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)

# 2022 INTERIM RESULTS ANNOUNCEMENT

## OVERVIEW OF BUSINESS OPERATIONS DURING THE FIRST HALF OF 2022

- The national goals of achieving "carbon peak" and "carbon neutrality" and policies on environmental protection provide us with vast room for development. The Group will continue to seek high-quality renewable energy projects and make prudent investments following the three strategic directions of integration, decarbonisation and digitalisation.
- The Group will continuously devote resources into the R&D of innovative environmental technologies, and combine energy innovation and R&D with commercial mass production to achieve high-quality business development.
- We have 298 projects in 23 provinces/municipalities/autonomous regions on the Chinese mainland, with business spanning across city gas and renewable energy.
- Facing the impact of the pandemic, the rising energy prices and the evolution of the international landscape, we further developed the gas business and strove to develop the renewable energy business by virtue of our proven track record and professional management, and recorded decent growth in the first half of the year.
- Gas sales volume increased by 4% to 7,541 million cubic metres and revenue surged by 31% to HK$10.16 billion.

## FINANCIAL HIGHLIGHTS

The board of directors announced that for the six months ended 30 June 2022, compared to the corresponding period last year, profit after taxation attributable to shareholders of the Group was HK$1,042 million, increased by HK$264 million, up 34%; and basic earnings per share amounted to HK33.04 cents.

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

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2022** | 2021 |
| Revenue, HK million dollars | **10,160** | 7,773 |
| Profit after taxation attributable to shareholders, HK million dollars | **1,042** | 778 |
| Basic earnings per share, HK cents | **33.04** | 26.21 |
| Gas sales volume, million cubic metres; natural gas equivalent | **7,541** | 7,261 |
| Number of city-gas customers as at 30th June, million households* | **15.50** | 14.56 |

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

## REVIEW OF OPERATIONS

The Group secured an investment of HK$2.8 billion from the Affinity Equity Partners, a well-known private equity fund, last year to speed up our distributed photovoltaic projects and directly provide electricity to our commercial and industrial customers.

We were renamed to Towngas Smart Energy Company Limited on 14 December 2021, and we will vigorously develop the build-up, operation and management of smart energy business in the future on the back of our gas business.

With the global economy recovering from the impact of COVID-19 and the high inflation driven by escalating energy prices in the first half of 2022, the economy on the Chinese mainland got off to a good start. Since March, however, the resurgence of the pandemic in developed areas such as Jiangsu, Guangdong, Shanghai and many of the northern cities, affected commerce and industry on the Chinese mainland in varying degrees.

For the six months ended 30 June 2022, compared to the corresponding period last year, the Group recorded a total revenue of HK$10,160 million, representing a significant growth of 31% while profit after taxation attributable to shareholders of the Company surged by 34% to HK$1,042 million; and basic earnings per share amounted to HK33.04 cents, increased significantly by 26%.

### Gas Business

During the first half of 2022, compared to the corresponding period of 2021, the Group's total gas sales volume rose 4% to 7,541 million cubic metres; industrial gas sales volume increased by 4% to 3,725 million cubic metres, rising from 3,592 million cubic metres and accounting for 50% of the total volume of gas sold by the Group. Commercial gas sales volume reached 927 million cubic metres, an increase of 1% compared with the 918 million cubic metres recorded in the corresponding period last year and accounting for 12% of the Group's total gas sales. Wholesale gas sales volume reached 1,000 million cubic metres, a decrease of 2% compared with the 1,025 million cubic metres recorded in the corresponding period last year, representing 13% of our total volume of gas sales. Residential gas sales volume grew 11% to 1,730 million cubic metres, rising from 1,559 million cubic metres for the corresponding period last year and accounting for 23% of the total volume of gas sold. The equivalent of 159 million cubic metres of natural gas sales volume was recorded for our distributed energy projects, compared with the 167 million cubic metres recorded in the corresponding period last year. This accounted for 2% of the Group's total volume of gas sold.

