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中裕能源控股有限公司

ZHONGYU ENERGY HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
(Stock Code:3633)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2023

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Unaudited)	For the six months ended 30th June,		
	2023 HK\$'000	2022 HK\$'000	changes %
Turnover	7,021,363	6,614,982	6.1%
Gross Profit	1,231,572	1,182,406	4.2%
Profit attributable to owner of the Company	235,747	213,982	10.2%
Non-HKFRS EBITDA (as defined in page 28)	1,260,065	1,170,441	7.7%
Basic earnings per share (HK cents)	8.34	7.55	10.5%
Unit of natural gas sold ('000 m ³)	1,492,148	1,411,804	5.7%
Sales volume of integrated energy (million kWh)	582.00	29.00	1,906.9%

The board of directors (the “Board” or the “Directors”) of Zhongyu Energy Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2023, together with the comparative figures for the corresponding period in 2022, which are set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30th June, 2023

		For the six months ended	
		30th June,	
		2023	2022
	NOTES	HK\$'000	HK\$'000
Turnover	3	7,021,363	6,614,982
Cost of sales		<u>(5,789,791)</u>	<u>(5,432,576)</u>
Gross profit		1,231,572	1,182,406
Other gains and losses	5	(243,428)	(360,724)
Other income		94,486	94,657
Selling and distribution costs		(116,395)	(124,125)
Administrative expenses		(297,749)	(282,719)
Finance costs	6	(238,653)	(104,801)
Share of results of associates		15,339	19,345
Share of results of joint ventures		<u>(169)</u>	<u>(385)</u>
Profit before tax		445,003	423,654
Income tax expenses	7	<u>(164,255)</u>	<u>(153,452)</u>
Profit for the period	8	<u>280,748</u>	<u>270,202</u>
Profit for the period attributable to:			
Owners of the Company		235,747	213,982
Non-controlling interests		<u>45,001</u>	<u>56,220</u>
		<u>280,748</u>	<u>270,202</u>

	For the six months ended	
	30th June,	
	2023	2022
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	280,748	270,202
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation from functional currency to presentation currency	(491,113)	(349,411)
Fair value gain on revaluation of pipelines included in property, plant and equipment	165,853	522,182
Deferred tax arising from revaluation of pipelines included in property, plant and equipment	(41,463)	(130,546)
Other comprehensive (expense) income for the period	(366,723)	42,225
Total comprehensive (expense) income for the period	(85,975)	312,427
Profit for the period attributable to:		
Owners of the Company	235,747	213,982
Non-controlling interests	45,001	56,220
	280,748	270,202
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(122,702)	232,878
Non-controlling interests	36,727	79,549
	(85,975)	312,427
Earnings per share	<i>10</i>	
Basic	HK8.34 cents	HK7.55 cents
Diluted	HK8.34 cents	HK7.54 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2023

		30th June, 2023 (unaudited) HK\$'000	31st December, 2022 (audited) HK\$'000
	<i>NOTES</i>		
Non-current assets			
Investment properties		7,423	7,743
Property, plant and equipment		15,075,722	15,351,567
Right-of-use assets		598,180	622,144
Goodwill		451,567	471,022
Other intangible assets		1,426,510	1,530,058
Long-term deposits, prepayments and other receivables		1,195,545	1,197,220
Interests in associates		745,296	762,102
Interests in joint ventures		15,368	16,198
Financial assets at fair value through other comprehensive income		76,959	80,158
		<u>19,592,570</u>	<u>20,038,212</u>
Current assets			
Inventories		735,946	673,037
Properties under development for sale		263,206	234,937
Trade receivables	11	2,019,916	1,884,906
Deposits, prepayments and other receivables		1,685,272	1,648,279
Amount due from a non-controlling shareholder of a subsidiary		8,152	8,503
Contract assets		398,214	482,133
Tax recoverable		3,738	3,899
Bank balances and cash		1,911,173	1,336,976
		<u>7,025,617</u>	<u>6,272,670</u>
Current liabilities			
Trade payables	12	1,620,127	1,683,449
Other payables and accrued charges		774,918	766,290
Amount due to a non-controlling shareholder of a subsidiary		3,264	3,384
Amount due to an associate		972	1,014
Contract liabilities		1,286,096	1,651,089
Borrowings		4,765,306	6,305,945
Lease liabilities		4,893	3,602
Tax payables		101,374	91,040
		<u>8,556,950</u>	<u>10,505,813</u>
Net current liabilities		<u>(1,531,333)</u>	<u>(4,233,143)</u>
Total assets less current liabilities		<u>18,061,237</u>	<u>15,805,069</u>

	30th June, 2023 (unaudited) <i>HK\$'000</i>	31st December, 2022 (audited) <i>HK\$'000</i>
Capital and reserves		
Share capital	28,225	28,297
Reserves	<u>7,935,315</u>	<u>8,099,926</u>
Equity attributable to owners of the Company	7,963,540	8,128,223
Non-controlling interests	<u>1,049,422</u>	<u>1,007,019</u>
Total equity	<u>9,012,962</u>	<u>9,135,242</u>
Non-current liabilities		
Deferred income and advance received	4,727	5,221
Borrowings	7,635,869	5,216,515
Lease liabilities	15,094	15,744
Deferred taxation	<u>1,392,585</u>	<u>1,432,347</u>
	<u>9,048,275</u>	<u>6,669,827</u>
	<u>18,061,237</u>	<u>15,805,069</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, financial instruments and investment properties which are measured at revalued amounts or fair values, as appropriate.

Other than additional accounting policies resulting from application of new and amendments to HKFRSs and application of certain accounting policies which became relevant to the Group in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31st December, 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1st January, 2023 for the preparation of the Group’s condensed consolidated financial statements.

The application of the new and 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. TURNOVER

Disaggregation of revenue from contracts with customers

	For the six months ended	
	30th June,	
	2023	2022
	HK\$'000	HK\$'000
Types of goods or services		
Sales of gas	5,700,194	5,658,724
Gas pipeline construction	668,838	678,471
Value-added services	182,652	140,519
Sales of compressed natural gas or liquefied natural gas ("CNG/LNG") in vehicle filling stations	123,258	118,804
Smart energy	346,421	18,464
Total	7,021,363	6,614,982
Timing of revenue recognition		
A point in time	6,352,525	5,936,511
Over time	668,838	678,471
Total	7,021,363	6,614,982

All the revenue from contracts with customers are derived from the People's Republic of China ("PRC").

