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

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

2023 INTERIM RESULTS ANNOUNCEMENT

OVERVIEW OF BUSINESS OPERATIONS DURING THE FIRST HALF OF 2023

- The economic recovery for the first half of 2023 fell short of expectations. The Group has taken various measures to increase its resilience and competitiveness, and its businesses maintained steady growth. The Group's city gas and renewable energy businesses spread across 24 provinces/municipalities/autonomous regions on the Chinese mainland.

- During the period, the Group's total gas sales volume recorded a considerable increase of 9.1% to 8,226 million cubic metres. As at 30 June 2023, the Group with its parent company, HKCG, had developed 91 zero-carbon smart industrial parks, and had signed contracts in an aggregate amount of 2.20GW photovoltaic capacity and connected more than 1.12GW to the grid. Total revenue dropped slightly by 2.7% to HK$9,883 million (increased by 4.5% in Renminbi).

- Profit attributable to shareholders of the Company increased by 7.1% to HK$1,115 million. Excluding the impact of change in fair value of convertible bonds and the net gain from the exit of Shanghai Gas, operating profit attributable to shareholders of the Company decreased by 13.7% to HK$449 million (dropped by 7.3% in Renminbi).

- After amicable negotiations, the Group exited its investment of 25% equity interest in Shanghai Gas and received the fund of RMB4,663 million on 2 August. Both parties will continue to establish deep and solid strategic relationships in the fields of, among others, natural gas resources, renewable energy, services and technologies.

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	
	2023	2022
Revenue, HK million dollars	**9,883**	10,160
Operating profit attributable to shareholders, HK million dollars	**449**	520
Change in fair value of embedded derivative component of convertible bonds, HK million dollars	**66**	522
Net gain on exit from the equity interest in Shanghai Gas and share of its results, HK million dollars	**600**	-
Profit attributable to shareholders, HK million dollars	**1,115**	1,042
Basic earnings per share, HK cents	**34.33**	33.04
Gas sales volume, million cubic metres; natural gas equivalent*	**8,226**	7,541
Number of city gas customers as at 30 June, million households*	**16.36**	15.50

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

CHAIRMAN'S STATEMENT

In the first half of this year, as the world gradually returned to normal with the receding of the COVID-19 epidemic, the Chinese mainland market showed steady recovery. Industrial production, business operations and everyday life, also showed improvement, yet less favourable than expected. The global economy continues to be plagued by severe inflation, persistently high interest rate policies formulated by central banks around the world, as well as the ongoing Russia-Ukraine war. Thus, despite the overall market improved after the debilitating impact of the epidemic, economic recovery on the Chinese mainland still faces challenges in the second half of the year due to the constraints of the international situation.

Given this challenging and volatile business environment, the Group, responding to calls from the Chinese mainland's 2023 Government Work Report, devised a business plan under two main themes – "energy safety and security" and "clean transition". This strategy actively seeks to develop renewable energy projects and expedite the construction of a new energy system. At the same time, in response to the demand for low-carbon technology in the country's socio-economic development, we cooperated with a number of well-known partners in the industry to expand our service offerings, working with them to convert 200 high-emission industrial parks into zero-carbon smart industrial parks by 2025.

As at 30 June 2023, the Group had 449 projects in 24 provinces, autonomous regions and municipalities on the Chinese mainland, including city gas and renewable energy, etc. The gas sales volume for the period increased by approximately 9.1% compared to the corresponding period last year. As at 30 June 2023, the total number of customers of the Group reached 16.36 million, representing an increase of 0.43 million customers. The renewable energy segment is developing rapidly, with 83 new projects obtained during the period. For the six months ended 30 June 2023, the Group recorded a total revenue of HK$9,883 million, representing a slight decrease of 2.7% compared to the corresponding period last year. Profit attributable to shareholders of the Company amounted to HK$1,115 million, increased by 7.1% compared to that of the corresponding period last year. Basic earnings per share amounted to 34.33 HK cents, increased by 3.9% compared to that of the corresponding period last year.

Renewable Energy Business

In 2021, the Group announced the development blueprint for the distributed photovoltaic market, and as at 30 June 2023, the Group with its parent company, The Hong Kong and China Gas Company Limited ("HKCG"), had developed renewable energy projects in 22 provinces, autonomous regions and municipalities to industrial and commercial customers, together with the development of 91 zero-carbon smart industrial parks to provide integrated energy services, including photovoltaics, multi-energy supply (cooling, heating, electricity), energy storage, battery charging and swapping stations, carbon trading, green electricity trading, engineering services, energy saving, digitalisation and other related diversified businesses, fully commercialising the operations. As at 30 June 2023, the Group had signed contracts in an aggregate amount of 2.20GW photovoltaic capacity and connected more than 1.12GW to the grid.