For the six months ended 30 June 2022, our sales of piped gas and energy business recorded revenue of HK$8,637 million, representing a significant increase of 33% compared with the corresponding period last year, mainly due to an increase in the overall unit gas price.

For our gas connection business, compared with the corresponding period last year, the income from connection fees for the period amounted to HK$1,195 million, up 32%, and we secured 250,000 new consolidated household connections during the period.

In the first half of 2022, the Group was able to mitigate the impact of rising upstream gas prices on our gross profit by accelerating the concentration of regional gas sources together with flexible procurement. We were also able to reduce the pressure on businesses by actively seeking and making use of supportive policies. As the domestic economy improves in the second half of the year, the growth of our gas volume is expected to rebound. We also anticipate that central and local governments will facilitate the coordination of the current varying pricing mechanisms. Additionally, the peak shaving capacities of our parent company, the Hong Kong and China Gas Company Limited's ("HKCG") gas storage facilities in Jintan, Jiangsu Province will be increased year-after-year. Going hand-in-hand with these developments, we will be increasing supply from unconventional domestic gas sources to reduce costs. In comparison with the first half of the year, we expect that our city gas business will see better profitability in the second half of 2022. Furthermore, we are accelerating the expansion of heating business which promotes the usage of natural gas. We will also seize the new growth opportunities in our city gas business arising from the transition towards carbon peak and carbon neutrality; green, low-carbon energy; and prepare for the active control of methane emissions. These initiatives will provide both premium and sustainable development in our city gas business.

With the reinvestment projects of its project companies taken into account, the Group had two new city gas projects in the first half of the year, namely 長汀福燃天然氣有限責任公司 (Changting Furan Natural Gas Co., Ltd.) located in Fujian province and 安國市華港燃氣有限公司 (Anguo Huagang Gas Co., Ltd.) located in Hebei province. These two projects are expected to bring the Group an annual gas consumption of 136 million cubic metres of natural gas equivalent in the next five years.

**Renewable Energy Business**

With our widespread experience, accumulated in the development and management of industrial customers in the gas business over the years, we focused even further on comprehensive energy management for customers in zero-carbon smart industrial parks. Activities include the aggressive development of photovoltaic investment and operation, as well as the provision of value-added services such as energy digital services, carbon trading and energy conservation management to users in industrial parks and corporate users. Our mode of developing zero-carbon smart industrial parks has demonstrated its competitive edge.

To date, we had successfully negotiated the development of 47 zero-carbon smart industrial park projects together with the planning of more than 200 renewable energy projects in 19 provincial-level areas.

Moreover, our parent HKCG have established our presence in developing city gas business in Xi'an in Shaanxi Province since 2006. Over the years, we have offered safe and reliable gas services to the city and received wide recognition from government leaders and all walks of life. Currently, we have successfully secured zero-carbon industrial park projects in the Xi'an Economic and Technology Development Zone and Huyi District. Going forward, we also plan to invest in smart energy business in other districts such as Xixian New District and Gaoxin District to support Xi'an in achieving the goals of carbon peak and carbon neutrality.

Moving forward, we will focus on investing in the Beijing-Tianjin-Hebei region, Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area; and provide industry leaders in sectors such as steel, paper and data centres with carbon-neutral solutions. We have also established demonstration projects for zero-carbon industrial parks and zero-carbon factories, which provide large-scale promotion and replication values in Taizhou of Jiangsu Province and Tangshan of Hebei Province. Our aim is to support and expedite the development of zero-carbon smart industrial parks. Additionally, we have increased our investment in energy management technologies. This includes building an energy ecological platform for zero-carbon industrial parks. At the same time, we are promoting our carbon asset custody and green power trading services to boost our energy and carbon service capacities while also exploring every opportunity to broaden our business prospects.