4. SEGMENT INFORMATION

The Group's executive Directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. Majority of identifiable assets of the Group are located in the PRC.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group.

Each type of product or service represents a unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments are as follows:

- (a) sales of gas;
- (b) gas pipeline construction;
- (c) value-added services (including sales of stoves and provision of other related services);
- (d) operation of CNG/LNG vehicle filling stations; and
- (e) smart energy.

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the six months ended 30th June, 2023

	Sales of gas <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Value-added services <i>HK\$'000</i>	Operation of CNG/LNG vehicle filling stations <i>HK\$'000</i>	Smart energy <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>5,700,194</u>	<u>668,838</u>	<u>182,652</u>	<u>123,258</u>	<u>346,421</u>	<u>7,021,363</u>
Segment profit	<u>430,834</u>	<u>358,024</u>	<u>76,493</u>	<u>4,175</u>	<u>15,941</u>	885,467
Unallocated other income						94,486
Unallocated other gains and losses						(243,431)
Unallocated central corporate expenses						(52,866)
Finance costs						<u>(238,653)</u>
Profit before tax						<u>445,003</u>

For the six months ended 30th June, 2022

	Sales of gas <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Value-added services <i>HK\$'000</i>	Operation of CNG/LNG vehicle filling stations <i>HK\$'000</i>	Smart energy <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>5,658,724</u>	<u>678,471</u>	<u>140,519</u>	<u>118,804</u>	<u>18,464</u>	<u>6,614,982</u>
Segment profit	<u>435,514</u>	<u>358,555</u>	<u>56,823</u>	<u>1,366</u>	<u>12,189</u>	864,447
Unallocated other income						94,657
Unallocated other gains and losses						(380,641)
Unallocated central corporate expenses						(50,008)
Finance costs						<u>(104,801)</u>
Profit before tax						<u>423,654</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Reportable segments represent the financial result of each segment without allocation of central administration costs, directors' emoluments, interest income, foreign exchange gains or losses, certain sundry income and finance costs. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

5. OTHER GAINS AND LOSSES

	For the six months ended 30th June,	
	2023	2022
	HK\$'000	HK\$'000
Net foreign exchange losses	(242,242)	(361,003)
Net (losses) gains on disposal of property, plant and equipment	(1,109)	254
Others	(77)	25
	<u>(243,428)</u>	<u>(360,724)</u>

6. FINANCE COSTS

	For the six months ended 30th June,	
	2023	2022
	HK\$'000	HK\$'000
Interest on borrowings and lease liabilities	250,682	166,362
Amortisation on loan facilities fees relating to bank borrowings	32,039	28,807
	<u>282,721</u>	<u>195,169</u>
Total borrowing costs	282,721	195,169
Less: Amounts capitalised in construction in progress included in property, plant and equipment	(44,068)	(90,368)
	<u>238,653</u>	<u>104,801</u>

7. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2023	2022
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	<u>164,255</u>	<u>153,452</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both periods.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the six months ended 30th June, 2023, withholding tax amounting to HK\$2,045,000 (2022: HK\$5,629,000) was charged by the PRC tax authority on the dividends paid to overseas group entities.

11. TRADE RECEIVABLES

Other than certain major customers with good payment history which the Group allows a large credit period or settlement by installment basis, the Group generally allows an average credit period of 30 to 180 days to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	30th June, 2023 HK\$'000	31st December, 2022 HK\$'000
0 – 30 days	914,867	914,916
31 – 90 days	101,947	44,872
91 – 180 days	148,245	91,402
181 – 360 days	197,952	224,093
Over 360 days	656,905	609,623
	<hr/>	<hr/>
Trade receivables	<u>2,019,916</u>	<u>1,884,906</u>

As at 30th June, 2023, total bills received amounting to HK\$121,193,000 (2022: HK\$137,426,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

The amounts due from certain PRC local governments for the “Coal-to-gas” projects under the “gas pipeline construction” segment are included in the carrying amount of trade receivables.

As at 30th June, 2023, included in the Group’s trade receivables balance are debtors with aggregate carrying amount of HK\$854,857,000 (2022: HK\$833,716,000) which are past due as at the reporting date and is not considered as in default as these are represented by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

12. TRADE PAYABLES

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

	30th June, 2023	31st December, 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	594,603	759,252
31 – 90 days	180,027	252,733
91 – 180 days	210,597	196,247
Over 180 days	634,900	475,217
	<hr/>	<hr/>
Trade payables	<u>1,620,127</u>	<u>1,683,449</u>

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Treasury Management and Cash Funding

The Group's funding and treasury policy is designed to maintain a diversified and balanced debt profile and financing structure. The Group continues to monitor its cash flow position and debt profile, and to enhance the cost-efficiency of funding initiatives by its centralised treasury function. In order to maintain financial flexibility and adequate liquidity for the Group's operations, potential investments and growth plans, the Group has built a strong base of funding resources and will keep exploring cost-efficient ways of financing.

Liquidity

As at 30th June, 2023, the total assets of the Group increased by HK\$307,305,000 or 1.2% to HK\$26,618,187,000 (2022: HK\$26,310,882,000).

As at 30th June, 2023, the Group has net current liabilities of HK\$1,531,333,000 (2022: HK\$4,233,143,000). Decrease in net current liabilities was mainly due to decrease in borrowings due within one year.

As at 30th June, 2023, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.8 (2022: 0.6).

As at 30th June, 2023, the total borrowings and lease liabilities increased by HK\$879,356,000 or 7.6% to HK\$12,421,162,000 (2022: HK\$11,541,806,000).

As at 30th June, 2023, the Group had total net debts of HK\$10,509,989,000 (2022: HK\$10,204,830,000), measured as total borrowings and lease liabilities minus the bank balances and cash. As at 30th June, 2023, the Group had net gearing ratio of approximately 1.17 (2022: 1.12), measured as total net debts to total equity of HK\$9,012,962,000 (2022: HK\$9,135,242,000).

Financial resources

During the period under review, the Group entered into several loan agreements with several banks in Hong Kong, pursuant to which loan facilities of up to HK\$3,466,099,000 in total was made available to the Group.

During the six months ended 30th June, 2023, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2023, all of the bank and other borrowings were on normal commercial terms.