Photovoltaic silicon is one of the most important parts of the upstream industrial chain. In the past two years, driven by the Chinese government's "dual carbon" goals for carbon peak and carbon neutrality and the relatively low cost of integrated photovoltaic power generation, demand for photovoltaic modules has grown rapidly. This unfortunately resulted in a bottleneck in supply as well as a sharp rise in raw material prices. With the easing of supply and demand pressures of photovoltaic silicon, its price this year fell back to the level of around two years ago. As such, the development of photovoltaics has gained rapid momentum.

In the first half of this year, Towngas Energy Academy under the Group was officially established in the Shenzhen-Hong Kong Innovation and Technology Cooperation Zone in the Loop in Futian District, Shenzhen. Established both by the Group and our parent company, HKCG, the Academy has actively engaged in the research and development of cutting-edge clean energy technologies together with industrial investment and incubation. As the first clean energy application research institute established by a Hong Kong-funded enterprise in Shenzhen, the Academy will take advantage of its establishment in the Loop to actively cultivate high-end scientific research talent. Leveraging our smart energy projects on the Chinese mainland as a research platform, the Academy will focus on five major research and development fields – hydrogen energy, energy storage, energy digital intelligence, renewable energy as well as low-carbon energy saving, to promote the upgrading of Hong Kong and Shenzhen's scientific and technological innovation capabilities and to facilitate the development of new areas for economic growth.

Leveraging our strengths in zero-carbon smart industrial parks, customer resources and battery technologies, the Group continued to join hands with industry giants to develop leading-edge technologies, including the joint establishment of Towngas CATL Smart Energy Technology (Suzhou) Company Limited (港華時代智慧能源科技（蘇州）有限公司) with Contemporary Amperex (CATL). It was instrumental in independently developing the latest liquid-cooling technology, which focuses on commercial and industrial user needs. Its new generation of energy storage products has been validated in a number of provincial demonstration projects. It has been commercialised for sale, with real-time monitoring as well as stringent product management through a self-owned energy storage cloud.

In May 2023, we successfully organised the "TERA TOUR – Shenzhen" event under the guidance of the Shenzhen Development and Reform Commission and the People's Government of Futian District, Shenzhen. Under the theme "Building a Dream in the Greater Bay Area Towards a Zero-Carbon Smart Future", the event brought together more than 500 guests from the political and business sectors, sharing Shenzhen's forward-looking vision in the zero-carbon field. At the event, we showcased our seven service areas in the renewable energy sector, including zero-carbon technology, intelligent operation and maintenance, low-carbon factories, energy storage in industrial parks, virtual power plants, carbon management and trading, as well as green electricity trading.

In June 2023, together with the Shenzhen Municipal Government, the Group hosted the International Digital Energy Expo 2023 – Hong Kong, showcasing the products, technologies and scenario-based solutions of the relevant enterprises in the digital energy sector on the Chinese mainland, especially those in the Greater Bay Area, in a bid to foster the connection with the international market and other resources, while at the same time, expand and enhance the global influence of the country's digital energy enterprises.

Utility Business

In the first half of this year, despite the impact of the warm winter and international geopolitics, overall gas sales volumes recorded a considerable increase. While upstream gas prices continued to rise, the Group's cost pass-throughs were effective, with multiple cities on the Chinese mainland achieving cost pass-throughs for residential customers. We also worked hard to optimise our portfolio of city gas projects, proactively developing high-quality projects, with a view to increasing our gas sales volume and gross sales margins.

The Group recorded an increase in gas sales during the period with total gas sales volume rose 9.1% to approximately 8,226 million cubic metres. The industrial gas sales volume increased 6.0%, accounting for 48% of total gas sales volume. The residential gas sales volume remained similar to that of the corresponding period last year, accounting for 21% of total gas sales volume. The wholesale and other gas sales volume increased 36.9%, representing 19% of total gas sales volume. Commercial gas sales recorded a 3.5% increase and accounting for 12% of total gas sales volume.

By the end of June 2023, the Group held a total of 185 city gas projects (inclusive of corporate reinvestment projects) in 20 provinces/municipalities/autonomous regions on the Chinese mainland, with total number of customers reached around 16.36 million.

