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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

2024 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL AND OPERATIONAL OVERVIEW

Strong core operating profit growth of 57.5% to HK\$707 million

- During the period, the Group's revenue increased by 6.3% to HK\$10,501 million (increased by 10.2% in RMB). The substantial increase in renewable energy business profits and steady growth in gas business profits, along with a reduction in financing costs through stringent control of capital expenditure and successful procurement of low-interest loans, contributed to a significant 57.5% rise in the Group's core operating profit to HK\$707 million (increased by 63.3% in RMB). After deducting non-operating gains and losses, the profit attributable to shareholders of the Company reached HK\$743 million.
- The **renewable energy business** continued to develop at a rapid pace, and the scale effect gradually emerged. The net profit of the renewable energy business jumped sharply to HK\$164 million. During the period, the Group confirmed plans to develop 128 zero-carbon smart industrial parks, and signed contracts for an aggregate amount of 3.3GW photovoltaic capacity and cumulatively connected 2.1GW to the grid. With the business covering energy storage, power trading, carbon asset management and other comprehensive energy and carbon service fields, it will become another driver of profit growth through an asset-light model.
- For the **city-gas business**, the total gas sales volume still recorded a considerable increase of 6% to 8.7 billion cubic metres during the period. Through cost pass-through efforts and refined management, the average dollar margin for city-gas increased to RMB0.56 per cubic metre (an increase of RMB0.02 per cubic metre compared to the same period in 2023), maintaining a steady profit growth in the overall gas business.

FINANCIAL HIGHLIGHTS

Highlights of the unaudited results of the Group's business for the first half of the year and the comparative figures for the corresponding period last year are as follows:

	Unaudited	
	Six months ended 30 June	
	2024	2023
Revenue, HK million dollars	10,501	9,883
Core operating profit, HK million dollars	707	449
Non-operating gains and losses, net, HK million dollars	36	666
Profit attributable to shareholders, HK million dollars	743	1,115
Basic earnings per share, HK cents	22.14	34.33
Gas sales volume, million cubic metres, natural gas equivalent*	8,741	8,226
Total photovoltaic grid connection, GW	2.1	1.1
Number of city-gas customers as at 30 June, million households*	17.22	16.36

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

CHAIRMAN'S STATEMENT

Despite better prospects for the world's economic recovery, businesses still face enormous pressure in their operations, with higher interest rates and ongoing geopolitical conflict continuing to hinder growth. In the first half of the year, the country's economic performance remained stable, with its gross domestic product ("GDP") growing by 5% year-on-year, on par with the annual target.

Given this complex and volatile business environment, the Group continued to make steady progress, focusing on the enhancement of our corporate efficiencies, enforcing strict controls on capital investment and costs, as well as adopting an asset-light strategy. This included introducing new investment partners, securing lower-interest financing through the issue of green bonds, and initiating projects in cooperation with different parties to obtain funds at lower cost, making it our goal to strengthen capital efficiency through asset structure optimisation, cost reduction and efficiency enhancement. In addition, the Company aims to create value for shareholders by enhancing synergies across our business while at the same time maximising the potential of our existing operations.

As at 30 June 2024, the Group had 657 projects in 26 provinces, autonomous regions and municipalities on the Chinese mainland, covering businesses throughout the energy spectrum from city-gas services to renewable energy. The total number of gas customers reached 17.22 million, representing an increase of 0.45 million customers compared to the end of 2023. Gas sales volume increased approximately 6% compared to the corresponding period last year to 8.74 billion cubic metres. The renewable energy segment also grew by 118 new projects during the period, and has signed contracts in an aggregate amount of 3.3GW and connected 2.1GW to the grid. We recorded a total revenue of HK\$10,501 million, representing an increase of 6.3% compared to the corresponding period last year. Core operating profit increased significantly by 57.5% to HK\$707 million (increased by 63.3% in RMB). After deducting non-operating gains and losses, the profit attributable to shareholders of the Company is HK\$743 million, representing a decrease of 33.4% compared to the corresponding period last year.

GAS BUSINESS

In response to the national policy requirements on energy conservation and emission reduction in key industries and public organisations, the Group, together with its parent company, The Hong Kong and China Gas Company Limited ("HKCG"), vigorously promoted its "Gas+" services, particularly in our gas sales to large-scale industrial and commercial customers and helping them to improve their energy efficiency. This move has driven up our energy services and resulted in an overall increase in gas sales volume. In addition, having been able to seize the development opportunities of the "new trio" industries (the production of electric vehicles, lithium-ion batteries and photovoltaic products), we recorded an overall gas sales volume of 8,741 million cubic metres during the period, representing an increase of 6%. Industrial gas sales rose by 4.6%, while commercial gas sales increased by 9.4%. As for city-gas projects, 3 new projects were added during the period, totalling 190 projects.