The Group's borrowing was not affected by seasonality.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the period under review, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB"), Hong Kong dollars ("HK\$") or United States dollars ("US\$") and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB in the first half of 2023, exchange loss arising from the Group's bank borrowings denominated in US\$ and HK\$ was recognised during the period under review. The Group may, as it thinks fit, seek suitable financial instruments to hedge against potential depreciation of RMB. As at 30th June, 2023, the Group did not, but was actively exploring opportunities to, employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2023, the Group had a total of 5,062 employees (2022: 4,907) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$316,994,000 (2022: HK\$319,453,000). The total employee benefit expenses (other than directors) expressed in RMB, without including the impact of HK\$ translation, increased by 5.4% when compared to the corresponding period last year mainly due to the increase in the number of headcount of the Group. Total expenses expressed in HK\$ decreased when compared to the corresponding period last year due to the depreciation of RMB. Around 99.7% of the Group's employees are based in the PRC.

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

Share option schemes

On 24th October, 2003, the Company adopted a share option scheme (“First Share Option Scheme”) pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The First Share Option Scheme was terminated and replaced by a new share option scheme (“Second Share Option Scheme”) on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013. As at 30th June, 2023, there was no share option outstanding under the First Share Option Scheme.

The Second Share Option Scheme was valid and effective for a period of ten years commencing on 3rd May, 2013 and expired on 2nd May, 2023. Under the Second Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the Second Share Option Scheme. Such scheme was terminated and replaced by another new share option scheme (“Third Share Option Scheme”) on 2nd June, 2023 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 2nd June, 2023.

The scheme mandate limit of the Second Share Option Scheme is 252,400,768. No options were granted, exercised, cancelled or lapsed in the period under review. The number of options available for grant under the scheme mandate limit of the Second Share Option Scheme was 128,693,168 as at 1st January, 2023 and nil as at 30th June, 2023. As at 30th June, 2023, 126,730,800 share options were granted, 3,023,200 share options have lapsed in accordance with the terms of the Second Share Option Scheme and the number of share options outstanding was 16,092,800. The outstanding share options, if converted in full into shares of the Company, represent approximately 0.57% of the number of issued shares of the Company as at 30th June, 2023.

The following table discloses movements of the Company’s share options granted to the eligible participants (including Directors) under the Second Share Option Scheme during the period under review:

			Number of share options granted under the Second Share Option Scheme					
Name of participants who are Directors and category of other participants	Date of grant	Exercise period	Exercise price HK\$	Outstanding	Granted	Exercised	Cancelled/	Outstanding
				at 1st January, 2023	during the period under review	during the period under review	Lapsed during the period under review	at 30th June, 2023
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	7,543,500	-	-	-	7,543,500
Lu Zhaoheng	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	3,017,400	-	-	-	3,017,400
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	502,900	-	-	-	502,900
Luo Yongtai (<i>Note a</i>)	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	502,900	-	-	-	502,900
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	502,900	-	-	-	502,900
				<u>12,069,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,069,600</u>
Employees	5th January, 2018	5th January, 2018 to 4th January, 2028 (<i>Note b</i>)	5.468	2,514,500	-	-	-	2,514,500
Employees	5th January, 2018	17th December, 2019 to 4th January, 2028 (<i>Note c</i>)	5.468	1,508,700	-	-	-	1,508,700
				<u>16,092,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,092,800</u>
Exercisable at the end of the period								<u>16,092,800</u>
Weighted average exercise price				<u>HK\$5.468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>HK\$5.468</u>

Note a: Dr. Luo Yongtai retired as an independent non-executive Director and ceased to be a member of each of the audit committee, the nomination committee and the remuneration committee of the Board of the Company with effect from 21st August, 2023.

Note b: The options became vested immediately on 5th January, 2018.

Note c: Pursuant to an ordinary resolution passed by the shareholders on 17th December, 2019, the options became vested immediately upon passing of the resolution.

The Third Share Option Scheme shall be valid and effective for a period of ten years commencing on 2nd June, 2023 and will expire on 1st June, 2033. Under the Third Share Option Scheme, the Directors may offer to any employees or any participant who is a director or employee of any related entity in accordance with Chapter 17 of the Listing Rules, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the Third Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant which must be a business day; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The scheme mandate limit of the Third Share Option Scheme is 282,975,315. Since the adoption of the Third Share Option Scheme and during the period under review, no share options have been granted, exercised, cancelled or lapsed. The maximum number of share options which may be granted under the scheme mandate limit of the Third Share Option Scheme is 282,975,315 as at 30th June, 2023.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2023, there was no pledge of any of the Group's assets (2022: nil) was used to secure the short-term general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS

During the period under review, the Group did not conduct any significant investments, or material acquisitions or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2023, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 30th June, 2023, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets contracted for but not provided in the condensed consolidated financial statements was HK\$173,548,000 (2022: HK\$144,487,000).

CONTINGENT LIABILITIES

As at 30th June, 2023, the Group did not have any contingent liabilities (2022: nil).

BUSINESS REVIEW

During the period under review, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of gas to residential, industrial and commercial users; (ii) development of smart energy; (iii) sales of stoves and provision of other related value-added services; and (iv) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Natural Gas Distribution Projects

As at 30th June, 2023, the Group had 75 gas projects with exclusive rights in the PRC. During the period under review, the Group obtained concession right to operate an additional natural gas project in Jiangsu Province.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.

The major operational data of the Group for the period under review together with the comparative figures for the corresponding period last year are as follows:

	Six months ended		Increase/ (Decrease)
	30th June, (unaudited)	2022	
	2023		
Number of operational locations (<i>Note a</i>)	75	74	1
– Henan Province	28	28	–
– Hebei Province	21	21	–
– Jiangsu Province	8	7	1
– Shandong Province	4	4	–
– Jilin Province	4	4	–
– Fujian Province	1	1	–
– Heilongjiang Province	2	2	–
– Zhejiang Province	2	2	–
– Anhui Province	3	3	–
– Inner Mongolia	1	1	–
– Jiangxi Province	1	1	–
Connectable population ('000) (<i>Note b</i>)	24,252	22,769	6.5%
Connectable residential households ('000)	6,915	6,492	6.5%
New piped gas connections by the Group made during the period			
– Residential households	187,445	206,395	(9.2)%
– Industrial customers	185	163	13.5%
– Commercial customers	1,051	850	23.6%
Accumulated number of connected piped gas customers			
– Residential households	4,849,837	4,563,719	6.3%
– Industrial customers	4,104	3,682	11.5%
– Commercial customers	21,096	18,573	13.6%
Penetration rate of residential pipeline connection (<i>Note c</i>)	70.1%	70.3%	(0.2)%
Unit of piped natural gas sold to retail customers ('000 m ³)			
– Residential households	440,857	448,003	(1.6)%
– Industrial customers	642,867	660,764	(2.7)%
– Commercial customers	80,429	76,952	4.5%