In the first half of this year, the Group established a more comprehensive system for securing gas supply through a unified procurement approach. This will enhance the coordination of the internal and external gas supply of our trading operations and consolidate our business resources. In the first half of 2023, together with our parent company, we coordinated a total of approximately 0.9 billion cubic metres of gas, which, with centralised coordination and dispatching, reduced the cost per cubic metre of gas by approximately RMB0.1. With our parent company, we have also proactively upgraded the capacity of our gas storage facilities, adding approximately 60 million cubic metres of new working gas capacity at the existing Jintan gas storage facility in Changzhou City, Jiangsu Province. This brings our total storage capacity to nearly 0.4 billion cubic metres. The emergency peak shaving storage and distribution base in Weiyuan County, Sichuan Province will also be commencing operations in the near future, while the storage tanks at the receiving terminal in Caofeidian District, Tangshan City, Hebei Province are due for completion in 2024. This will greatly enhance the Group's peak shaving capacities in the various regions.

We have continued to develop our "Gas+" integrated energy services layout, actively developing our heating business to tap into the demand for integrated energy services from commercial and industrial gas users. This service provides a one-stop solution through heating and cooling, hot water, steam, consulting and planning, energy saving and energy efficiency enhancement, among others. Driven by this "Gas+" strategy, we recorded double-digit growth in the relevant revenue, energy sales volumes and operating profit compared to corresponding period last year. The cumulative number of projects signed has also increased significantly, including various use case scenarios, such as government agencies, industrial and commercial sites, hotels, hospitals and schools, etc. These positive advances demonstrate the huge potential for development in this area.

In March this year, the Company announced that it exited its 25% shareholding in Shanghai Gas Co., Ltd. ("Shanghai Gas") after amicable negotiations with Shenergy (Group) Company Limited ("Shenergy Group") and Shanghai Gas. On 23 May 2023, the Company entered into a capital reduction agreement with Shanghai Gas and Shenergy Group to exit from its entire 25% equity investment in Shanghai Gas, and the consideration of RMB4,663 million had been received by the Company on 2 August 2023. At the same time, the Company entered into a termination agreement with Shanghai Gas and Shenergy Group, under which all parties agreed to terminate the southbound subscription when the capital reduction agreement becomes effective. This exit gives Shanghai Gas more room and flexibility for its operations at this critical and important moment following the challenges of the epidemic. The exit will not affect the further establishment of an in-depth strategic partnership between the Company, Shenergy Group and Shanghai Gas. The parties will establish deep and solid strategic relationships in the fields of, among others, natural gas resources and supply chain management, the renewable energy business, extended business, as well as and low-carbon technology.

The Group continued to tap into the growing potential of our extended businesses, in a bid to facilitate the synergistic development of various business segments and continue to deliver new business growth. With "Towngas Lifestyle" as our unified platform and brand entity, the Group with its parent company HKCG provide one-stop solutions for users by focusing on smart kitchens, which include smart and high-end kitchen equipment, gas services, safety management and insurance. In the first half of the year, we launched our "One-stop Kitchen Renewal" campaign based on our Bauhinia gas appliances and Mia Cucina cabinet products, combined with a digital platform and professional service system, to help users get a speedy makeover of their kitchens.

The first RISC-V Internet of Things (IoT) security chip in the industry, Towngas Security Chips (TGSE Chips), jointly developed by Towngas Lifestyle, StarFive Technology and ChinaFive, features low power consumption, high security and a very high price/performance ratio, making it an excellent choice for gas metre security chips. Currently, smart gas metres embedded with TGSE Chips have been widely used in many cities on the Chinese mainland. In the future, we plan to further apply the chip to a wide range of energy IoT applications.

Environmental, Social and Governance

With the global trend towards low-carbon transition, we have been actively enhancing our environmental, social and governance (ESG) performance, and endeavouring to incorporate ESG concepts into our development strategy for sustainable development.

Towngas Smart Energy is currently included in six major international ESG ratings, including MSCI, CDP, FTSE Russell, Sustainalytics, S&P Global and the Hang Seng Corporate Sustainability Index. Of note, S&P Global has upgraded our ESG score to 68, making us the top-ranked gas utility business in the Greater China region. Together with our parent company, HKCG, we were ranked top 1% of Chinese enterprises in terms of ESG globally, while also included in the first-ever S&P Global Sustainability Yearbook (China Edition) 2023. Additionally, Towngas Smart Energy was the only company in our sector to be recognised as the "Industry Mover", a testament to our significant improvement in various ESG areas. This includes the integration of ESG concepts into our corporate development strategy, biodiversity issues, as well as our excellent performance in climate change-related risk, its management and safety practices.

With regard to environmental protection, the Group successfully issued 1-year and 3-year Panda Bonds for the first time on the Chinese mainland in June this year, raising a total of RMB1.5 billion with an average interest rate of 3.27% per annum. Among them is the first sustainability-linked Panda Bonds, issued by a Hong Kong enterprise on the Chinese mainland. The market response was enthusiastic with an oversubscription of 1.6 times. The Group not only aligns the business development with national policies, but also capitalises on the opportunities of sustainable finance to facilitate the low-carbon transition of our business.

