

Chairmen's Statement



Dr. Lee Ka-kit

Dr. Lee Ka-shing

“Leading energy innovation and sustainable development, we are fully committed to creating a green future for our planet.”

– Dr. Lee Ka-kit

“We will keep fostering social harmony and well-being, while continuing to ignite hope and radiate warmth and compassion.”

– Dr. Lee Ka-shing

Although the pandemic that lasted for three years is now over, escalation in international and regional tensions has worsened the energy crisis which disrupts the global supply chain and economy. The presence of various unclear factors has created a challenging business environment, and consumer confidence has yet to be strengthened. The Group inevitably faced various challenges over the past year. Despite this, benefiting from the country’s unswerving promotion of environmental protection and the “30-60” dual carbon goals, with increasing efforts to stabilise the economy and promote consumption, the Group’s development continued to remain stable during the year.

In the face of an uncertain economic outlook, the Group employed a strategy of stability and adaptability to enhance its business resilience. On the one hand, we strengthened the development of the gas business and exercised strict

control over capital expenditures. On the other hand, we optimised our corporate structure, seizing opportunities to divest non-core businesses and pursuing the development of the renewable energy business through an asset-light strategy. These actions aimed to deleverage and provide shareholders with stable returns.

At the same time, the Group has been actively aligning with the policies of the HKSAR Government to venture into new energy businesses. During the year, a range of new projects, including hydrogen energy and green methanol, have been systematically initiated. This report will showcase our efforts and achievements over the past year, as well as the challenges we faced and the room for progress. We will uphold the core values of safety, environmental protection, creativity, and quality service, as we continue demonstrating our resilience and strength, and utilise “Smart Energy for a Brighter Future”.

The Year’s Results

The Group progressed steadily and seized market opportunities with high sensitivity in 2023. By improving the energy supply chain, strengthening in-depth cooperation with upstream, midstream and downstream business partners, integrating resources, reducing costs and creating value, the overall volume of gas sales grew steadily during the year. We also focused on the development of green energy by layout planning and investing in related businesses, driving the sustainable development of the Group’s businesses, enhancing employee capabilities and striving for the best interests of shareholders and investors.

Profit after taxation attributable to shareholders of the Group for the year amounted to HK\$6,070 million, an increase of HK\$822 million, up by 16 per cent, compared to 2022. Basic earnings per share for the year amounted to HK32.5 cents.

After excluding the Group's share of a revaluation surplus from International Finance Centre investment property, the profit after taxation of the Group for the year amounted to HK\$5,570 million, an increase of HK\$260 million, up by 5 per cent, compared to 2022.

During the year, the Group invested approximately HK\$10.2 billion in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and the Chinese mainland.

Final Dividend

The Directors are pleased to recommend a final dividend of HK23 cents per share payable to shareholders whose names are on the Register of Members of the Company as at 13th June 2024. Including the interim dividend of HK12 cents per share paid on 8th September 2023, the total dividend payout for the whole year shall be HK35 cents per share.

Town Gas Business in Hong Kong

Hong Kong's economy grew moderately during the year. The full resumption of normal travel in February 2023 drove the number

of tourists visiting Hong Kong to increase, benefiting the gas market in the catering and hotel sectors, which led to an increase in Hong Kong's commercial and industrial gas sales by 9.3 per cent. However, due to the impact of climate warming, the temperatures throughout the year were higher than normal, with the average temperature from June to August 2023 hitting the highest ever. In addition, residential gas sales were affected by the increasing number of local residents travelling to the Chinese mainland for consumption and eating out. Overall, the total volume of gas sales in Hong Kong for 2023 was approximately 27,125 million MJ (equivalent to approximately 800 million cubic metres of natural gas), a slight decrease of 1 per cent compared to 2022. As at 31st December 2023, the number of customers of the Company was 2,019,656, an increase of 24,574, representing an increase of 1 per cent compared to the number at the end of 2022.

With nearly half of the town gas composition being hydrogen, we have positioned hydrogen energy as one of the highly prioritised businesses within the Group. During the year, the Group signed a Memorandum of Understanding with Bravo Transport Services Limited (the parent company of Citybus) to

explore the use of hydrogen as an alternative source of fuel for public buses, marking a new chapter in the development of hydrogen energy transportation in Hong Kong. Additionally, we constructed a gas pipeline hydrogen extraction facility for a recreational venue in Sai Kung. This facility serves as a pilot project for charging electric vehicles, marking it as the first of its kind in Hong Kong to explore this innovative application of hydrogen energy, which is in line with the Government's strategy for new energy development.