	Six months ended		
	30th June, (unaudited)		Increase/ (Decrease)
	2023	2022	
Unit of gas sold to wholesale customers ('000 m ³)			
– Piped natural gas	69,465	91,859	(24.4)%
– LNG	232,356	109,673	111.9%
Total unit of gas sold ('000 m ³)	1,465,974	1,387,251	5.7%
Number of CNG/LNG vehicle filling stations			
– Accumulated	56	64	(8)
– Under construction	7	7	–
Unit of natural gas sold to vehicles ('000 m ³)	26,174	24,553	6.6%
Total length of existing intermediate and main pipelines (km)	27,474	26,706	2.9%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.56	2.53	1.2%
– Industrial customers	3.98	3.76	5.9%
– Commercial customers	4.23	3.75	12.8%
– Wholesale customers	3.39	3.20	5.9%
– Wholesale customers (LNG)	3.23	4.34	(25.6)%
– CNG/LNG vehicle filling stations	4.14	4.01	3.2%
Average purchase cost of natural gas (RMB per m ³) (Note d)	2.87	2.83	1.4%
Average connection fee for residential households (RMB)	2,815	2,527	11.4%
Accumulated number of integrated energy projects in operation	120	76	57.9%
Sales volume of integrated energy (million kWh)	582.00	29.00	1,906.9%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

Note b: The information is quoted from the website of the PRC government.

Note c: The penetration rates of residential pipeline connection refers to the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions expressed in percentages.

Note d: The amounts do not include the average distribution costs of natural gas, which is RMB0.19 per m³ (2022: RMB0.18 per m³).

FINANCIAL REVIEW

Overall

The Group's turnover for the six months ended 30th June, 2023 increased by 6.1% to HK\$7,021,363,000 (2022: HK\$6,614,982,000). The Group's profit attributable to owners of the Company increased by 10.2% to HK\$235,747,000 (2022: HK\$213,982,000). The basic and diluted earnings per share attributable to the owners of the Company were HK8.34 cents and HK8.34 cents respectively for the six months ended 30th June, 2023, as compared with that of HK7.55 cents and HK7.54 cents respectively for the corresponding period last year.

Non-HKFRS profit attributable to owners of the Company amounted to HK\$477,989,000 (2022: HK\$574,985,000). Non-HKFRS basic and diluted earnings per share attributable to the owners of the Company for the period under review were HK16.91 cents (2022: HK20.29 cents) and HK16.91 cents (2022: HK20.26 cents) respectively.

Turnover

An analysis of the Group's turnover by products and services for the period under review, together with the comparative figures for the corresponding period last year are as follows:

	For the six months ended 30th June,				
	2023 HK\$'000	% of total	2022 HK\$'000	% of total	Increase/ (Decrease)
Sales of Gas	5,700,194	81.2%	5,658,724	85.5%	0.7%
Gas Pipeline Construction	668,838	9.5%	678,471	10.3%	(1.4)%
Value-added Services	182,652	2.6%	140,519	2.1%	30.0%
Sales of CNG/LNG in Vehicle Filling Stations	123,258	1.8%	118,804	1.8%	3.7%
Smart Energy	346,421	4.9%	18,464	0.3%	1,776.2%
Total	<u>7,021,363</u>	<u>100%</u>	<u>6,614,982</u>	<u>100%</u>	<u>6.1%</u>

The turnover for the period under review amounted to HK\$7,021,363,000 (2022: HK\$6,614,982,000). Such increase was mainly attributable to the increase in revenue from sales of gas and smart energy.

Sales of gas

Sales of gas for the six months ended 30th June, 2023 amounted to HK\$5,700,194,000 (2022: HK\$5,658,724,000), representing an increase of 0.7% over the corresponding period last year. Sales of gas for the period under review contributed 81.2% of the total turnover of the Group, as compared with the percentage of 85.5% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of revenue from sales of gas by customers.

Sales of gas by customers

	For the six months ended 30th June,				
	2023	%	2022	%	Increase/ (Decrease)
	HK\$'000	of total	HK\$'000	of total	
Industrial customers	2,908,288	51.0%	3,009,247	53.2%	(3.4)%
Residential households	1,283,744	22.5%	1,370,814	24.2%	(6.4)%
Commercial customers	387,042	6.8%	349,045	6.2%	10.9%
Wholesale customers	1,121,120	19.7%	929,618	16.4%	20.6%
Total	<u>5,700,194</u>	<u>100%</u>	<u>5,658,724</u>	<u>100%</u>	<u>0.7%</u>

Industrial customers

The sales of gas to the Group's industrial customers for the period under review decreased by 3.4% to HK\$2,908,288,000 from HK\$3,009,247,000 for the corresponding period last year. Revenue from sales of gas to industrial customers expressed in RMB for the period under review increased by 2.7%. The decrease in revenue from sales of gas to industrial customers expressed in HK\$ was mainly due to the impact of the depreciation of RMB against HK\$ in the first half of 2023. During the period under review, the Group connected 185 new industrial customers and the piped natural gas usage provided by the Group to its industrial customers decreased by 2.7% to 642,867,000 m³ (2022: 660,764,000 m³). In response to higher cost of natural gas from suppliers for gas sales, the average selling price of natural gas for industrial customers for the period under review was adjusted upward by 5.9% to RMB3.98 per m³ (2022: RMB3.76 per m³).

The sales of gas to our industrial customers for the period under review contributed 51.0% of the total sales of gas of the Group (2022: 53.2%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the period under review decreased by 6.4% to HK\$1,283,744,000 from HK\$1,370,814,000 for the corresponding period last year. Revenue from sales of gas to residential households expressed in RMB for the period under review decreased slightly by 0.5%. The decrease in revenue from sales of gas to residential households expressed in HK\$ was mainly due to the impact of the depreciation of RMB against HK\$ in the first half of 2023. The performance remains stable as it was supported by continuous construction work for gas pipeline connection and the growth in population in the Group's existing project cities in the PRC. Furthermore, after years of promotion of clean energy heating plan, more residential households are willing to use natural gas for indoor heating in the winter, which led to stable gas consumption of residential households for indoor as well. During the period under review, the Group provided new natural gas connections for 187,445 residential households and the piped natural gas usage provided by the Group to residential households slightly decreased by 1.6% to 440,857,000 m³ (2022: 448,003,000 m³). The average selling price of natural gas for residential customers increased by 1.2% to RMB2.56 per m³ (2022: RMB2.53 per m³).