In addition to these corporate strategies, the Group also encourage employees to reduce carbon levels on an individual basis. In January this year, the Group officially launched the Towngas Tan Hui Platform, our self-developed inclusive carbon platform for employees which covers two major scenarios. Focusing on a low-carbon lifestyle and green office practices, our staff can earn green energy points in their daily environmental protection activities, allowing them to redeem vouchers from the Group’s "Moment+" mall, as well as obtain green certificates.

Together with our parent company, we launched the low-carbon environmental initiative this year under the theme "Forging a Green and Low-Carbon Future", to encourage staff practice a green and healthy lifestyle and support it with actual action. Over 100 project companies participated in this activity, with more than 7,000 trees planted.

In respect of corporate governance, the Group continued to maintain a high level of corporate governance and business integrity, building a significant competitive edge in terms of sustainability. To this end, the remuneration of relevant executive directors and senior management is linked to ESG management performances to strengthen their accountability to achieving ESG management targets. This demonstrates the commitment and determination of management towards ESG objectives.

This year marks the 10th anniversary of our signature community campaign, the Gentle Breeze Movement. This initiative supports schools suffering from a lack of resources, both through school renovation projects as well as the donation of books and other school supplies. Our aim is to improve the learning environment for students and alleviate the burdens endured by underprivileged families. In June this year, we paid a visit to Lushunkou District, Dalian City, Liaoning Province, where we built libraries for five local primary schools and donated sports and education supplies.

Employee and Remuneration Policies

As at 30 June 2023, the Group had 23,856 employees, 99% of whom worked on the Chinese mainland. 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.

BUSINESS OUTLOOK FOR 2023

The country has been implementing its dual goals of carbon peak and carbon neutrality in 2023, with provinces and municipalities in the country proactively promoting carbon peak implementation plans, advancing clean heating, implementing "coal-to-gas" conversions, supporting regional integrated energy services, as well as developing natural gas cogeneration and distributed energy station projects. New market opportunities from carbon peak and carbon neutrality unlocked by national and local policies have been driving our transformation into a greener and smarter business. The synergies between natural gas and renewable energy will help the community use energy more efficiently and reduce carbon emissions. Following the strategic directions of integration, decarbonisation and digitalisation, the Group will continue to consolidate and optimise our business in the natural gas sector, and at the same time, vigorously develop and pursue renewable energy options.

The Blue Book of China's Natural Gas Industry Annual Operation Report (2022-2023) released in April this year highlighted the fact that the key to building a new energy system is to ensure energy safety, high efficiency and low-carbon operations. Thus natural gas, with its numerous advantages, ranging from its flexibility and cleanliness to its high efficiencies, will play a transitional and significant bridging role in this new phase of energy transformation. Looking back at 2022, natural gas accounted for merely 8.4% of primary energy consumption on the Chinese mainland, much lower than the world average of 24%. As such, natural gas will continue to play a pivotal role in the future.

For the city gas business, the "Gas+" integrated energy service the Group heavily promoted serves as a one-stop solution to meet the multiple energy needs of customers, thereby helping the Group capture more high-yield customer groups and business segment and regional energy projects in the long term. In addition, the Group's efforts in optimising gas source structure and strengthening its coordination and deployment ability contribute to the continuous reduction of operating costs. The country is also planning to introduce a new policy on the linkage of natural gas prices to rationalise the cost-planning mechanisms for city gas enterprises, with a focus on promoting the linkage of residential gas prices. Autonomous regions, provinces and municipalities, such as Inner Mongolia, Guizhou, Sichuan, Chongqing, Jiangsu and Hebei, have already issued relevant policies, and it is expected that more provinces and municipalities will follow suit, helping us improve gas price differentials and maintain the sustainable and healthy development of our business.

After the large-scale development in the renewable energy market on the Chinese mainland, the market is now moving into a stage of high quality with rapid leaps in service and technology. According to the China Renewable Energy Development Report (2022), the projection is for renewable energy to continue to grow rapidly during the "14th Five-Year Plan" period, with the electricity generated by renewable energy accounting for about 33% of total electricity consumption. During this time, more than half of the country's installed power is expected to come from photovoltaic and wind power. In view of this huge development potential in the distributed photovoltaic market, the Group will leverage our large industrial and commercial customer base to continually promote the investment, construction and operation of energy infrastructures, such as distributed photovoltaics, energy storage, battery charging and swapping stations, and multi-energy combined supply, as well as to provide value-added smart services. This will include services such as energy efficiency management, carbon management and green electricity trading, and the use of "Tera Planet", a smart energy ecological platform, to realise "source-grid-load-storage" integration and the digital and smart upgrade of energy management.