On the front of energy innovation, we have established our Towngas Energy Academy during the year. The Academy's aim is to attract and lead scientific research in partnership with other scientific institutions to jointly transform breakthroughs in scientific research into achievable commercial projects by offering a practical commercial environment with a focus on smart and green energy. In this regard, we have earlier cooperated with Tsinghua University to set up a joint research centre for virtual power plant technologies in zero-carbon smart industrial parks, seeking to overcome technological bottlenecks as well as to drive the development and technological progress of energy Internet and new power systems.

We continued to expand our business presence in the first half of 2022, during which we added 52 renewable energy projects with a total of 108 projects in place. Our business includes commercial and industrial distributed photovoltaic energy, energy storage, carbon management, electricity engineering works, green electricity companies and integrated energy. We will uphold our core strategy of sustainable development and continue to plan along three strategic directions by focusing on the build-up, operation and management of zero-carbon projects under various scenarios. We will also get hold of the era's opportunities and contribute to our nation's goals of achieving carbon peak and carbon neutrality as well as addressing global climate change.

**Extended Business**

Based on the Group's VCC (Virtual Customer Centre) platform, we, via our "Lifestyle" brand, have actively expanded our extended business with a focus on the smart kitchen, including smart kitchen equipment, gas service and safety management, safe kitchen solution, high-end kitchen cabinet and household insurance. We also offer health products and services through "Moment+" via its online platform and physical outlets.

At the end of June, we had 6.5 million Lifestyle VCC members, 480,000 of whom were newly added in the first half of the year. During the same period, our companies handled 7.35 million gas business transactions together with a further 470,000 non-gas payment transactions on our Lifestyle VCC platform. Sales of gas insurance products also saw considerable growth, recording an increase of 52% over that of the corresponding period last year.

We continued to work actively to promote the sales of our Bauhinia brand, with gas appliances ranging from gas stoves, water heaters, range hoods to gas dryers, and bespoke kitchen design services together with smart kitchen solutions to meet customers' diverse needs.

**Environmental, Social and Governance**

In line with global trends particularly in regard to green development and the transition to low-carbon operations, we will continue to increase investment in our environmental, social and governance (ESG) initiatives, while at the same time making every effort to improve our levels of sustainable development in all aspects throughout the Group. Similarly, we are working hard to incorporate the ESG concept in our governance and daily operation.

The Group has been included in five international ESG ratings, giving investors and our different stakeholders a clearer understanding of our business operation, especially in the field of ESG-related risks and opportunities. The five ratings, with two further ratings added this year compared with the number for the previous year, came from leading global institutions – MSCI, Sustainalytics, S&P Global, FTSE Russell and the Hang Seng Corporate Sustainability Index. This helps give people from different sectors a greater understanding of our performance in sustainable development. Having received an ESG rating upgrade from Sustainalytics recently, the Group outperforms the industry and emerges as the first city gas utility on the Chinese mainland to be rated as " medium risk".

In the first half of the year, we received several ESG awards, reaffirming the high recognition we have achieved with regard to our many contributions to the long-term development of our community. Of special note, the Group has received the title, Low-Carbon Model for two consecutive years, from *China News Weekly*, China News Service. This award gives tribute to the efforts and outstanding achievements of businesses in the field of carbon reduction and energy conservation. We also received the Most Socially Responsible Listed Company and Caring Enterprise awards presented by different institutions in recognition of our many social responsibility initiatives.

We are also highly proactive in environmental protection. We are committed to the cause, shouldering corporate responsibilities and making every contribution to combat the global climate crisis and support the Chinese mainland's journey towards carbon neutrality. In the first half of the year, we announced the first issue of our US$200 million of sustainability-linked bonds. The bonds were issued with regard to a sustainable development-linked financial framework which we formulated, in line with the principles of sustainable development-linked bonds and sustainable development-linked loans. Under the framework, the Group established two Sustainability Performance Targets, namely the total photovoltaic installed capacity and the solar energy sales to total energy sales ratio. If either of the pre-agreed sustainable development indicators are not met, we will pay additional interest to show our commitment. Additionally, we officially teamed up with China Oil and Gas Methane Alliance in June this year. The aim is to reduce the average emission intensity of methane during the production of natural gas to less than 0.25% by 2025, which is close to leading global standards. The ultimate goal is to reach world-class standards by 2035.