During this period, cost pass-throughs were facilitated by a fall in upstream natural gas prices. The average dollar margin in the first half of the year was RMB0.56 per cubic metre, representing an increase of RMB0.02 per cubic metre and a steady recovery in dollar margin compared to the city-gas average dollar margin in the first half of 2023.

Following the official establishment of gas source business segment last year, HKCG's cooperation with 3 major upstream natural gas companies, PipeChina, and large regional energy companies progressed steadily, with several strategic cooperation agreements signed. We managed a total of 1.9 billion cubic metres of gas volume in the first half of this year, which not only enhanced our natural gas guarantee capacities, but also contributed to the cost reduction and efficiency enhancement of our subordinate city-gas enterprises.

HKCG has used its gas storage facilities located in Jintan District, Changzhou City, Jiangsu Province, to achieve exchanges and connections between our gas pipeline and liquefied natural gas ("LNG") delivery systems, which has further improved the resilience of our gas source supply chain and increased its infrastructure efficiency. Additionally, the first phase of the Group's contingency peak-shaving storage base located in Weiyuan County, Sichuan Province, officially began operations in May this year. Once completed, this project will become a large-scale peak-shaving storage base for the surrounding area.

RENEWABLE ENERGY BUSINESS

Under the national "30-60" dual carbon goals and energy structure adjustment requirements, there is an increasing demand from customers for renewable energy as well as energy conservation and carbon reduction services, bringing opportunities for the Group in the renewable energy sector. To this end, we are actively leveraging the Group's and HKCG's base advantage of over 400,000 industrial customers on the mainland, aligning with national policies to promote the widespread application of renewable energy.

To seize these opportunities, the Group is vigorously developing zero-carbon smart industrial parks, providing green energy to industrial customers within these parks, and promoting "Energy as a Service" ("EaaS") to facilitate energy management for industrial customers, generating stable income. As EaaS continues to expand, the Group's "photovoltaics + energy storage + power trading" services are gradually showing competitive advantages. Among them, energy storage is becoming a major trend in the electricity market. We are thus actively developing our energy storage business to unleash the value of our photovoltaic assets through the storage of surplus photovoltaic power and comprehensive energy services integrating our "photovoltaics, storage, trading, and operation and maintenance" operations. Our aim is to provide multifaceted assistance to our customers in energy conservation and carbon reduction, bringing greater profitability to the Group in the process.

With these strategic deployments, the Group's performance in the green energy sector during the period exceeded expectations. At the same time, the development of our renewable energy business through an asset-light model has been successfully initiated, leading to rapid profit growth for the Group. The Group has implemented the development of 128 zero-carbon smart industrial parks and developed renewable energy projects in 23 provincial regions. The business covers various integrated energy service areas, including photovoltaics, energy storage, battery charging and swapping, power trading, carbon trading, engineering services, and digitalisation. The power trading business has grown significantly, increasing about seven-fold compared to the same period last year, exceeding 3.2 billion kWh. Notably, the distributed photovoltaic business achieved profitability last year and saw a significant profit increase in the first half of this year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group continue to uphold our philosophy “benefitting society through active participation in public welfare services; contributing to the community through dedicated efforts in environmental protection”. To this end, we are fully committed to enhancing our Environmental, Social and Governance (“ESG”) standards.

The Group has set up a Board ESG Committee at the Board level and, in conjunction with HKCG, an ESG Steering Committee and an ESG Working Committee. They are responsible for the development and implementation of specific work plans in relevant areas. During the period, the Board ESG Committee were provided with ongoing training on the development and trends of climate change and other natural risks. To strengthen management's sense of responsibility and awareness, the remuneration of relevant executive directors and senior management has also been linked to ESG management performance, which includes climate change goals, safety production performance and different ESG rating results.

Our efforts have continued to be recognised by international rating agencies. During the period, together with our parent company, HKCG, the Group was once again ranked among the “Top 1%” of Chinese enterprises in its global ESG score, while also being included in the “Sustainability Yearbook (China Edition) 2024” again. The Group has enhanced nature and biodiversity-related annual disclosures this year in order to retain this accolade for consecutive years. Additionally, the Group's ESG score from Sustainalytics improved, with the risk rating lowered to 23.7, reflecting the improved effectiveness of our ESG risk management abilities.