As the COVID-19 epidemic recedes, we are seeing signs of recovery in every walk of life throughout the country. The Chinese mainland's economy has shown relatively stronger recovery momentum. This is expected to drive steady growth in the Group's various business lines on a continuous basis. However, faced with the uncertainty of interest rate hikes in the global economy, international trade tensions and geopolitical risks, the Group will continue to respond cautiously to these challenges and adhere to a prudent business strategy to ensure the healthy development of the Group in the long term.

Lee Ka-kit
Chairman

Hong Kong, 14 August 2023

RESULTS

Highlights of the Group's interim financial statements for the first six months ended 30 June 2023 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 2023

		Six months ended 30 June	
		2023	2022
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**9,882,711**	10,160,287
Total operating expenses	*4*	**(9,032,066)**	(9,230,228)
		850,645	930,059
Other income		**94,249**	94,135
Other gains, net		**764,349**	521,603
Share of results of associates		**62,411**	114,909
Share of results of joint ventures		**112,322**	158,572
Finance costs	*5*	**(409,497)**	(371,728)
Profit before taxation	*6*	**1,474,479**	1,447,550
Taxation	*7*	**(243,464)**	(277,872)
Profit for the period		**1,231,015**	1,169,678
Profit for the period attributable to:			
Shareholders of the Company		**1,115,411**	1,041,609
Non-controlling interests		**115,604**	128,069
		1,231,015	1,169,678
		HK cents	*HK cents*
Earnings per share	*9*		
– Basic		**34.33**	33.04
– Diluted		**30.20**	15.93

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**1,231,015**	1,169,678
Other comprehensive income (expense) for the period		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation from functional currency to presentation currency	**(846,599)**	(1,028,369)
Fair value change on investments in equity instruments at fair value through other comprehensive income	**113,420**	(142,870)
Income tax relating to items that will not be reclassified to profit or loss	**(28,355)**	35,717
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge:		
Net fair value change on derivative instruments designated as cash flow hedge recorded in hedge reserve	**83,564**	65,947
Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss	**(159,809)**	(105,289)
	(837,779)	(1,174,864)
Total comprehensive income (expense) for the period	**393,236**	(5,186)
Total comprehensive income (expense) for the period attributable to:		
Shareholders of the Company	**369,862**	(75,743)
Non-controlling interests	**23,374**	70,557
Total comprehensive income (expense) for the period	**393,236**	(5,186)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	NOTES	**30.06.2023** **HK$'000** **(unaudited)**	31.12.2022 *HK$'000* *(audited)*
Non-current assets			
Property, plant and equipment		**25,073,776**	23,500,341
Right-of-use assets		**1,129,341**	845,134
Intangible assets		**384,835**	413,533
Goodwill		**5,120,303**	5,296,236
Interests in associates		**4,926,898**	9,760,067
Interests in joint ventures		**3,488,802**	3,574,969
Loans to associates		**46,835**	49,000
Equity instruments at fair value through other comprehensive income		**1,295,333**	1,239,653
Other financial assets		**81,524**	16,927
Deposits paid for acquisition of subsidiaries		**-**	178,662
		41,547,647	44,874,522
Current assets			
Inventories		**710,139**	682,235
Loans to associates		**20,468**	53,197
Loans to joint ventures		**168,451**	171,042
Trade and other receivables, deposits and prepayments	*10*	**2,764,226**	2,912,168
Consideration receivable for exit from investment in an associate	*11*	**5,036,269**	-
Amounts due from non-controlling shareholders		**135,386**	174,422
Financial assets at fair value through profit or loss		**66,969**	70,064
Time deposits over three months		**-**	5,650
Bank balances and cash		**4,185,323**	4,000,676
		13,087,231	8,069,454
Current liabilities			
Trade and other payables and accrued charges	*12*	**3,315,655**	3,067,180
Dividend payable		**487,182**	-
Contract liabilities		**3,526,219**	3,850,134
Lease liabilities		**30,968**	23,687
Amounts due to non-controlling shareholders		**60,782**	82,298
Taxation payable		**1,379,682**	1,532,249
Borrowings – amounts due within one year		**7,720,752**	9,018,808
Loan from ultimate holding company		**43,124**	62,816
Loans from non-controlling shareholders		**-**	7,379
Loans from joint ventures		**810**	17,404
Loan from an associate		**46**	-
		16,565,220	17,661,955
Net current liabilities		**(3,477,989)**	(9,592,501)
Total assets less current liabilities		**38,069,658**	35,282,021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