On top of these efforts at the corporate level, we also encourage employees to reduce carbon levels on an individual basis. In March this year, the Group launched a low-carbon environmental campaign – Green Travel for Carbon Peak and Carbon Neutrality, encouraging all our staff to adopt a green, low-carbon and healthy lifestyle through their actions. A total of more than 130 project companies took part in this activity, which included the planting of more than 10,000 trees.

In terms of our governance structure, we are committed to making changes that support the principles of sustainable development. We also believe that board diversity is beneficial to improving our performance. As such, in addition to merit, we take this diversity into account in the selection of our directors. As such, on 4 April this year, Dr Loh Kung Wai Christine was appointed as an independent non-executive director of the Group. In this role she also serves as a member of our Nomination Committee, Remuneration Committee as well as our Environmental, Social and Governance Committee.

Lending a helping hand to the disadvantaged and the needy, we launched our signature community campaign, the Gentle Breeze Movement, in 2013. This initiative supports schools suffering from a lack of resources, both through school renovation projects as well as donation of books and other school supplies. It also aims at improving the learning environment for students and alleviating any burdens borne by underprivileged families. In May this year, under this initiative, a visit was made to Pingnan County, Guangxi. Apart from donating teaching equipment, we also set up a Charity Library, improved and built sports facilities for a local primary school, invested and donated approximately RMB180,000 in total.

### Employee and Remuneration Policies

As at 30 June 2022, the Group had 23,476 employees, 99% of whom worked in 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.

### Interim Dividend

The Board has taken account of the Company's dividend policy and resolved at the Board meeting on 16 August 2022 not to declare an interim dividend (2021: nil).

## BUSINESS OUTLOOK FOR 2022

In the first half of 2022, economic growth on the Chinese mainland faced great challenges. In the past few months, the central and local governments have repeatedly formulated policies, both to maintain the stability of and to rejuvenate the economy. As the pandemic was gradually brought under control in June, the economy on the Chinese mainland began to turn around. With these domestic support policies playing a positive role and the implementation of the improved COVID-19 Pandemic Prevention and Control Plan (Ninth Edition) taking hold, industrial and commercial activities and residential consumption experienced a speedy recovery. We therefore expect the second half of the year to fare better than the first.

Guided by carbon peak and carbon neutrality goals, the green and low-carbon energy transition on the Chinese mainland is progressing systematically. Speeding up the establishment of a safe, green and modern energy system, the Chinese mainland has promulgated and implemented a series of plans and schemes to guide energy transition development in the period of 14th Five-Year-Plan and up to 2035. In view of the pandemic in the first half of 2022, the consumption demand for natural gas on the Chinese mainland was significantly dampened. In the long term, however, natural gas will play a crucial role in achieving carbon peak and carbon neutrality. It can only grow in popularity for applications in the key industries focusing particularly on energy conservation and carbon reduction, maintaining stable and persistent growth, and developing in concert with new energy into the future. New premium development opportunities will also present themselves in the field of regional integrated energy supply.

The consumption of non-fossil energy will take up a higher proportion in primary energy, reaching 25% by 2030. At the same time, the installed capacity of wind and photovoltaic power will reach 1.2 billion kilowatts, driving a speedy leap in the development of renewable energy on the Chinese mainland. Even in the first half of the year plagued by the pandemic, the Chinese mainland posted robust growth of 25.8% in the installed capacity and investment of new photovoltaic power generation. "Photovoltaic+" has been widely applied under various scenarios in industrial parks, buildings, transportation and other fields. Historic opportunities will emerge in photovoltaic power generation, energy storage, hydrogen energy and smart energy. Following the three strategic directions of integration, decarbonisation and digitalisation, the Group will promote the development of zero-carbon smart industrial parks and photovoltaic power, energy storage, as well as battery charging and swapping projects.