The sales of gas to our residential households for the period under review contributed 22.5% of the total sales of gas of the Group (2022: 24.2%).

Commercial customers

The sales of gas to our commercial customers for the period under review increased by 10.9% to HK\$387,042,000 from HK\$349,045,000 for the corresponding period last year. Revenue from sales of gas to commercial customers expressed in RMB for the period under review, without including the impact of HK\$ translation, further increased by 17.8%. The sales of gas to commercial customers for the period under review contributed 6.8% of the total sales of gas of the Group (2022: 6.2%). During the period under review, the Group connected 1,051 new commercial customers. As at 30th June, 2023, the number of commercial customers of the Group reached 21,096, representing an increase of 5.2% as compared with 20,045 commercial customers as at 31st December, 2022.

The demand for gas from commercial customers were adversely impacted during the COVID-19 pandemic. However, as social distancing measures in the PRC were lifted in early of 2023, social activities increased. The demand of gas by restaurants, schools and recreational facilities increased as well. The gas consumption of commercial customers increased by 4.5% to 80,429,000 m³ (2022: 76,952,000 m³) for the period under review. In response to the higher cost of natural gas from suppliers for gas sales, the average selling price of natural gas for commercial customers was adjusted upward by 12.8% to RMB4.23 per m³ (2022: RMB3.75 per m³) when compared to the corresponding period last year.

Wholesale customers

The sales of gas to our wholesale customers for the period under review increased by 20.6% to HK\$1,121,120,000 from HK\$929,618,000 for the corresponding period last year. The sales of gas to wholesale customers for the period under review contributed 19.7% of the total sales of gas of the Group (2022: 16.4%).

During the period under review, piped natural gas usage provided by the Group to its wholesale customers declined by 24.4% to 69,465,000 m³ (2022: 91,859,000 m³). The impact of decline in volume of natural gas sold was offset by the increase in selling price. The average selling price of natural gas for wholesales customers for the period under review was adjusted upward by 5.9% to RMB3.39 per m³ (2022: RMB3.2 per m³).

During the period under review, the LNG provided by the Group to its wholesale customers increased by 111.9% to 232,356,000 m³ (2022: 109,673,000 m³). The impact of increase in volume of natural gas sold was offset by the decrease in selling price. The average selling price of LNG for wholesale customers for the period under review, which was affected by the decrease of international LNG price, was adjusted downward by 25.6% to RMB3.23 per m³ (2022: RMB4.34 per m³).

Gas Pipeline Construction

Revenue from gas pipeline construction for the six months ended 30th June, 2023 amounted to HK\$668,838,000 (2022: HK\$678,471,000), representing a decrease of 1.4% over the corresponding period last year. It contributed 9.5% of the total turnover of the Group, as compared with the percentage of 10.3% during the corresponding period last year. The following table set forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

	For the six months ended 30th June,				Increase/ (Decrease)
	2023	% of total	2022	% of total	
	<i>HK\$'000</i>		<i>HK\$'000</i>		
Residential households	599,566	89.6%	629,565	92.8%	(4.8)%
Non-residential customers	69,272	10.4%	48,906	7.2%	41.6%
Total	<u>668,838</u>	<u>100%</u>	<u>678,471</u>	<u>100%</u>	<u>(1.4)%</u>

During the period under review, revenue from gas pipeline construction for residential households decreased by 4.8% to HK\$599,566,000 (2022: HK\$629,565,000). The drop was mainly attributable to the decrease in construction work for gas pipeline connection completed by the Group for residential households to 187,445 from 206,395 for the corresponding period last year. Such decrease was mitigated by the increase in connection fee. The average connection fee rose to RMB2,815 in 2023 from RMB2,527 in 2022.

The gross profit margin for gas pipeline construction for the period under review remained relatively stable at 72.6% (2022: 71.6%).

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the period under review, revenue from gas pipeline construction for non-residential customers increased by 41.6% to HK\$69,272,000 from HK\$48,906,000 for the corresponding period last year.

As at 30th June, 2023, the Group's penetration rates of residential pipeline connection amounted to 70.1% (2022: 70.3%) (calculated by the accumulated number of the Group's connected residential households over the estimated aggregate number of connectable residential households in regions it operates in and expressed in percentages). In view of the favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions when suitable opportunities arise.

Value-added Services

Revenue from value-added services for the six months ended 30th June, 2023 amounted to HK\$182,652,000 (2022: HK\$140,519,000), representing an increase of 30.0% over the corresponding period last year. It contributed 2.6% of the total turnover of the Group, as compared with 2.1% during the corresponding period last year.

Since 2017, the Group has placed greater efforts on value-added services such as sales of stoves and safe and reliable kitchenware, including gas water heaters, gas cooking appliances and wall-hang boilers under its own brand name, "Zhongyu Phoenix" (中裕鳳凰), to residential customers. The increase in revenue of value-added services for the period under review was mainly due to increase in provision of pipe modification services and sales of wall-hang boilers and self-closing valve by 136.1% to HK\$53,340,000 from HK\$22,589,000 for the corresponding period last year. During the period under review, other than the provision of pipe modification services and sales of wall-hang boilers and self-closing valve, revenue from sales of stoves and provision of other related services amounting to HK\$129,312,000 (2022: HK\$117,930,000), representing a growth of 9.7% as compared to the corresponding period last year. With the increasing number of connected residential customers and brand recognition developed in recent years, as well as the establishment of the online shopping platform "Zhongyu iFamille" (中裕i家), the independent supply platform, customer service platform and customer online community, the value-added services is expected to contribute stable revenue to the Group.

Sales of CNG/LNG in Vehicle Filling Stations

Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2023 amounted to HK\$123,258,000 (2022: HK\$118,804,000), representing an increase of 3.7% over the corresponding period last year. The unit of natural gas sold to vehicles increased by 6.6% to 26,174,000 m³ (2022: 24,553,000 m³) and the average selling price of natural gas for CNG/LNG vehicle filling stations increased by 3.2% to RMB4.14 per m³ (2022: RMB4.01 per m³) for the period under review.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 1.8% (2022: 1.8%) of the total turnover of the Group. As at 30th June, 2023, the Group had 56 CNG/LNG vehicle filling stations and 7 CNG/LNG vehicle filling stations under construction in the PRC.