We also encourage our employees to lead a low-carbon life. During the period, the Group thus held a low-carbon environmental protection campaign to promote green and low-carbon living through tree planting, potted plant cultivation, and upcycling.

BUSINESS OUTLOOK FOR 2024

The Group actively promotes energy transformation. In May this year, the country released the “Action Plan for Energy Conservation and Carbon Reduction 2024-2025” to, among other things, guide natural gas consumption in an orderly manner, promote the development and utilisation of distributed new energy, and encourage the research and development as well as the application of renewable energy hydrogen production technology. These policies align with the main development direction of our business, and will bring broad development prospects for us.

The National Energy Administration also issued the “Guiding Opinions on Energy Work for 2024”, listing a number of major goals for this year, including increasing the share of installed capacity of non-fossil energy sources to about 55%, and the share of wind power and photovoltaic power generation to more than 17% of national power generation. Driven by the “30-60” dual carbon policies, China’s demand for natural gas will grow faster than its GDP, and natural gas will continue to play an important role in the country’s energy development in the years to come.

We expect the Group’s city-gas and natural gas businesses on the Chinese mainland to continue growing in the second half of the year. The Group will rely on the national pipeline network to build gas storage bases at multiple points across the country, while also coordinating gas supply sources through LNG procurement and cooperation with major regional energy companies. This strategy ensures stable gas supply whilst also reducing gas source costs. At the same time, the country has been accelerating the transition of its energy structure to help increase customer demand for renewable energy, energy conservation and carbon reduction services. We are thus highly optimistic about the continued growth of our renewable energy business and expect more new projects to be completed in the second half of the year, leading to increased profits and making this segment an important pillar for the Group’s future business development.

In the face of the complex geopolitical situation and high interest rates, the global economy recovery fell short of expectations. We will make every effort to maintain our resilience while imposing stringent controls on our investments to achieve cost reduction and efficiency enhancement in order to ensure our steady and ongoing growth.

Lee Ka-kit
Chairman

Hong Kong, 15 August 2024

RESULTS

Highlights of the Group's interim financial statements for the first six months ended 30 June 2024 are shown below. The unaudited interim financial statements have been reviewed by the Company's Board Audit and Risk Committee and external auditor, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

	NOTES	Six months ended 30 June	
		2024 HK\$'000 (unaudited)	2023 HK\$'000 (unaudited)
Revenue	3	10,500,990	9,882,711
Total operating expenses	4	<u>(9,550,931)</u>	<u>(9,032,066)</u>
		950,059	850,645
Other income		152,338	94,249
Other gains, net	5	108,969	764,349
Share of results of associates		110,949	62,411
Share of results of joint ventures		138,972	112,322
Finance costs	6	<u>(359,423)</u>	<u>(409,497)</u>
Profit before taxation	7	1,101,864	1,474,479
Taxation	8	<u>(255,676)</u>	<u>(243,464)</u>
Profit for the period		<u>846,188</u>	<u>1,231,015</u>
Profit for the period attributable to:			
Shareholders of the Company		742,714	1,115,411
Non-controlling interests		<u>103,474</u>	<u>115,604</u>
		<u>846,188</u>	<u>1,231,015</u>
		HK cents	HK cents
Earnings per share	10		
– Basic		22.14	34.33
– Diluted		<u>19.32</u>	<u>30.20</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>846,188</u>	<u>1,231,015</u>
Other comprehensive (expense) income for the period		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Exchange differences on translation from functional currency to presentation currency	(503,671)	(846,599)
Fair value change on investments in equity instruments at fair value through other comprehensive income	(95,572)	113,420
Income tax relating to items that will not be reclassified to profit or loss	23,893	(28,355)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	32,926	83,564
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	<u>(42,025)</u>	<u>(159,809)</u>
	<u>(584,449)</u>	<u>(837,779)</u>
Total comprehensive income for the period	<u>261,739</u>	<u>393,236</u>
Total comprehensive income for the period attributable to:		
Shareholders of the Company	201,995	369,862
Non-controlling interests	<u>59,744</u>	<u>23,374</u>
Total comprehensive income for the period	<u>261,739</u>	<u>393,236</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	NOTE	30.06.2024 HK\$'000 (unaudited)	31.12.2023 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment		29,023,964	28,555,243
Right-of-use assets		920,706	1,012,469
Intangible assets		368,084	384,994
Goodwill		4,693,986	4,820,508
Interests in associates		5,212,606	5,251,449
Interests in joint ventures		3,870,894	3,803,404
Loans to associates		-	47,701
Equity instruments at fair value through other comprehensive income		1,228,899	1,353,339
Other financial assets		92,715	70,628
Restricted deposits		115,451	108,691
		<u>45,527,305</u>	<u>45,408,426</u>
Current assets			
Inventories		594,682	588,608
Loans to associates		57,353	9,851
Loans to joint ventures		31,880	166,507
Trade and other receivables, deposits and prepayments	11	3,403,469	2,782,350
Amounts due from non-controlling shareholders		142,468	219,806
Other financial assets		21,768	10,708
Time deposits over three months		37,228	21,562
Bank balances and cash		3,824,245	4,080,302
		<u>8,113,093</u>	<u>7,879,694</u>
Assets classified as held for sale		<u>-</u>	<u>176,583</u>
		<u>8,113,093</u>	<u>8,056,277</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 30 JUNE 2024