AT 30 JUNE 2023

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Non-current liabilities		
Lease liabilities	**143,880**	64,162
Borrowings – amounts due after one year	**11,554,028**	8,563,734
Deferred taxation	**715,081**	719,637
Loans from non-controlling shareholders	**14,911**	15,601
Other financial liabilities	**-**	175
Convertible bonds	**1,926,491**	2,055,619
	14,354,391	11,418,928
Net assets	**23,715,267**	23,863,093
Capital and reserves		
Share capital	**325,873**	325,862
Reserves	**21,083,762**	21,178,997
Equity attributable to shareholders of the Company	**21,409,635**	21,504,859
Non-controlling interests	**2,305,632**	2,358,234
Total equity	**23,715,267**	23,863,093

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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$3,478 million as at 30 June 2023. The Group's liabilities as at 30 June 2023 included borrowings of approximately HK$7,721 million that are repayable within one year from the end of the reporting period.

As at 30 June 2023, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$13,296 million and debt financing instruments registered in the National Association of Financial Market Institutional Investors (the "Panda Bonds") of approximately HK$14,582 million and unutilised facilities from banks and ultimate controlling shareholder, HKCG, amounting to approximately HK$6,317 million ("Facilities"). When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$7,721 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/creditors and has good credibility.

Taking into account of the internally generated funds, unutilised source of fund from MTN Programme and 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.

2. APPLICATION OF AMNEDMENTS 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 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendment to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.

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

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' salaries. These are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

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

Information regarding these segments is presented below:

Six months ended 30 June 2023	Sales of piped gas and energy *HK$'000*	Gas connection *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
REVENUE				
Revenue recognised at a point in time	**8,631,055**	**669,882**	**345,723**	**9,646,660**
Revenue recognised over time	**-**	**236,051**	**-**	**236,051**
External	**8,631,055**	**905,933**	**345,723**	**9,882,711**
Segment results	**582,286**	**366,786**	**46,827**	**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				**(409,497)**
Profit before taxation				**1,474,479**
Taxation				**(243,464)**
Profit for the period				**1,231,015**

Six months ended 30 June 2022	Sales of piped gas and energy *HK$'000*	Gas connection *HK$'000*	Extended business *HK$'000*	Consolidated *HK$'000*
REVENUE				
Revenue recognised at a point in time	8,637,148	898,946	328,601	9,864,695
Revenue recognised over time	-	295,592	-	295,592
External	8,637,148	1,194,538	328,601	10,160,287
Segment results	472,347	490,746	61,824	1,024,917
Other income				94,135
Other gains, net				521,603
Unallocated corporate expenses				(94,858)
Share of results of associates				114,909
Share of results of joint ventures				158,572
Finance costs				(371,728)
Profit before taxation				1,447,550
Taxation				(277,872)
Profit for the period				1,169,678

4. TOTAL OPERATING EXPENSES

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Gas fuel, stores and materials used	**7,524,214**	7,844,459
Staff costs	**677,884**	649,737
Depreciation and amortisation	**531,728**	465,755
Other expenses	**298,240**	270,277
	9,032,066	9,230,228

5. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**362,448**	335,381
Effective interest expense on convertible bonds	**39,416**	38,562
Bank charges	**2,766**	3,494
Interest on lease liabilities	**13,191**	2,278
	417,821	379,715
Less: amounts capitalised	**(8,324)**	(7,987)
	409,497	371,728

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**9,178**	9,853
Depreciation of right-of-use assets	**36,798**	27,832
Cost of inventories sold	**8,066,908**	8,322,358
Depreciation of property, plant and equipment	**485,752**	428,070
Staff costs (note)	**677,884**	649,737
Loss on disposal of property, plant and equipment (included in other gains, net)	**-**	2,403
Loss on deemed disposal of a subsidiary (included in other gains, net)	**-**	277
and after crediting:		
Interest income	**23,294**	29,966
Change in fair value of embedded derivative component of convertible bonds (included in other gains, net)	**66,328**	522,019
Gain on exit from investment in an associate (included in other gains, net)	**692,214**	-
Dividend income from equity instruments at fair value through other comprehensive income	**37,236**	38,756
Gain on disposal of property, plant and equipment (included in other gains, net)	**1,106**	-
Exchange gain, net (included in other gains, net)	**1,447**	1,292

Note: Staff costs included share-based payment expenses of HK$24,862,000 (six months ended 30 June 2022: HK$4,941,000).

7. TAXATION

The taxation charge mainly represents Enterprise Income Tax ("EIT") of the People's Republic of China ("PRC") for both periods.

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

The EIT rates applicable for the Group's PRC subsidiaries range from 15% to 25% (six months ended 30 June 2022: 15% to 25%).

