board
Peter Wong Wai-yee
Managing Director

Hong Kong, 20th March 2024

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. the Hon. Poon
Chung-kwong and Dr. the Hon. Moses Cheng Mo-chi

Executive Directors: Mr. Peter Wong Wai-yee and Mr. Yeung Lui-ming