	NOTE	30.06.2024 HK\$'000 (unaudited)	31.12.2023 HK\$'000 (restated)
Current liabilities			
Trade and other payables and accrued charges	12	3,842,386	3,705,656
Dividend payable		536,717	-
Contract liabilities		3,403,788	3,632,142
Lease liabilities		34,573	48,433
Amounts due to non-controlling shareholders		66,652	73,356
Taxation payable		1,344,171	1,412,241
Borrowings – amounts due within one year		9,023,605	5,499,842
Loan from ultimate holding company		44,056	28,453
Loan from an associate		-	24
Loans from joint ventures		324	27,467
Convertible bonds		1,870,432	1,952,264
		<u>20,166,704</u>	<u>16,379,878</u>
Liabilities associated with assets classified as held for sale		<u>-</u>	<u>10,090</u>
		<u>20,166,704</u>	<u>16,389,968</u>
Net current liabilities		<u>(12,053,611)</u>	<u>(8,333,691)</u>
Total assets less current liabilities		<u>33,473,694</u>	<u>37,074,735</u>
Non-current liabilities			
Lease liabilities		146,464	206,846
Borrowings – amounts due after one year		7,677,012	10,782,229
Deferred taxation		842,007	839,983
Loans from non-controlling shareholders		14,854	15,187
		<u>8,680,337</u>	<u>11,844,245</u>
Net assets		<u>24,793,357</u>	<u>25,230,490</u>
Capital and reserves			
Share capital		335,450	335,450
Reserves		22,154,954	22,511,762
		<u>22,490,404</u>	<u>22,847,212</u>
Equity attributable to shareholders of the Company		<u>22,490,404</u>	<u>22,847,212</u>
Non-controlling interests		2,302,953	2,383,278
		<u>24,793,357</u>	<u>25,230,490</u>
Total equity		<u>24,793,357</u>	<u>25,230,490</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

1. BASIS OF PREPARATION

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately HK\$12,054 million as at 30 June 2024. The Group's liabilities as at 30 June 2024 included borrowings of approximately HK\$9,024 million that are repayable within one year from the end of the reporting period.

As at 30 June 2024, the Group is able to raise funds through a Medium Term Note Programme ("MTN Programme") amounting to approximately HK\$13,247 million, the remaining issuance amount under the debt financing instruments programme registered in the National Association of Financial Market Institutional Investors (the "Panda Bonds") amounting to approximately HK\$15,601 million and unutilised facilities from banks and the parent company HKCG amounting to approximately HK\$7,000 million ("Facilities"). When considering the Group's ability to continue as a going concern, the Directors considered that the Group's bank borrowings of approximately HK\$8,217 million that are repayable within one year from the end of the reporting period will be rolled over or refinanced as the Group has a good relationship with the banks and has good credibility.

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

In June 2024, the Group started to negotiate with bank for the renewal of two banking facilities with total amount of RMB4,000 million to be matured in March and June 2025 respectively. As at 30 June 2024, the outstanding amount under these facilities was approximately HK\$3,330 million which was classified as current liabilities. After the reporting period, the Group successfully obtained the commitment letter issued by the bank to extend these loans for 5 years from the original maturity dates subject to completion of administrative procedures by the bank.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendment to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

Except as described below, the application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

Impacts on application of Amendments to HKAS 1 “Classification of Liabilities as Current or Non-current” and related amendments to Hong Kong Interpretation 5 (2020) (the “2020 Amendments”) and Amendments to HKAS 1 “Non-current Liabilities with Covenants” (the “2022 Amendments”)

Convertible bonds (with conversion options not meeting “fixed for fixed criterion”)

When determining the classification of convertible bonds (including the host liability measured at amortised cost and the conversion option measured at fair value through profit or loss) as current or non-current, the Group considers both the redemption through cash settlement and the transfer of the Group’s own equity instruments as a result of exercise of conversion options by holders as settlement of the convertible bonds.