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

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil). During the period, a dividend of 15 HK cents per ordinary share (2021 Final: 15 HK cents per ordinary share) amounting to approximately HK$487,182,000 was declared by the Board as the final dividend for 2022 (2021 Final: HK$473,419,000).

The final dividend for 2022 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 11 July 2023, the final dividend of 15 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 5 June 2023 as the final dividend in respect of the financial year ended 31 December 2022.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to shareholders of the Company for the purpose of basic earnings per share	**1,115,411**	1,041,609
Effect of dilutive potential ordinary shares:		
Interest expense on convertible bonds	**39,416**	38,562
Change in fair value of embedded derivative component of convertible bonds	**(66,328)**	(522,019)
Profit for the period attributable to shareholders of the Company for the purpose of diluted earnings per share	**1,088,499**	558,152

	Number of shares Six months ended 30 June	
	2023	2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of basic earnings per share	**3,249,481**	3,152,457
Effect of dilutive potential ordinary shares:		
Convertible bonds	**354,268**	350,350
Share options	**1,091**	-
Weighted average number of subscription shares	**3**	3,002
Weighted average number of subscription shares that would have issued at market	**(3)**	(2,745)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,604,840**	3,503,064

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
Trade receivables (net of allowance for credit losses)	**1,356,267**	1,538,048
Prepayments	**695,111**	715,002
Other receivables and deposits	**712,848**	659,118
	2,764,226	2,912,168

The Group has a policy of allowing a credit period ranging from 0 to 180 days to its customers. Longer credit period is also allowed on a case-by-case basis. The following is an aged analysis of trade receivables (net of allowance for credit losses) at the end of the reporting period:

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
0 to 90 days	**1,111,255**	1,217,418
91 to 180 days	**47,421**	52,244
Over 180 days	**197,591**	268,386
	1,356,267	1,538,048

11. CONSIDERATION RECEIVABLE FOR EXIT FROM INVESTMENT IN AN ASSOCIATE

On 23 May 2023, the Company entered into a capital reduction agreement with Shenergy Group and Shanghai Gas, pursuant to which the 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 contributed by the Company for a consideration of RMB4,663 million (approximately HK$5,036 million) payable by Shanghai Gas to the Company. The consideration of RMB4,663 million has been received in full on 2 August 2023.

12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
Trade payables	**1,694,673**	1,682,468
Consideration payable for acquisitions of subsidiaries	**158,787**	74,464
Other payables and accruals	**1,447,135**	1,308,972
Amount due to ultimate holding company (note)	**15,060**	1,276
	3,315,655	3,067,180

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

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.06.2023	31.12.2022
	HK$'000	*HK$'000*
0 to 90 days	**781,961**	945,467
91 to 180 days	**343,829**	209,601
181 to 360 days	**254,697**	204,877
Over 360 days	**314,186**	322,523
	1,694,673	1,682,468

FINANCIAL REVIEW

Revenue

Affected by international geopolitics and the imbalance in supply-demand, upstream gas prices had kept rising. Nevertheless, the cost pass-throughs were mostly effective, with cost pass-throughs having already been achieved among the majority of the industrial and commercial customers on the Chinese mainland and with residential cost pass-throughs realised in multiple cities where the Group's city gas projects are located. At the same time, the depreciation of Renminbi ("RMB") has offset the growth in revenue. Consequently, the revenue from sales of piped gas and energy was at a level that was essentially flat compared to the corresponding period last year. Meanwhile, the real estate sector on the Chinese mainland remained in doldrums, leading to a significant decrease in residential gas connection and thus a decline in revenue from the gas connection segment. For the first half of 2023, total revenue of the Group amounted to HK$9,883 million, representing a slight decrease of 2.7% from the corresponding period last year.

Business Segments	Six months ended 30 June		
	2023 (HK$ million)	2022 (HK$ million)	Change (%)
Sales of piped gas and energy	8,631	8,637	-
Gas connection	906	1,194	-24.1
Extended business	346	329	5.2
Total	9,883	10,160	-2.7

In the first half of 2023, the Group's consolidated gas sales volume amounted to 2,372 million cubic metres, representing an increase of 4.8% over the corresponding period last year. The number of new residential household connections was 181,000, representing a decrease of 27.2% compared to the corresponding period last year.

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 2023 amounted to HK$9,032 million, representing a decrease of 2.1% compared to the corresponding period last year.

	Six months ended 30 June		
	2023 (HK$ million)	2022 (HK$ million)	Change (%)
Gas fuel, stores and materials used	7,524	7,844	-4.1
Staff costs	678	650	4.3
Depreciation and amortisation	532	466	14.2
Other expenses	298	270	10.3
Total	9,032	9,230	-2.1

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 increased by 46.5% to HK$764 million as compared to HK$522 million in the corresponding period last year, mainly due to the decrease in gain from change in fair value of embedded derivative component of convertible bonds by HK$456 million and the gain on exit from the equity interest in Shanghai Gas of HK$692 million.