Smart Energy

Revenue from smart energy for the six months ended 30th June, 2023 amounted to HK\$346,421,000 (2022: HK\$18,464,000), representing an increase of 1,776.2% over the corresponding period last year. Leveraging the huge market and customer base of its gas projects, the Group is currently establishing an extensive network of new businesses in China, including natural gas-fired distributed energy, photovoltaic power generation and charging stations. It seeks to comprehensively utilise energy with years of cumulative experience in market development and technical innovation, in an effort to provide customers with highly efficient integrated energy that addresses their needs for gas, heating, electricity and cooling. The smart energy business contributed 4.9% (2022: 0.3%) of the total turnover of the Group for the period under review. The Group will continuously explore the operation model of energy business, and promote the expansion of energy projects to meet the diversified energy demand of customers.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2023 was 17.5% (2022: 17.9%). The slightly decline in overall gross profit margin in current period was mainly due to the decrease of gross profit margin of value added services and smart energy.

The gross profit margin for the sales of piped natural gas increased to 11.7% (2022: 11.2%) as the increment of average selling price of natural gas for residential households, industrial and commercial customers outweighed the increment of average purchase cost of natural gas. The Group's energy trading business has been strengthened to secure stable gas supply from different sources and contracts have been signed with suppliers to secure more piped gas with lower average cost. The gross profit margin for the gas pipeline construction increased to 72.6% for the period under review (2022: 71.6%) as a result of increase in average connection fee. The gross profit margin for value-added services decreased to 79.1% (2022: 87.8%) mainly because of the decrease in selling price of self-closing valve due to the promotion of the installation of security products by PRC government; and the Group had held the carnival to promote the stoves and safe and reliable kitchenware with some sales discount during the period under review. The gross profit margin for the sales of CNG/LNG in vehicle filling stations increased to 11.2% (2022: 8.6%) as a result of increase in average selling price of CNG/LNG sold in vehicle filling station. The gross profit margin for the smart energy decreased to 8.7% (2022: 31.9%) mainly because a large portion of revenue from smart energy was derived from incremental distribution network which is a newly developed business that provides safe and reliable electricity services during the period under review with relatively low gross profit margin.

Other gains and losses

The Group recognised other net losses of HK\$243,428,000 during the period under review (2022: HK\$360,724,000). The amount is mainly derived from net foreign exchange losses of HK\$242,242,000 (2022: HK\$361,003,000) mainly arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB in first half of 2023.

Selling and distribution costs and administrative expenses

Selling and distribution costs decreased by 6.2% to HK\$116,395,000 for the period under review from HK\$124,125,000 for the corresponding period last year. The decrease was mainly attributable to (i) the decrease in advertising expenses; and (ii) the decrease in commission expenses due to less revenue derived from businesses with higher commission rate when compared to the corresponding period last year. Administrative expenses increased by 5.3% to HK\$297,749,000 for the period under review from HK\$282,719,000 for the corresponding period last year. The increase was mainly attributable to (i) increased staff costs and related expenses as a result of increased number of headcount and increased society security contribution; (ii) the increased travelling expenses and conference expenses since the business activities are back to normal after the easing of Covid-19 restrictions; and (iii) additional depreciation expenses arisen from the revaluation of pipelines in prior year.

Finance costs

Finance costs increased by 127.7% to HK\$238,653,000 for the six months ended 30th June, 2023 compared to HK\$104,801,000 for the corresponding period last year. The increase was mainly attributable to increment of effective interest rate.

Income tax expenses

For the six months ended 30th June, 2023, income tax expenses increased by 7.0% to HK\$164,255,000 (2022: HK\$153,452,000), mainly due to an increase in taxable profit.

Non-HKFRS EBITDA

For the purposes of this announcement, non-HKFRS EBITDA is defined as earnings from continuing operations before finance costs, taxation, depreciation, amortisation, foreign exchange gain/loss, impairment losses/reversal of impairment losses and share option expenses. Non-HKFRS EBITDA is a non-HKFRS measure used by the management for monitoring the actual business performance of the Group. The Company considers that the non-HKFRS EBITDA can provide shareholders and potential investors of the Company with useful supplementary information on the performance of the Group's core operations. Foreign exchange gain/loss and share option expenses are considered not directly resulting from the actual business activities of the Group. They, together with the impairment losses/reversal of impairment losses, are non-cash items which we do not believe are reflective of the core operating performance of the Group. The non-HKFRS EBITDA may not be comparable to similar measures presented by other companies.

The Group's non-HKFRS EBITDA was approximately HK\$1,260,065,000 for the six months ended 30th June, 2023, representing an increase of 7.7% as compared with that of approximately HK\$1,170,441,000 for the corresponding period last year.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was HK\$235,747,000 for the six months ended 30th June, 2023, representing an increase of 10.2% as compared with that of HK\$213,982,000 for the corresponding period last year.

Excluding the net foreign exchange losses of HK\$242,242,000 (2022: HK\$361,003,000), non-HKFRS profit attributable to owners of the Company would amount to HK\$477,989,000 (2022: HK\$574,985,000). Similar to the non-HKFRS EBITDA, the non-HKFRS profit attributable to owners of the Company is a non-HKFRS measure used by the management for monitoring the actual operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net profit margin

For the six months ended 30th June, 2023, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 3.4% (2022: 3.2%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK8.34 cents and HK8.34 cents respectively for the six months ended 30th June, 2023, as compared with that of HK7.55 cents and HK7.54 cents respectively for the corresponding period last year.

The non-HKFRS basic and diluted earnings per share attributable to the owners of the Company (calculated by reference to the non-HKFRS profit attributable to owners of the Company which excludes the net foreign exchange gain/loss, impairment losses/reversal of impairment losses and share option expenses, if any, as the numerator) for the six months ended 30th June, 2023 were HK16.91 cents (2022: HK20.29 cents) and HK16.91 cents (2022: HK20.26 cents) respectively. Similar to the non-HKFRS EBITDA, the non-HKFRS basic and diluted earnings per share attributable to the owners of the Company are non-HKFRS measures used by the management for monitoring the actual operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$2.82 as at 30th June, 2023, representing a decrease of 1.7% as compared with that of HK\$2.87 as at 31st December, 2022.

PROSPECTS

In the first half of 2023, the global economic and market situation remained complex and volatile. With COVID-19 lockdowns and controls lifted in full at the end of the first quarter, China's economy has been on its recovery track. However, market demand and economic cyclical contradiction continue to be highly complicated and uncertain. During the same period, the domestic energy supply guarantee capability was steadily improved, energy institutions accelerated their green and low-carbon transformation, and the overall development of the domestic energy industry was stable, demonstrating the resilience of sustainable development.