The Group has applied the new accounting policy and the amendments retrospectively. The application of the amendments in the current period has the following impacts on the convertible bonds with conversion options not meeting “fixed for fixed criterion”.

The Group’s outstanding convertible instruments include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32 “Financial Instruments: Presentation”. The host liability component is measured at amortised cost and the derivative component (representing the conversion options) is measured at fair value. Upon the application of the 2020 Amendments, given that the conversion options are exercisable anytime, the host liability and the derivative component as at 1 January and 31 December 2023 are reclassified as current liabilities as the holders have the option to convert within twelve months after the reporting period.

Except as described above, the application of the 2020 Amendments and 2022 Amendments has no other material impact on the classification of the Group’s other liabilities. The change in accounting policy does not have impact to the Group’s profit or loss or earnings per share for the six months ended 30 June 2023. The details of the impacts on each financial statement line item on the condensed consolidated statement of financial position arising from the application of the amendments are set out under “Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements” below. Comparative figures have been restated.

Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements

The effects of the changes in accounting policy as a result of application of the 2020 Amendments and 2022 Amendments on the condensed consolidated statement of financial position as at the end of the reporting period (i.e. 30 June 2024), immediately preceding year (i.e. 31 December 2023) and beginning of the comparative period (i.e. 1 January 2023), are as follows:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements (Continued)

	30 June 2024		
	As reported <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Without the application of the 2020 Amendments and 2022 Amendments <i>HK\$'000</i>
Current liabilities			
Convertible bonds	1,870,432	(1,870,432)	-
Non-current liabilities			
Convertible bonds	-	1,870,432	1,870,432
Total effect on net assets	-	-	-
	31 December 2023		
	Originally stated <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Restated <i>HK\$'000</i>
Current liabilities			
Convertible bonds	-	1,952,264	1,952,264
Non-current liabilities			
Convertible bonds	1,952,264	(1,952,264)	-
Total effect on net assets	-	-	-
	1 January 2023		
	Originally stated <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Restated <i>HK\$'000</i>
Current liabilities			
Convertible bonds	-	2,055,619	2,055,619
Non-current liabilities			
Convertible bonds	2,055,619	(2,055,619)	-
Total effect on net assets	-	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

3. SEGMENT INFORMATION

Operating segments

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

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

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

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

During the six months ended 30 June 2023, the Executive Directors assessed the Group’s business by three operating segments, namely (a) sales of piped gas and energy; (b) gas connection and (c) extended business. In the second half of 2023, the Executive Directors have reassessed and restructured its businesses into (i) sales of piped gas business; (ii) gas connection; (iii) renewable energy business and (iv) extended business. The comparative information for operating segments has been restated to conform with the current period’s presentation.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

Information regarding these segments is presented below:

	Sales of piped gas business HK\$'000	Gas connection HK\$'000	Renewable energy business HK\$'000	Extended business HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2024					
REVENUE					
Revenue recognised at a point in time	8,672,375	626,140	754,780	259,593	10,312,888
Revenue recognised over time	-	188,102	-	-	188,102
External	<u>8,672,375</u>	<u>814,242</u>	<u>754,780</u>	<u>259,593</u>	<u>10,500,990</u>
Segment results	<u>549,222</u>	<u>313,569</u>	<u>164,467</u>	<u>37,032</u>	1,064,290
Other income					152,338
Other gains, net					108,969
Unallocated corporate expenses					(114,231)
Share of results of associates					110,949
Share of results of joint ventures					138,972
Finance costs					<u>(359,423)</u>
Profit before taxation					1,101,864
Taxation					<u>(255,676)</u>
Profit for the period					<u>846,188</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

3. SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

Information regarding these segments is presented below: (Continued)