Share of Results of Associates

The share of results of associates amounted to HK$62 million, representing a decrease of 45.7%, from HK$115 million in the corresponding period last year. According to the capital reduction agreement entered into between the Company, Shenergy Group and Shanghai Gas, the Group's share of loss of Shanghai Gas for the period from 1 January 2023 to 28 February 2023 amounted to HK$92 million. And as of 30 June 2022, the Company had entered into a shareholders' agreement with Shenergy Group, the controlling shareholder of Shanghai Gas, pursuant to which the financial results of Shanghai Gas for the period from 1 January 2022 to 30 June 2022 were borne by Shenergy Group.

Share of Results of Joint Ventures

The share of results of joint ventures decreased by 29.2% from HK$159 million in the corresponding period last year to HK$112 million, which mainly due to the continued downturn in the national real estate industry, resulting in lower gas connection revenue for some of the joint ventures.

Finance Costs

The finance costs of the Group increased by 10.2% from HK$372 million in the corresponding period last year to HK$409 million. The increase was mainly due to the issuance of Panda Bonds and drawdown of other new bank loans for the investment in new projects and the increase in average interest rates.

Profit for the Period

During the first half of 2023, profit for the period amounted to HK$1,231 million, representing an increase of 5.2% compared to the corresponding period last year. Profit attributable to shareholders of the Company increased by 7.1% to HK$1,115 million. Excluding the impact of gain of HK$66 million (2022 corresponding period: HK$522 million) from change in fair value of embedded derivative component of convertible bonds, as well as the net gain of HK$600 million (2022 corresponding period: nil) on exit from the equity interest in Shanghai Gas and share of its results, operating profit attributable to shareholders of the Company decreased by 13.7% (dropped by 7.3% in RMB) to HK$449 million. Basic earnings per share amounted to 34.33 HK cents, representing an increase of 3.9% 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 2023, the Group's bank loans and other loans amounted to HK$19,275 million (31 December 2022: HK$17,583 million), of which HK$7,721 million (31 December 2022: HK$9,019 million) represented bank loans and other loans due within 1 year, HK$10,820 million (31 December 2022: HK$8,537 million) represented bank loans and other loans due between 1 to 5 years, and HK$734 million (31 December 2022: HK$27 million) represented bank loans and other loans due over 5 years. Other than the HK$15,919 million (31 December 2022: HK$12,355 million) in bank loans and other loans which bore interests at fixed rates, the Group's loans were mainly arranged on a floating interest rate basis. The maturities and interest rates of the loans were arranged to provide sound financial resources and stable interest costs for the Group. The businesses of the Group mainly occurred on the Chinese mainland and most transactions, assets and liabilities were stated in RMB. As a result, the Group bore currency risk from fluctuations of RMB exchange rate for non-RMB denominated deposits and borrowings. The Group's borrowings denominated in RMB amounted to HK$17,309 million (31 December 2022: HK$15,624 million) and the remaining HK$1,966 million (31 December 2022: HK$1,959 million) borrowings were denominated mainly in United States dollars ("USD") and Hong Kong dollars ("HKD") 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$43 million (31 December 2022: HK$63 million), approximately HK$0.81 million (31 December 2022: HK$17 million) and approximately HK$15 million (31 December 2022: HK$23 million) from the parent company, HKCG, joint ventures, and non-controlling shareholders on a fixed interest rate basis, respectively.

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

As at 30 June 2023, the Group's cash and cash equivalents together with time deposits amounted to HK$4,185 million (31 December 2022: HK$4,006 million), of which 99% (31 December 2022: 99%) are RMB-denominated and the rest are denominated in HKD and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at 30 June 2023 was 41.9% (31 December 2022: 39.7%).

As at 30 June 2023, the Group has unutilised issuance amount under the MTN Programme amounting to approximately HK$13,296 million and Panda Bonds of approximately HK$14,582 million and unutilised facilities from banks and HKCG amounting to approximately HK$6,317 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 2023.

INTERIM DIVIDEND

The Board has taken account of the Company's dividend policy and resolved at the Board meeting on 14 August 2023 not to declare an interim dividend (2022: nil).

OTHER INFORMATION

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the six months ended 30 June 2023.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 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 2023.

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 2023, except that the trustee of the share award scheme of the Company (the "Share Award Scheme"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 950,000 issued shares of the Company at a total consideration of approximately HK$3,172,000.

By Order of the Board
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 14 August 2023

At the date of this announcement, the Board comprises:

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

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

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