Businesses on the Chinese Mainland

The growth of our utility businesses on the Chinese mainland was impeded due to continued sluggish real estate investment, coupled with a decrease in exports to Europe, the United States and other regions. However, driven by consumption, catering, and high-tech manufacturing industries, the annual GDP growth of the mainland still reached 5.2 per cent. Also, the urbanisation rate has increased to 66 per cent, which is positive for the city-gas business. Furthermore, international natural gas prices have fallen from the peak in 2023, causing the average price difference of city gas in mainland cities to rebound.

The Group's total volume of gas sales for 2023 was approximately 34,700 million cubic metres, an increase of 8 per cent compared to 2022. During the year, the Group's mainland gas customers stood at approximately 40.19 million, an increase of 7.8 per cent compared to 2022, representing a better-than-expected business progress. As at the end of 2023, inclusive of the Group's subsidiary, Towngas Smart Energy Company Limited ("Towngas Smart Energy"; stock code: 1083.HK), the Group had a total of 320 city-gas projects on the Chinese mainland, representing an increase of 5 projects compared to the previous year. During the year, the Group continued to promote the "Gas+" service to help commercial and industrial customers save energy and increase efficiency with professional integrated energy solutions.

During the year, the Group strengthened the coordination and management of its gas supply chain-related business and repurposed the underground salt caverns located in Jintan district, Changzhou, Jiangsu province into a natural gas storage facility with a total storage capacity of 400 million cubic metres. This development has enhanced the Group's ability to handle peak demand during high-demand seasons and improved the gross profit margin of its gas business.

In addition, the No. 2 and No. 6 storage tanks of the second phase of the receiving terminal project at Caofeidian district, Tangshan, Hebei province, in which the Group invests, are expected to be commissioned in 2024. The Group's shale gas liquefaction project located in Weiyuan county, Neijiang, Sichuan province, has commenced commissioning and the volume of gas sales per year is approximately 200 million cubic metres.

The Group's water and environmental sanitation businesses recorded stable growth during the year, with the volume of sewage treatment increasing by 1 per cent compared to 2022. The sewage treatment project (phase one) in Wujin National High-Tech Industrial Zone, Changzhou, commenced trial operation in early November 2023, with a daily treatment capacity of 30,000 tonnes, providing industrial wastewater treatment services to industrial enterprises in the Zone. The Group also successfully won the bid for an integrated franchise project for collecting, transporting, and disposing of municipal waste in Wujin district, Changzhou. This project includes a municipal solid waste incineration plant with a designed capacity of 1,500 tonnes per day.

The Group's renewable energy business accomplished remarkable

success and achieved profitability in 2023. As at the end of 2023, the Group had 354 renewable energy projects, representing an increase of 171 projects compared with the preceding year. These projects encompass photovoltaics, energy storage, charging and swapping power stations, and integrated energy services for industrial and commercial customers. During the year, 1.6 GW of distributed photovoltaic capacity was newly contracted, while 1.2 GW was added to the grid-connected capacity.

At the end of 2023, Towngas Smart Energy had 536 city-gas and renewable energy projects, representing an increase of 173 projects compared with the preceding year. In particular, the renewable energy segment continued to grow, with 44 zero-carbon smart industrial parks developed during the year. As at 31st December 2023, Towngas Smart Energy had developed 124 zero-carbon smart industrial parks, and had signed contracts in an aggregate amount of 2.96 GW photovoltaic capacity and connected 1.8 GW to the grid.

Towngas Smart Energy declared exit from its investment of 25 per cent equity interest in Shanghai Gas Co., Ltd and received its fund of RMB4,663 million on 2nd August 2023.

In 2023, Towngas Smart Energy recorded a profit attributable to its shareholders amounted to HK\$1,575 million, a substantial increase of 63.2 per cent compared to 2022. As at the end of 2023, the Group held approximately 2,255 million shares in Towngas Smart Energy, representing approximately 67.24 per cent of Towngas Smart Energy's total issued shares.

Our extended businesses achieved steady growth during the year as we provide high-quality services to 42 million household customers in Hong Kong and the Chinese mainland. The security chip "TGSE CHIP", which we jointly developed with StarFive and ChinaFive, has been successfully used in the Group's smart IoT gas meters on the Chinese mainland, with a sales volume of over 1.6 million units. Smart gas meters equipped with "TGSE CHIP" can further protect users' information security. In the future, "TGSE CHIP" can be applied to smart kitchens, smart homes and other scenarios.