In the first half of 2022, we made every effort to overcome the adverse impact of the pandemic. We also made the best of global environmental protection trends, aligned ourselves with the national goals of carbon peak and carbon neutrality and other related policies, promoted the parallel and coordinated development of our city gas and renewable energy business, and proactively expanded our extended business to empower our companies. On top of these initiatives, we are promoting information transformation as well. On yet another front, we continued to invest resources in the research and development of innovative environmental protection technology. We also integrated new and ground-breaking research and development in energy with commercial-scale production to create new growth drivers for our business development. At the same time, building a better future for our community, we are committed to improving our ESG performance as well as our ability to undertake greater corporate responsibility. With the improving Chinese economic landscape in the second half of the year, our various business lines will be back on track, returning to rapid and quality growth, while setting the scene for our ongoing and vigorous development.

**Lee Ka-kit**
Chairman

Hong Kong, 16 August 2022

## RESULTS

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

### CONDENSED CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2022*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | ***2022*** | 2021 |
| | *NOTES* | ***HK$'000*** | HK$*'000* |
| | | ***(unaudited)*** | *(unaudited)* |
| Revenue | *3* | **10,160,287** | 7,772,512 |
| Total operating expenses | *4* | **(9,230,228)** | (6,760,707) |
| | | **930,059** | 1,011,805 |
| Other income | | **94,135** | 74,707 |
| Other gains (losses), net | | **521,603** | (4,985) |
| Share of results of associates | | **114,909** | 186,635 |
| Share of results of joint ventures | | **158,572** | 186,023 |
| Finance costs | *5* | **(371,728)** | (234,598) |
| Profit before taxation | *6* | **1,447,550** | 1,219,587 |
| Taxation | *7* | **(277,872)** | (315,881) |
| Profit for the period | | **1,169,678** | 903,706 |
| Profit for the period attributable to: | | | |
| Shareholders of the Company | | **1,041,609** | 778,133 |
| Non-controlling interests | | **128,069** | 125,573 |
| | | **1,169,678** | 903,706 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share | *9* | | |
| – Basic | | **33.04** | 26.21 |
| – Diluted | | **15.93** | N/A |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2022*

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| Profit for the period | **1,169,678** | 903,706 |
| Other comprehensive (expense) income for the period | | |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Exchange differences arising on translation to presentation currency | **(1,028,369)** | 118,442 |
| Fair value change on investments in equity instruments at fair value through other comprehensive income | **(142,870)** | (299,016) |
| Income tax relating to items that will not be reclassified to profit or loss | **35,717** | 76,367 |
| *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 | **65,947** | (30,425) |
| Reclassification of fair value change on derivative instruments designated as cash flow hedge to profit or loss | **(105,289)** | 49,512 |
| | **(1,174,864)** | (85,120) |
| Total comprehensive (expense) income for the period | **(5,186)** | 818,586 |
| Total comprehensive (expense) income attributable to: | | |
| Shareholders of the Company | **(75,743)** | 679,649 |
| Non-controlling interests | **70,557** | 138,937 |
| Total comprehensive (expense) income for the period | **(5,186)** | 818,586 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2022*