In respect of the natural gas industry, in the first half of 2023, the supply and demand tension in the global natural gas market caused by factors such as the warm winter in Europe, the slowdown of global economic growth and international geopolitical issues, was significantly alleviated, and the international natural gas price fell. According to China Natural Gas Development Report 2023, in the first half of the year, China's natural gas consumption amounted to 194.1 billion m³, representing an increase of 5.6% as compared with the corresponding period last year; natural gas output amounted to 115.5 billion m³, up by 5.4% year-on-year; and natural gas imports amounted to 79.4 billion m³, up by 5.8% year-on-year. However, affected by a lag caused by the pricing mechanism under long-term natural gas import agreements, currently, domestic cost of natural gas import is at a relatively high level, deviating from the significant downward trend of international LNG spot prices. As such, the high natural gas price may affect the downstream demand, and demand feedback from the imported LNG spot market may be more active compared to last year.

In respect of new energy, according to statistics from the National Energy Administration, in the first half of 2023, China's newly installed renewable energy capacity was 109 million kW, representing an increase of 98.3% as compared with the corresponding period last year and accounting for 77% of total newly installed capacity. The installed renewable energy capacity reached 1.322 billion kW, up by 18.2% year-on-year and accounting for approximately 48.8% of total installed capacity in the country, exceeding coal power for the first time ever and marking a new breakthrough in the development of renewable energy. With the rapid growth of the installed capacity of renewable energy, the demand for energy storage in the power system is growing rapidly, and the corresponding installed capacity of new energy storage is also soaring. As at 30th June, 2023, the cumulative installed capacity of the new energy storage projects that have been completed and put into operation nationwide exceeded 17.33 million kW/35.80 million kWh. In the first half of 2023, the newly installed capacity of approximately 8.63 million kW/17.72 million kWh (equivalent to the sum of the cumulative installed capacity in the previous years) was put into operation, driving investment of over RMB30 billion. In the future, the complementary combination of renewable energy and new energy storage will become the key to China's energy transition and sustainable development, and the market investment in the corresponding industry will also play a crucial role.

Given the conditions that the foundation of economic recovery remained weak and the pace of recovery was slower than expected, Zhongyu Energy has taken multiple measures under the severe market situation by following the strategy of "two-wheel driving coordinated development", implementing refined management and overcoming various challenges. As a result, in the first half of the year, Zhongyu Energy improved its operating results gradually, thus laying a solid foundation for accomplishing its annual business objectives.

The city gas segment, as the most core business of the Group, walked out of the pandemic in the first half of the year. In terms of market development strategy, it targets at the small and micro businesses and the existing market, works hard and keeps abreast of customer needs, innovates marketing model and explores new ways to maintain business growth, which has made a significant contribution to the Group's performance growth in the first half of the year. The Group continues to optimize gas source structure to reduce procurement costs and improve operating efficiency in due course. As the natural gas demand in domestic market resumes fast growth and the supply is relatively abundant, in the second half of the year, the Group will make timely adjustments to its gas source policy in light of the actual situation, actively prepare winter supply and commence the utilization of gas storage. The Group will also build its resource reallocation capability to increase supply flexibility and enhance its capability to allocate resources in a flexible manner, improve supply and demand matching, and precisely secure gas resource supply and the economy of scale. In terms of value-added business, taking into account the economic recovery in China, the Group will adopt offline promotion, online live broadcasting and platform membership point system to boost product sales, and improve the market share and customer recognition of its independent kitchen appliance brand. In the second half of the year, to make better

use of internet media empowerment, the Group will complete the connection of the retail platform “Zhongyu iFamille” (中裕i家) with its internal information management system, pragmatically promote the development of multi-channel sales business, and develop an internal “elite” sales team. Besides, the Group will identify strategic partners in the industry to expand agent team. With its successful brand experience, the Group aims to realize mutual benefits by tapping the sales potential in the nationwide market and build its reputation as a professional and high-quality brand.

The red line of safety is deemed to be a lifeline of the Group. In the first half of 2023, in respect of gas business operation safety, the Group continued to improve risk management and control and hidden danger investigation, and comprehensively completed a series of tasks, including technical guidance, emergency support drills, and renovation of old pipeline networks to increase the safety management experience of the Group. In the second half of the year, the Group will continue to promote the implementation of the hidden danger supervision mechanism, actively promote the “safety first” corporate value and provide trainings on risk mitigation in respect of gas station and pipeline network operation to improve safety operation and management across the Group. Moreover, the Group will attend energy industry association meetings and technical exchanges to study advanced experiences, cultivate professional talents and build professional teams, while continuously introducing advanced equipment to further strengthen safety protection at both human and technology level. The development of smart gas business will be pushed forward to facilitate the establishment of an intelligent and information-based platform for the gas security system. Meanwhile, the Group will discuss with the relevant energy industry associations and regulatory authorities of the government on upgrading insurance products configuration by reference to the risk analysis and risk warning mechanism of the financial insurance industry to improve the service to various types of customers and bring new momentum for the high-quality development of Zhongyu Group.

In respect of the smart energy business, relying on its existing resource advantage, the Group digs deep into the energy consumption demand of its customers and creates in-depth user profiles. The Group’s industrial energy supply, incremental power distribution, boiler trust and other projects that have been put into operation are operating stably. Constructions in progress, including the industrial and commercial photovoltaic project and biomass steam project, are progressing in an orderly manner. In particular, a breakthrough was made in exploring household photovoltaic business, and the hydrogen energy business and energy storage business are moving from the exploration state to the implementation stage. In the second half of the year, the Group will continue to capitalize on the existing industrial and commercial customer resources, cultivate the whole industrial and commercial market, complete high-quality and dynamic customer profiling, identify the characteristics of customer energy consumption and provide guidance to users to improve the conversion of city gas users to smart energy users. The Group will further deepen the collaboration between the city gas segment and the smart energy segment to jointly promote industrial energy-saving transformation, develop high-quality distributed photovoltaic projects, and strengthen customer acquisition and business expansion. The Group will also actively explore the energy storage projects for users, seize the opportunities in the development of the energy storage industry, identify the application scenarios for energy storage projects and explore related business cooperation.

