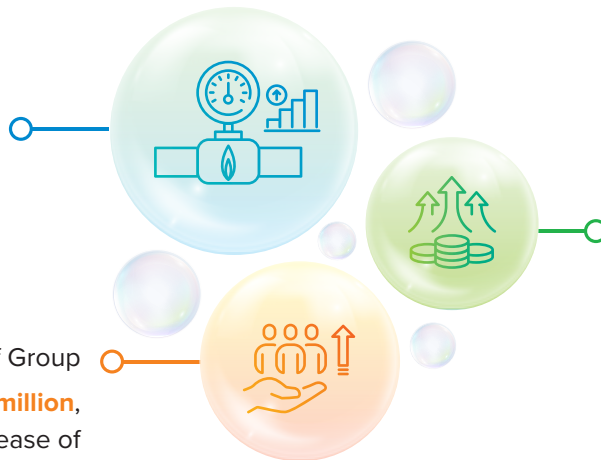




# Financial Review

In 2023, total gas sales volume of the Group rose by **8%** to **16,458 million** cubic metres.

The total number of Group customers rose to **16.77 million**, representing an increase of **840,000** customers during the year.



Profit attributable to shareholders of the Company increased significantly by **63.2%** to **HK\$1,575 million**. Core profit before non-operating gains and losses increased by **16.3%** to **HK\$1,190 million** (increased by **22.6%** in RMB).

## Revenue

In 2023, the Group's consolidated gas sales volume amounted to 4,823 million cubic metres, representing an increase of 7.4% over last year. The cost pass-throughs of piped gas were further improve, with cost pass-throughs having already been achieved among the majority of the industrial and commercial customers and with residential cost pass-throughs realised in multiple cities where the Group's city-gas projects are located. Nonetheless, the depreciation of RMB has offset the growth in revenue. Consequently, the revenue from sales of piped gas was at a level that was essentially flat compared to last year. Meanwhile, the real estate sector on the Chinese mainland remained in doldrums, leading to a decrease in household gas connection. On the consolidated basis, the Group had 411,000 new household connections, representing a decrease of 23.0% compared to last year, leading to a decline in gas connection revenue. Turnover increased by 4.2% to RMB17,915 million, but due to the exchange rate impact, turnover in HKD decreased slightly by 1.2% to HK\$19,842 million.

Business Segments	2023	2022
	HK\$ million	HK\$ million (restated)
Sales of piped gas business	16,292	16,416
Gas connection	1,868	2,412
Renewable energy business	1,056	508
Extended business	626	737
<b>Total</b>	<b>19,842</b>	<b>20,073</b>



## 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 of the Group in 2023 amounted to HK\$18,178 million, representing a decrease of 1.5% compared to last year.

	<b>2023</b> HK\$ million	2022 HK\$ million
Gas fuel, stores and materials used	<b>15,125</b>	15,507
Staff costs	<b>1,306</b>	1,356
Depreciation and amortisation	<b>1,070</b>	918
Other expenses	<b>677</b>	679
<b>Total</b>	<b>18,178</b>	18,460

Total operating expenses and its ratio to total revenue remained constant compared to last year.

## Other Gains, Net

Other gains, net decreased by 19.7% to HK\$427 million as compared to HK\$532 million in last year, mainly due to the decrease in gain from change in fair value of embedded derivative component of convertible bonds by HK\$429 million, the gain on exit from the equity interest in Shanghai Gas of HK\$681 million and impairment provision of goodwill of HK\$306 million.

## Share of Results of Associates

In 2023, the share of results of associates amounted to a profit of HK\$366 million, representing an increase of HK\$613 million compared to last year's loss of HK\$247 million. According to the capital reduction agreement entered into between the Company, Shenergy Group and Shanghai Gas, the Group is only required to share the loss of Shanghai Gas of HK\$92 million for the period from 1 January 2023 to 28 February 2023, as compared to last year's share of the loss of Shanghai Gas of HK\$589 million.

## Share of Results of Joint Ventures

In 2023, share of results of joint ventures increased by 3.8% from HK\$306 million last year to HK\$318 million (increased by 9.3% in RMB).

## Finance Costs

In 2023, the finance costs of the Group increased by 2.3% from HK\$753 million last year to HK\$770 million.



# Financial Review

## Profit for the Year

In 2023, profit attributable to shareholders of the Company amounted to HK\$1,575 million, representing an increase of 63.2% compared to last year. Excluding non-operating gains and losses (i.e. gain from change in fair value of embedded derivative component of convertible bonds of HK\$102 million, the net gain of HK\$589 million on exit from the equity interest in Shanghai Gas and share of its results and impairment provision of goodwill of HK\$306 million), core profit amounted to HK\$1,190 million, increased by 16.3% (increased by 22.6% in RMB). Basic earnings per share amounted to 47.74 HK cents, representing an increase of 58.2% compared to 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 31 December 2023, the Group's borrowings amounted to HK\$16,282 million (31 December 2022: HK\$17,583 million), of which HK\$5,500 million (31 December 2022: HK\$9,019 million) represented borrowings due within 1 year, HK\$10,038 million (31 December 2022: HK\$8,537 million) represented borrowings due between 1 to 5 years, and HK\$744 million (31 December 2022: HK\$27 million) represented borrowings due over 5 years. Other than the HK\$12,392 million (31 December 2022: HK\$12,355 million) in borrowings which bore interests at fixed rates, the Group's other borrowings were arranged on a floating interest rate basis. The maturities and interest rates of the 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\$14,323 million (31 December 2022: HK\$15,624 million) and the remaining HK\$1,959 million borrowings were denominated mainly in United States dollars ("USD") as at the end of the year (31 December 2022: HK\$1,959 million borrowings were denominated mainly in USD). Cross currency swaps contracts were made to hedge foreign currency risk for the most of 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\$28 million (31 December 2022: HK\$63 million), approximately HK\$27 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 a weighted 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, which was over-subscribed by 1.6 times.

As at 31 December 2023, the Group's cash and cash equivalents together with time deposits and restricted deposits amounted to HK\$4,214 million (31 December 2022: HK\$4,006 million), of which 99% (31 December 2022: 99%) are RMB-denominated and the rest are denominated in HK\$ and USD. The gearing ratio (net debt to total equity plus net debt) of the Group as at 31 December 2023 was 35.8% (31 December 2022: 39.7%).



As at 31 December 2023, the Group is able to raise approximately HK\$13,237 million under the MTN Programme, the issuance amount of the Panda Bonds approximately HK\$14,851 million and unutilised facilities from banks and HKCG amounting to approximately HK\$7,911 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 31 December 2023.