| | *NOTES* | **30.06.2022** **HK$'000** **(unaudited)** | 31.12.2021 *HK$'000* *(audited)* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **22,761,228** | 22,810,412 |
| Right-of-use assets | | **882,110** | 941,481 |
| Intangible assets | | **439,107** | 471,083 |
| Goodwill | | **5,489,796** | 5,750,478 |
| Interests in associates | | **10,623,229** | 11,183,849 |
| Interests in joint ventures | | **3,721,842** | 3,629,468 |
| Loans to associates | | **45,168** | 47,313 |
| Equity instruments at fair value through other comprehensive income | | **1,286,917** | 1,497,846 |
| Other financial assets | | **36,491** | - |
| Deposits paid for acquisition of subsidiaries / an associate | | **-** | 178,829 |
| | | **45,285,888** | 46,510,759 |
| Current assets | | | |
| Inventories | | **687,679** | 704,509 |
| Loans to associates | | **60,722** | 67,207 |
| Loans to joint ventures | | **192,775** | 194,873 |
| Trade and other receivables, deposits and prepayments | *10* | **2,537,846** | 2,463,040 |
| Amounts due from non-controlling shareholders | | **209,196** | 215,637 |
| Time deposits over three months | | **6,794** | 9,571 |
| Bank balances and cash | | **3,866,700** | 4,071,107 |
| | | **7,561,712** | 7,725,944 |
| Current liabilities | | | |
| Trade and other payables and accrued charges | *11* | **2,814,934** | 2,994,759 |
| Contract liabilities | | **3,706,961** | 3,939,179 |
| Lease liabilities | | **20,013** | 15,312 |
| Amounts due to non-controlling shareholders | | **72,663** | 79,855 |
| Taxation payable | | **1,666,309** | 1,611,627 |
| Borrowings – amounts due within one year | | **7,252,156** | 8,633,082 |
| Loan from ultimate holding company | | **80,959** | 66,617 |
| Loans from joint ventures | | **803** | 730 |
| Loan from an associate | | **23,427** | - |
| Other financial liabilities | | **-** | 29,992 |
| | | **15,638,225** | 17,371,153 |
| Net current liabilities | | **(8,076,513)** | (9,645,209) |
| Total assets less current liabilities | | **37,209,375** | 36,865,550 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)***

*AT 30 JUNE 2022*

| | **30.06.2022** | 31.12.2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(audited)* |
| Non-current liabilities | | |
| Lease liabilities | **76,233** | 60,174 |
| Borrowings – amounts due after one year | **9,490,530** | 7,990,330 |
| Deferred taxation | **765,588** | 830,839 |
| Loans from non-controlling shareholders | **23,792** | 37,518 |
| Other financial liabilities | **15,377** | 40,694 |
| Convertible bonds | **2,130,140** | 2,733,237 |
| | **12,501,660** | 11,692,792 |
| Net assets | **24,707,715** | 25,172,758 |
| Capital and reserves | | |
| Share capital | **316,469** | 315,989 |
| Reserves | **22,022,181** | 22,579,063 |
| Equity attributable to shareholders of the Company | **22,338,650** | 22,895,052 |
| Non-controlling interests | **2,369,065** | 2,277,706 |
| Total equity | **24,707,715** | 25,172,758 |

## 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$8,077 million as at 30 June 2022. The Group's liabilities as at 30 June 2022 included borrowings of approximately HK$7,252 million that are repayable within one year from the end of the reporting period.

As at 30 June 2022, the Group has unutilised source of fund from a Medium Term Note Programme ("MTN Programme") amounting to approximately HK$13,244 million and unutilised facilities from banks and ultimate controlling shareholder, The Hong Kong and China Gas Company Limited ("HKCG"), amounting to approximately HK$9,929 million ("Facilities"). As of the date of approval for issuance of the condensed consolidated financial statements, the Group had unutilised source of fund from MTN Programme and the Facilities amounting to approximately HK$13,257 million and HK$9,583 million, respectively. When considering the Group's ability to continue as a going concern, the Directors considered that the Group's borrowings of approximately HK$1,230 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 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 ("HKFRS")

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 2022 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 |
| Amendments to HKAS 16 | Property, Plant and Equipment - Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts - Cost of Fulfilling a Contract |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 - 2020 |

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 (losses), 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 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** |

| Six months ended 30 June 2021 | 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 | 6,514,341 | 674,337 | 354,748 | 7,543,426 |
| Revenue recognised over time | - | 229,086 | - | 229,086 |
| External | 6,514,341 | 903,423 | 354,748 | 7,772,512 |
| Segment results | 610,607 | 396,913 | 71,188 | 1,078,708 |
| Other income | | | | 74,707 |
| Other losses, net | | | | (4,985) |
| Unallocated corporate expenses | | | | (66,903) |
| Share of results of associates | | | | 186,635 |
| Share of results of joint ventures | | | | 186,023 |
| Finance costs | | | | (234,598) |
| Profit before taxation | | | | 1,219,587 |
| Taxation | | | | (315,881) |
| Profit for the period | | | | 903,706 |