	Sales of piped gas business HK\$ '000	Gas connection HK\$ '000	Renewable energy business HK\$ '000	Extended business HK\$ '000	Consolidated HK\$ '000
Six months ended 30 June 2023 (restated)					
REVENUE					
Revenue recognised at a point in time	8,256,290	669,882	443,262	277,226	9,646,660
Revenue recognised over time	-	236,051	-	-	236,051
External	<u>8,256,290</u>	<u>905,933</u>	<u>443,262</u>	<u>277,226</u>	<u>9,882,711</u>
Segment results	<u>580,607</u>	<u>366,786</u>	<u>8,335</u>	<u>40,171</u>	995,899
Other income					94,249
Other gains, net					764,349
Unallocated corporate expenses					(145,254)
Share of results of associates					62,411
Share of results of joint ventures					112,322
Finance costs					<u>(409,497)</u>
Profit before taxation					1,474,479
Taxation					<u>(243,464)</u>
Profit for the period					<u>1,231,015</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Gas fuel, stores and materials used	7,928,122	7,524,214
Staff costs	694,415	677,884
Depreciation and amortisation	603,281	531,728
Other expenses	325,113	298,240
	<u>9,550,931</u>	<u>9,032,066</u>

5. OTHER GAINS, NET

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Other gains, net include:		
Change in fair value of embedded derivative component of convertible bonds	65,779	66,328
Gain on deemed disposal/disposal of subsidiaries	54,480	-
Gain on deemed partial disposal of an associate	37,230	-
Gain on exit from investment in an associate (note)	-	692,214
Exchange gain, net	2,297	1,447
Impairment provision of property, plant and equipment	(24,256)	-
Impairment provision of goodwill	(16,659)	-
(Loss) gain on disposal of property, plant and equipment	<u>(9,902)</u>	<u>1,106</u>

Note: Pursuant to a capital reduction agreement entered into by the Company, Shenergy (Group) Company Limited and Shanghai Gas Co., Ltd. (“Shanghai Gas”), all parties agreed to the exit by the Company from its entire investment of 25% equity interest in Shanghai Gas through a reduction of the capital of Shanghai Gas by the amount held by the Company. During the six months ended 30 June 2023, the Company recognised a gain of HK\$692,214,000 and received the consideration of RMB4,662,578,000 from Shanghai Gas in second half of 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Interest on bank and other borrowings	311,885	362,448
Effective interest expense on convertible bonds	40,550	39,416
Bank charges	4,686	2,766
Interest on lease liabilities	8,691	13,191
	<hr/>	<hr/>
	365,812	417,821
Less: amounts capitalised	(6,389)	(8,324)
	<hr/>	<hr/>
	359,423	409,497
	<hr/>	<hr/>

7. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	8,850	9,178
Depreciation of right-of-use assets	26,132	36,798
Cost of inventories sold	8,590,388	8,066,908
Depreciation of property, plant and equipment	568,299	485,752
Staff costs	694,415	677,884
and after crediting:		
Interest income	21,269	23,294
Dividend income from equity instruments at fair value through other comprehensive income	36,947	37,236
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

8. TAXATION

No provision for Hong Kong Profits Tax has been made as there is no net assessable profit in Hong Kong for both periods.

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (six months ended 30 June 2023: 15% to 25%).

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

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

9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil). During the period, a final dividend of 16 HK cents per ordinary share (2022: 15 HK cents per ordinary share) amounting to HK\$536,717,000 was declared by the Board as for the year ended 31 December 2023 (2022: HK\$487,182,000).

The final dividend for 2023 was payable in cash but shareholders were given the option of electing to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. Subsequent to the reporting period, on 12 July 2024, the final dividend of 16 HK cents per ordinary share, which included the scrip dividend alternative offered to shareholders, was paid to shareholders whose name appear on the register of members of the Company on 6 June 2024 as the final dividend in respect of the financial year ended 31 December 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit for the period attributable to shareholders of the Company for the purpose of basic earnings per share	742,714	1,115,411
Effect of dilutive potential ordinary shares:		
Interest expense on convertible bonds	40,550	39,416
Change in fair value of embedded derivative component of convertible bonds	(65,779)	(66,328)
Profit for the period attributable to shareholders of the Company for the purpose of diluted earnings per share	717,485	1,088,499
	3,354,477	3,249,481
	358,854	354,268
	-	1,091
	-	3
	-	(3)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,713,331	3,604,840

For the six months ended 30 June 2024, the computation of diluted earnings per share did not assume the exercise of the share options issued by the Company because the exercise price of those options was higher than the average market price for shares for the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2024	31.12.2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (net of allowance for credit losses)	1,690,766	1,464,668
Prepayments	697,922	541,501
Consideration receivable for disposal of subsidiaries	106,765	-
Other receivables and deposits	908,016	776,181
	<u>3,403,469</u>	<u>2,782,350</u>

