



UTILITY BUSINESS







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Business Development

Despite the end of the COVID-19 pandemic, the global economic environment remained sluggish. Economic recovery on the Chinese mainland also slowed down in the second half of the year, in view of various challenges such as the downturn in the real estate sector and the decline in exports. However, the country is taking substantial measures to stabilise the economy and stimulate consumption. As such, the economic growth rate of the Chinese mainland is expected to continue to exceed the global average in 2024, which will greatly help to boost market confidence.

Under the national policy of promoting the use of natural gas, the country's general consumption has seen an overall return to positive growth. Annual usage of natural gas reached approximately 394.5 billion cubic metres, representing an increase of 7.6% compared to last year. The supply and demand natural gas framework also improved whilst the rising urbanisation rate is leading to higher gas sale volumes. As one of the most economical, well-supported and cleanest fossil fuels available, natural gas will continue to play a vital role in the country's pursuit of its "30-60" dual carbon goals. The Group therefore remains highly optimistic about our development prospects.

In 2023, the Group's overall gas sales volume reached 16,458 million cubic metres, representing an increase of 8%, as compared to the previous year. The gas sales volume in the industrial sector increased by 6.1% while the gas sales volume in the commercial sector rose 9%. The customer base in industries related to new energy (such as "the new three" – lithium batteries, photovoltaic glass and new energy vehicles) has also seen rapid development, contributing to a significant increase in gas consumption. In 2023, the total sales volume of these industries was 240 million cubic metres, representing a year-on-year increase of 45%.

The total number of Group customers rose to 16.77 million, representing an increase of 840,000 customers during the year. As at the end of 2023, we held a total of 187 city-gas projects (including corporate reinvestment projects), representing an increase of 4 projects during the year.

City Gas

In 2023, the industrial gas sales volume was 8.33 billion cubic metres, accounting for 50% of the Group's total gas sales. The commercial gas sales volume amounted to 1.79 billion cubic metres, accounting for 11% of our total gas sales volume. During the year, we completed coal-to-gas conversion of 3,872 steam tonnes for industrial and commercial customers, representing an increase of 4% over the previous year. This increase was mainly derived from new boiler conversions while the coal-to-gas conversion for boilers contributed 3.22 billion cubic metres of annual gas consumption on a cumulative basis, representing an increase of 7%.

Leveraging our strongly performing gas business, we have put tremendous effort into expanding our "Gas+" energy services and have achieved satisfactory results. As at the end of 2023, we had acquired more than 180 new projects, which brought in an annual gross profit of RMB89 million. This figure translates into impressive growth of 124% compared to the previous year.

During the year, we actively established in-depth cooperations with national ministries, commissions and leading industry associations. These included a strategic cooperation agreement with the China Energy Conservation Association in April, as well as a technical cooperation reached with the Center of Science and Technology and Industrialisation Development under the Ministry of Housing and Urban-Rural Development in November.



In 2023, we focused on the development of energy service projects for public institutions on the mainland and provided professional integrated energy solutions. Our target customers included hospitals, schools, government agencies and commercial complexes. Successful cases included winning the bids for:

- The Huanggang Central Hospital Energy Management Service project: It was our first hospital energy cost trusteeship project. We are delighted with the results as both the area and the annual cost under management ranked top among similar projects in the country.
- The Shandong College of Tourism and Hospitality Contract Energy Management Services project: By revamping their old equipment, we established an energy management information system through technological transformation to meet their demand for heating and cooling services while saving energy and reducing consumption.

- The energy cost trusteeship service project at Taizhou Hospital of Traditional Chinese Medicine, a Class III Grade A hospital: The project provides the hospital with a comprehensive energy trusteeship service system that includes heating and cooling, domestic hot water, steam supply, energy saving for lighting and a smart platform.

In addition, we secured a total of 9 intellectual property rights in 2023, consisting of invention patents, utility model patents and software copyrights. These acquisitions fortify the intellectual property moat for our “Gas+” energy services.

Looking forward, we expect steady growth in our industrial and commercial business in 2024. We will continue to tap into the energy service demands of existing industrial customers and expand our “Gas+” low-carbon factory services.



Huanggang Central Hospital Energy Cost Trusteeship Service Project: Through a “one-stop” energy management solution, the project can help reduce the investment of the hospital and optimise the energy supply system, greatly improving energy management efficiency.