## 4. TOTAL OPERATING EXPENSES

| | **Six months ended 30 June** | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Gas fuel, stores and materials used | **7,844,459** | 5,542,926 |
| Staff costs | **649,737** | 568,690 |
| Depreciation and amortisation | **465,755** | 436,163 |
| Other expenses | **270,277** | 212,928 |
| | **9,230,228** | 6,760,707 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings | **335,381** | 238,573 |
| Effective interest expense on convertible bonds | **38,562** | - |
| Bank charges | **3,494** | 2,496 |
| Interest on lease liabilities | **2,278** | 2,224 |
| | **379,715** | 243,293 |
| Less: amounts capitalised | **(7,987)** | (8,695) |
| | **371,728** | 234,598 |

## 6. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation has been arrived at after charging: | | |
| Amortisation of intangible assets | **9,853** | 9,842 |
| Depreciation of right-of-use assets | **27,832** | 26,229 |
| Cost of inventories sold | **8,322,358** | 5,978,625 |
| Depreciation of property, plant and equipment | **428,070** | 400,092 |
| Staff costs (note) | **649,737** | 568,690 |
| Loss on disposal of property, plant and equipment (included in other gains (losses), net) | **2,403** | 5,675 |
| Loss on deemed disposal of a subsidiary (included in other gains (losses), net) | **277** | - |
| and after crediting: | | |
| Interest income | **29,966** | 17,764 |
| Change in fair value of embedded derivative component of convertible bonds (included in other gains (losses), net) | **522,019** | - |
| Dividend income from equity instruments at fair value through other comprehensive income | **38,756** | 30,882 |
| Exchange gain, net (included in other gains (losses), net) | **1,292** | 1,095 |

Note: During the six months ended 30 June 2022, the Company entered into a number of subscription agreements with subscribers pursuant to which a total of 11,663,000 subscription shares will be issued by the Company to the subscribers at a subscription price of HK$3.69 per share in cash. The subscribers include the directors of the Company, directors of subsidiaries of the Company, directors of subsidiaries of HKCG and employees of the Group and HKCG, accordingly the difference between the fair value of shares at date of grant or date of approval (if needed) and subscription price amounting to HK$4,941,000 in aggregate is recorded as share-based payment and included in staff costs.

## 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 2021: 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 2022 (six months ended 30 June 2021: nil). During the period, a dividend of HK fifteen cents per ordinary share (2020 Final: HK fifteen cents per ordinary share) amounting to HK$473,419,000 was declared by the Board as the final dividend for 2021 (2020 Final: HK$445,340,000).

The final dividend for 2021 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 2022, the final dividend of HK fifteen 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 2022 as the final dividend in respect of the financial year ended 31 December 2021.

## 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 | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Earnings | | |
| Profit for the period attributable to shareholders of the Company for the purpose of basic earnings per share | **1,041,609** | 778,133 |
| Effect of dilutive potential ordinary shares: | | |
| Interest expense on convertible bonds | **38,562** | - |
| Change in fair value of embedded derivative component of convertible bonds | **(522,019)** | - |
| Profit for the purpose of diluted earnings per share | **558,152** | 778,133 |

| | Number of shares<br>Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | ***'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 | **3,152,457** | 2,968,935 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible bonds | **350,350** | - |
| Weighted average number of remaining subscription shares | **3,002** | - |
| Weighted average number of remaining subscription shares that would have issued at market | **(2,745)** | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **3,503,064** | 2,968,935 |

There were no potential ordinary shares in issue for the six months ended 30 June 2021.