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

	30.06.2024	31.12.2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	1,352,152	1,039,121
91 to 180 days	141,399	224,505
Over 180 days	197,215	201,042
	<u>1,690,766</u>	<u>1,464,668</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2024	31.12.2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,374,414	2,140,337
Consideration payable for acquisitions of subsidiaries	76,754	176,968
Other payables and accruals	1,367,813	1,385,681
Amount due to ultimate holding company (note)	<u>23,405</u>	<u>2,670</u>
	<u>3,842,386</u>	<u>3,705,656</u>

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

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

	30.06.2024	31.12.2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	1,326,811	1,100,516
91 to 180 days	406,673	376,030
181 to 360 days	361,182	299,408
Over 360 days	<u>279,748</u>	<u>364,383</u>
	<u>2,374,414</u>	<u>2,140,337</u>

FINANCIAL REVIEW

Revenue

For the first half of 2024, the Group's consolidated gas sales volume amounted to 2,593 million cubic metres, representing an increase of 9.3% from the corresponding period last year. The cost pass-throughs of piped gas were further improved, with cost pass-throughs having already been achieved among the majority of the industrial and commercial customers and with residential cost pass-throughs realised in multiple cities where the Group's city-gas projects are located. Meanwhile, the real estate sector on the Chinese mainland remained in doldrums, leading to a decrease in household gas connection. On the consolidated basis, the Group had 165,000 new household connections, representing a decrease of 9.2% from the corresponding period last year, leading to a decrease in gas connection revenue. The Group's total revenue in the first half of 2024 amounted to HK\$10,501 million, representing an increase of 6.3% compared to the corresponding period last year.

Business Segments	Six months ended 30 June	
	2024	2023
	<i>HK\$ million</i>	<i>HK\$ million</i> (restated)
Sales of piped gas business	8,672	8,256
Gas connection	814	906
Renewable energy business	755	443
Extended business	260	278
Total	<u>10,501</u>	<u>9,883</u>

Total Operating Expenses

Total operating expenses of the Group included gas fuel, stores and materials used, staff costs, depreciation and amortisation, and other expenses. Total operating expenses in the first half of 2024 amounted to HK\$9,551 million, representing an increase of 5.7% compared to the corresponding period last year.

	Six months ended 30 June	
	2024	2023
	<i>HK\$ million</i>	<i>HK\$ million</i>
Gas fuel, stores and materials used	7,928	7,524
Staff costs	695	678
Depreciation and amortisation	603	532
Other expenses	325	298
Total	<u>9,551</u>	<u>9,032</u>

Total operating expenses and its ratio to total revenue remained constant as compared to the corresponding period last year.

Other Gains, Net

Other gains, net decreased by 85.7% to HK\$109 million as compared to HK\$764 million in the corresponding period last year, mainly due to the increase of gain on deemed disposal/disposal of subsidiaries and partial interest of an associate of HK\$92 million and the gain on exit from the equity interest in Shanghai Gas of HK\$692 million in the corresponding period last year.

Share of Results of Associates

The share of results of associates increased by 77.8% from HK\$62 million in the corresponding period last year to HK\$111 million, which mainly due to the Group's share of loss of Shanghai Gas amounted to HK\$92 million in the corresponding period last year.

Share of Results of Joint Ventures

The share of results of joint ventures increased by 23.7% from HK\$112 million in the corresponding period last year to HK\$139 million, which mainly due to the increase of gas gross profit brought by steady advancement from cost pass-throughs.

Finance Costs

The finance costs of the Group decreased by 12.2% from HK\$409 million in the corresponding period last year to HK\$359 million. Strengthened capital expenditure control and the securing of lower interest financing has reduced the finance costs.

Profit for the Period

During the first half of 2024, profit attributable to shareholders of the Company amounted to HK\$743 million, representing a decrease of 33.4% compared to the corresponding period last year. Deducting non-operating gains and losses (i.e. gain from change in fair value of embedded derivative component of convertible bonds of HK\$66 million and assets impairment attributable to the shareholders of the Company totaling HK\$30 million) (2023 corresponding period: gain from change in fair value of embedded derivative component of convertible bonds of HK\$66 million and net gain of HK\$600 million on exit from the equity interest in Shanghai Gas and share of its results), core operating profit amounted to HK\$707 million (2023 corresponding period: HK\$449 million), increased significantly by 57.5% (increased by 63.3% in RMB). Basic earnings per share amounted to 22.14 HK cents, representing a decrease of 35.5% compared to the corresponding period last year.