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A new energy enterprise located in Yifeng, Jiangxi province, utilises natural gas in its kilns and boilers for roasting and drying procedures during the process of lithium battery recycling.

Tremendous efforts will also be made to develop incremental markets such as gas utilisation in the new energy industry, the integration and replacement of existing coal-fired boilers, as well as the clean transformation of industrial kilns. In response to local government concerns regarding gas usage safety, a number of our city-gas companies have actively promoted the conversion from bottled liquefied petroleum gas to piped gas locally, while taking the opportunity to acquire commercial customers such as small- to medium-sized catering companies. With the support of national policies, we actively promote clean heating services in northern regions and develop suitable centralised heating services in these areas.

On 23 May 2023, the Group entered a capital reduction agreement with Shanghai Gas and Shenergy Group, exiting from our 25% equity interest in Shanghai Gas for a consideration of RMB4.663 billion (HK\$5.04 billion). We received this full amount on 2 August 2023. The exit resulted in the recognition of a net income of HK\$589 million. Maintaining and strengthening our strategic relationships with Shenergy Group and Shanghai Gas, we continue to collaborate with them in areas such as natural gas resources and supply chain activities, renewable energy and extended businesses.

Gas Supply Chain

A gas supply chain business segment was officially established during the year to integrate and optimise the operation of the gas supply chain in a bid to stabilise the natural gas supply while reducing the negative impact of energy price fluctuations.

During the year, our first shipment of self-purchased liquefied natural gas (LNG) was also delivered. This consolidated our success in the self-sufficient import of gas resources and the development of our complete business cycle from the importation of LNG to dock unloading and downstream distribution.

The construction of our storage base of our parent company HKCG at Jintan district, Changzhou, Jiangsu province, made rapid progress. Two new underground salt caverns for gas storage were commissioned, bringing the total storage capacity to about 400 million cubic metres. Through interconnection with national pipeline networks such as the “West-to-East Gas Pipeline” and “Sichuan-to-East Gas Pipeline”, as well as provincial networks in Jiangsu, Anhui, and more, we are able to increase the gas storage turnover and distribution coverage, thus expanding the downstream client base.



Extended Businesses

Towngas Lifestyle, as the major brand of our parent company HKCG, develops businesses covering smart kitchens, insurance, home services and community retail. In terms of products, Towngas Lifestyle coordinated the upstream supply chain to improve quality. Strategic partnerships were established with well-known brands such as Viessmann, Angel and Rinnai. The launch of these co-branded products gives us the opportunity to consistently reinforce our presence in the market, while also tapping continuously into our existing customer base to seek new growth opportunities. During the year, Towngas Lifestyle put continuous effort into promoting our Mia Cucina cabinets and Bauhinia appliances. Through the smart kitchen campaign, “Trade-In for Safety in Our Homes”, the Towngas China Comfort Living Festival and other marketing initiatives, we were able to achieve satisfactory sales results.

Our insurance business made steady progress in 2023. The Group joined hands with insurance service providers to develop more comprehensive home insurance products while utilising a variety of sales channels to meet the different needs of residential customers and industrial and commercial clients.

In light of the tightening safety regulatory requirements from the government and the growing safety needs of customers, Towngas Lifestyle leveraged the strength of our digital platform and launched the “Towngas Lifestyle Alarm Platform”, offering a “product + platform + service” integrated total solution to meet customer needs.

In 2022, Towngas Lifestyle, in collaboration with StarFive and ChinaFive, released the first RISC-V IoT security chip, TGSE CHIP, in the gas industry. This has since been successfully used in the smart IoT gas meters with a shipment volume of over 1.6 million units in 2023. During the year, we have taken the lead, in collaboration with partners such as China Mobile IoT, XinSheng Tech and StarFive, to establish the first RISC-V & 5G Smart Gas Joint Innovation Centre on the mainland.

In view of the rapid development of digitisation and intelligence in the energy sector, Towngas Lifestyle has further optimised its smart lifestyle cloud platform, integrating three core cloud systems, namely gas services, smart kitchens and lifestyle services. This strengthens the support for our city gas business and extended businesses. As at the end of 2023, our Towngas Lifestyle Cloud Platform had more than 7.8 million registered customers.

IoT Smart Kitchen