## 10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **30.06.2022** | 31.12.2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables (net of allowance for credit losses) | **1,213,327** | 1,241,290 |
| Prepayments | **753,487** | 571,274 |
| Other receivables and deposits | **571,032** | 650,476 |
| | **2,537,846** | 2,463,040 |

Trade receivables

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:

| | **30.06.2022** | 31.12.2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **854,167** | 952,900 |
| 91 to 180 days | **82,514** | 81,132 |
| Over 180 days | **276,646** | 207,258 |
| | **1,213,327** | 1,241,290 |

## 11. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | **30.06.2022** | 31.12.2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **1,380,741** | 1,587,061 |
| Consideration payable for acquisitions of businesses | **77,121** | 80,700 |
| Other payables and accruals | **1,351,002** | 1,325,645 |
| Amount due to ultimate holding company (note) | **6,070** | 1,353 |
| | **2,814,934** | 2,994,759 |

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

Trade payables

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

| | **30.06.2022** | 31.12.2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **525,538** | 905,106 |
| 91 to 180 days | **290,689** | 209,004 |
| 181 to 360 days | **258,537** | 172,091 |
| Over 360 days | **305,977** | 300,860 |
| | **1,380,741** | 1,587,061 |

## 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 2022, the Group's bank loans and other loans amounted to HK$16,743 million (31 December 2021: HK$16,623 million), of which HK$7,252 million (31 December 2021: HK$8,633 million) represented bank loans and other loans due within 1 year, HK$9,465 million (31 December 2021: HK$7,968 million) represented bank loans and other loans due between 1 to 5 years, and HK$26 million (31 December 2021: HK$22 million) represented bank loans and other loans due over 5 years. Other than the HK$12,022 million (31 December 2021: HK$10,442 million) in bank loans and other loans which bore interests at fixed rates, the Group's loans were 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 in Chinese mainland and most transactions, assets and liabilities were stated in Renminbi ("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$14,385 million (31 December 2021: HK$15,648 million) and the remaining HK$2,358 million (31 December 2021: HK$975 million) borrowings were denominated mainly in United States dollars ("USD") 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$81 million (31 December 2021: HK$67 million), approximately HK$800,000 (31 December 2021: HK$730,000), approximately HK$23 million (31 December 2021: nil) and HK$24 million (31 December 2021: HK$38 million) from the parent company HKCG, joint ventures, an associate and non-controlling shareholders on a fixed interest rate basis respectively.

In April 2022, the Group issued its first 5-year Sustainability-Linked Bond (the "Bond") and successfully raised a total of USD200 million. The Group was also the first energy company to issue Sustainability-Linked Bond in Hong Kong. The Bond was issued under the USD2 billion Medium Term Note Programme ("MTN Programme") established in June 2021 and with reference to the Sustainability-Linked Financing Framework of the Group established in March 2022. Proceeds of the Bond were hedged to RMB by cross currency swaps to mitigate foreign currency risk.

As at 30 June 2022, the Group's cash and cash equivalents together with time deposits amounted to HK$3,873 million (31 December 2021: HK$4,081 million), of which 99% (31 December 2021: 99%) are RMB-denominated and the rest are denominated in Hong Kong dollars and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at 30 June 2022 was 38.0% (31 December 2021: 37.9%).

As at 30 June 2022, the Group has unutilised issuance amount under the MTN Programme amounting to approximately HK$13,244 million and unutilised facilities from banks and HKCG amounting to approximately HK$9,929 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, convertible bonds and equity funding. The Group maintains a strong liquidity position with its cash and cash equivalents on hand, unutilised credit facilities and its MTN Programme. 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". 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 2022.

**INTERIM DIVIDEND**

The Board has taken account of the Company's dividend policy and resolved at the Board meeting on 16 August 2022 not to declare an interim dividend (2021: 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 2022.

### 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 2022.

### 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 2022, 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 6,965,000 issued shares of the Company at a total consideration of HK$29,897,000.

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

Hong Kong, 16 August 2022

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