FINANCIAL POSITION

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

As at 30 June 2024, the Group's borrowings amounted to HK\$16,701 million (31 December 2023: HK\$16,282 million), of which HK\$9,024 million (31 December 2023: HK\$5,500 million) represented borrowings due within 1 year, HK\$6,570 million (31 December 2023: HK\$10,038 million) represented borrowings due between 1 to 5 years, and HK\$1,107 million (31 December 2023: HK\$744 million) represented borrowings due over 5 years. Other than the HK\$12,178 million (31 December 2023: HK\$12,392 million) in borrowings which bore interests at fixed rates, the Group's other borrowings were arranged on a floating interest rate basis. The maturities and interest rates of the borrowings were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred on the Chinese mainland and most transactions, assets and liabilities were stated in RMB. As a result, the Group bore currency risk from fluctuations of RMB exchange rate for non-RMB denominated deposits and borrowings. The Group's borrowings denominated in RMB amounted to HK\$14,735 million (31 December 2023: HK\$14,323 million) and the remaining HK\$1,966 million borrowings were denominated mainly in United States dollars ("USD") (31 December 2023: HK\$1,959 million) as at the end of the period. Cross currency swaps contracts were made to hedge foreign currency risk for most of the non-RMB denominated borrowings so as to reduce risk arising from fluctuations of RMB. Apart from the borrowings as mentioned above, the Group also has RMB loans amounted to approximately HK\$44 million (31 December 2023: HK\$28 million), approximately HK\$0.32 million (31 December 2023: HK\$27 million) and approximately HK\$15 million (31 December 2023: HK\$15 million) from the parent company HKCG, joint ventures, and non-controlling shareholders on a fixed interest rate basis, respectively.

In June 2024, the Group started to negotiate with bank for the renewal of two banking facilities with total amount of RMB4,000 million to be matured in March and June 2025 respectively. As at 30 June 2024, the outstanding amount under these facilities was approximately HK\$3,330 million which was classified as current liabilities. After the reporting period, the Group successfully obtained the commitment letter issued by the bank to extend these loans for 5 years from the original maturity dates subject to completion of administrative procedures by the bank.

As if the above mentioned banking facilities were renewed by 30 June 2024, the net current liabilities of the Group would become HK\$8,724 million.

As at 30 June 2024, the Group's cash and cash equivalents together with time deposits and restricted deposits amounted to HK\$3,977 million (31 December 2023: HK\$4,214 million), of which 99% (31 December 2023: 99%) are RMB-denominated and the rest are denominated in HK\$ and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at 30 June 2024 was 37.1% (31 December 2023: 35.8%).

As at 30 June 2024, the Group is able to raise approximately HK\$13,247 million under the MTN Programme, the remaining issuance amount of the Panda Bonds approximately HK\$15,601 million and unutilised facilities from banks and HKCG amounting to approximately HK\$7,000 million.

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

CREDIT RATINGS

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2024.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2024, the Group had 24,171 employees. Employee remuneration is based on individual performance, job nature and the relevant responsibilities involved. The Group provides on-the-job training as well as optimal benefits packages for employees, which include medical welfare, retirement plans, year-end bonuses and other incentives. The Group encourages employees to adopt a work-life balance, whilst improving the work environment for employees on a continuing basis so that they can realise their full potential and contribute to the Group.

INTERIM DIVIDEND

The Board has taken account of the Company's dividend policy and resolved at the Board meeting on 15 August 2024 not to declare an interim dividend (2023: nil).

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company had complied with 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 “Stock Exchange”) (the “Listing Rules”) during the six months ended 30 June 2024.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix C3 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the directors. All directors confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2024.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2024.

By Order of the Board

Peter Wong Wai-yee

Executive Director and Chief Executive Officer

Hong Kong, 15 August 2024

At the date of this announcement, the Board comprises:

Non-Executive Directors:

LEE Ka-kit (*Chairman*)

LIU Kai Lap Kenneth

Independent Non-Executive Directors:

Moses CHENG Mo-chi

Brian David LI Man-bun

LOH Kung Wai Christine

Executive Directors:

Peter WONG Wai-yee (*Chief Executive Officer*)

Martin KEE Wai-ngai (*Chief Operating Officer – Gas Business*)

John QIU Jian-hang (*Chief Operating Officer – Renewable Business*)