Environmental, Social and Governance

The year 2023 was a year of fruitful achievements for the Group's environmental, social, and governance ("ESG") efforts. During the year, Towngas and Towngas

Smart Energy were both ranked among the Chinese companies with the "Top 1% S&P Global ESG Score" and included in the first-ever S&P Global Sustainability Yearbook (China Edition). In addition, the Group has been consistently selected in the Hang Seng Sustainable Development Index for 13 years in a row, and our rating has been upgraded from "AA" to "AA+". These notable accomplishments highlight our commitment to ESG issues, and our achievements have received widespread recognition and acknowledgement.

The Group is committed to achieving carbon neutrality through energy transition and innovation by 2050. Furthermore, during the year, we developed a decarbonisation strategy for our gas business in Hong Kong. This strategy includes the phased introduction and utilisation of zero-carbon fuels, such as green methanol, green hydrogen, and biomethane, to replace fossil fuels. Our target is to reduce the overall carbon intensity of gas usage by 36 per cent, reaching a level of 0.15 kg CO₂e/kWh by 2035, compared to 2019 and achieve carbon neutrality by 2050 or earlier. In addition to reducing greenhouse gas emissions generated during our operations, we also started integrating Internal Carbon Price (ICP), along with ESG Due Diligence,

into our investment decision-making processes in 2023 to seize the opportunities brought by the Group's low-carbon transition.

With regard to corporate governance, the Group elevated the ESG Committee to the Board level during the year. The committee is chaired by the Managing Director and supported by 16 working sub-committees with an aim to enhance overall ESG performance across all business operations. The variable compensations of the Managing Director and senior executives are linked to ESG material issues, including climate change. This affirmed the Group's commitment to integrate ESG for driving performance improvement.

As Towngas transitions from a traditional utility company into an integrated clean energy supplier, we will remain fully committed in our efforts to achieve a Just Transition and a low-carbon economy in a fair and equitable manner.

Business Outlook for 2024

The global political situation remains volatile stepping into 2024, with the added complexity of elections in some countries and regions. Despite these challenges, the Group is fortunate to operate in a stable business environment in Hong Kong,

supported by our strong ties to the motherland. As a result, we expect steady growth in the number of customers in Hong Kong throughout 2024.

In the 2023 Policy Address and the Budget released in February 2024, the HKSAR Government emphasised its commitment to promoting the use of sustainable aviation fuel (“SAF”) by airlines in Hong Kong, as well as providing green methanol bunkering facilities for local and ocean-going vessels. EcoCeres, Inc., in which the Group holds shares, has already implemented its developed technology two years ago, using waste vegetable oil and animal fats to produce SAF. The company is currently in the progress to increase the production capacity. Upon the completion of a new plant in Malaysia within two years, more SAF is expected to be supplied to the airlines. Additionally, the Group’s green methanol production in the Inner Mongolia Autonomous Region is projected to reach an annual output capacity of 120,000 tonnes in coming years, catering for the needs of the shipping industry. The plant was certified under ISCC EU and ISCC PLUS schemes for the second consecutive year in July 2023. After delivering the first batch of green methanol to overseas customers in October 2023, the Group has planned to expand the

production capacity in order to meet the future needs of the upcoming low-carbon marine fuel market.

With respect to mainland businesses, the country has been steadily progressing towards the “30-60” dual carbon goals. During the year, there have been policy revisions to promote the high-quality and efficient development of natural gas, which is considered the cleanest fossil fuel. Recognising the substantial growth potential of natural gas, the Group is promoting its “Gas+” business to provide energy service solutions to customers in strategic areas, leveraging technology and management to assist them in achieving energy conservation and carbon reduction. With great potential for business development in this area, it is expected that the Group’s gas sales business will experience growth in 2024.

The Group’s renewable energy project development is expected to continue to progress well in 2024. Following the expansion of the scale of wind power and photovoltaic installations, energy storage will play an increasingly important role as a balancing resource. Through cooperation with multiple parties, the Group is driving its renewable energy business by delivering safe and efficient energy storage

services. This segment also serves as a significant pillar for profit growth.

Looking ahead, the application of energy will move towards a more diverse and efficient approach. In line with the principles of green development, natural gas and renewable energy, along with their integrated utilisation, are the key directions for the Group’s development. The Group is highly confident in its future business prospects, as it upholds the mission of leading energy innovation and sustainable development. With unrelenting dedication, we strive to build a green future for our planet.

Lee Ka-kit
Chairman

Lee Ka-shing
Chairman

Hong Kong, 20th March 2024