In respect of environmental, social and governance (“ESG”), the Group provides more efficient clean energy through its smart energy business to help downstream end customers reduce greenhouse gas emissions and air pollution. The Group will intensify internal training to optimize low-carbon management and reduce greenhouse gas emissions from its operations. Upholding a “people-oriented” talent approach, the Group will improve employee rights and benefits policy, value employee development and comprehensive ability growth, and strive to provide a diversified work environment. The Group will also take further steps to improve its internal governance and risk management systems, and eliminate corruption, illegal act and other malpractices that may adversely affect the Company through internal audit supervision and training. Meanwhile, the Group will maintain the development momentum of sustainable finance, and, taking into account the external environment and its own condition, actively explore green financial cooperation, optimize ESG information disclosure and provide investors with smoother channels of communication to promote its sustainable development.

As always, the Group will adhere to the principle of gas operation safety and remain sensitive to policy changes and market condition to ensure continuous and robust project operation. Faced with various uncertainties that may arise in the market environment, the Group will keep an eye on market movements, make timely strategic forecasts, and focus on gas source optimization, market development, price management, elite team training and enterprise digital transformation, and seize opportunities to expand business scale in an orderly manner, improve operational efficiency and enable Zhongyu Group to improve its market recognition and industry competitiveness continuously.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

Long positions in the shares/underlying shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of interests	Approximate shareholding interest as disclosed under the SFO (Note 10)
Mr. Wang Wenliang	1	798,725,206	Beneficial/Interest in controlled corporation/ Interest of spouse	28.30%
Mr. Yiu Chi Shing	2	188,000,000	Interest in controlled corporation	6.66%
Mr. Lui Siu Keung	3	19,002,179	Beneficial	0.67%
Mr. Jia Kun	4	7,055,031	Beneficial	0.25%
Mr. Lu Zhaoheng	5	6,040,984	Beneficial	0.21%
Mr. Li Yan	6	9,013,063	Beneficial	0.32%
Mr. Li Chunyan	7	1,510,761	Beneficial	0.05%
Dr. Luo Yongtai (Note a)	8	502,900	Beneficial	0.02%
Ms. Liu Yu Jie	9	502,900	Beneficial	0.02%

Note a: Dr. Luo Yongtai retired as an independent non-executive Director and ceased to be a member of each of the audit committee, the nomination committee and the remuneration committee of the Board of the Company with effect from 21st August, 2023.

Notes:

1. Among these shares and/or underlying shares, 766,462,289 shares were held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong. The remaining 21,324,616 shares and 10,938,301 shares were directly held by Mr. Wang Wenliang and his spouse respectively.
2. These shares were held by Fundway International Investment Limited (“Fundway”). Mr. Yiu Chi Shing was beneficially interested in 100% of the issued share capital of Fundway.
3. These comprise 11,458,679 shares directly held by Mr. Lui Siu Keung and 7,543,500 underlying shares issuable upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK\$5.468 per share granted under the Second Share Option Scheme.
4. These shares were directly held by Mr. Jia Kun.
5. These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares issuable upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK\$5.468 per share granted under the Second Share Option Scheme.
6. These shares were directly held by Mr. Li Yan.
7. These comprise 1,007,861 shares directly held by Mr. Li Chunyan and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the Second Share Option Scheme.
8. These represent underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the Second Share Option Scheme.
9. These represent underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the Second Share Option Scheme.
10. As at 30th June, 2023, the total number of issued shares of the Company was 2,822,492,157.

Save as disclosed above, as at 30th June, 2023, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30th June, 2023, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Notes	Type of interests	Number of shares	Approximate shareholding interest as disclosed under the SFO (Note 5)
China Gas Holdings Limited	1	Interest of controlled corporation	1,057,905,071	37.48%
Hezhong	2	Beneficial	766,462,289	27.16%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	798,725,206	28.30%
Fundway	4	Beneficial	188,000,000	6.66%

Notes:

1. According to the disclosure of interests filings as shown in the website of the Stock Exchange as at 30th June, 2023, China Gas Holdings Limited held these shares through Rich Legend International Limited (“Rich Legend”), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,057,905,071 shares held by Rich Legend.
2. Hezhong was beneficially interested in 766,462,289 shares. Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong.
3. Ms. Feng Haiyan directly held 10,938,301 shares and was deemed to be interested in 787,786,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. Fundway was beneficially interested in 188,000,000 shares. Mr. Yiu Chi Shing was beneficially interested in 100% of the issued share capital of Fundway.
5. As at 30th June, 2023, the total number of issued shares of the Company was 2,822,492,157.

Save as disclosed above, as at 30th June 2023, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Part 2 of Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company during the six months ended 30th June, 2023.

AUDIT COMMITTEE

The Company’s Audit Committee, comprising Mr. Li Chunyan, Dr. Key Ke Liu and Ms. Liu Yu Jie, all being the independent non-executive Directors, has reviewed with the Company’s management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30th June, 2023. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 30th June, 2023, the Company repurchased on the Stock Exchange a total of 7,261,000 shares of the Company at a total consideration of HK\$41,818,190. The repurchase of the Company's shares was made for the benefit of the shareholders with a view to enhancing the net asset value per share and earnings per share of the Company. Such repurchased shares were cancelled on 23rd June, 2023. Details of the share repurchases are summarized as follows:

Date of repurchase	Total number of shares repurchased	Repurchased price per share		Aggregate consideration (HK\$)
		Lowest (HK\$)	Highest (HK\$)	
29th December, 2022	300,000	5.84	5.90	1,763,270
31st March, 2023	500,000	5.37	5.49	2,723,980
4th April, 2023	500,000	5.32	5.46	2,713,850
6th April, 2023	1,500,000	5.30	5.46	8,076,460
13th April, 2023	500,000	5.40	5.47	2,714,450
20th April, 2023	461,000	5.80	5.90	2,702,730
25th April, 2023	200,000	5.77	5.86	1,163,660
26th April, 2023	500,000	5.67	5.98	2,932,070
27th April, 2023	200,000	5.97	6.06	1,202,650
28th April, 2023	200,000	6.09	6.15	1,224,910
2nd May, 2023	200,000	6.08	6.12	1,219,060
3rd May, 2023	200,000	6.04	6.09	1,214,280
8th May, 2023	200,000	6.07	6.11	1,218,640
9th May, 2023	200,000	6.02	6.10	1,212,630
10th May, 2023	200,000	6.00	6.12	1,218,070
11th May, 2023	200,000	6.01	6.11	1,217,380
12th May, 2023	200,000	6.06	6.11	1,216,900
15th May, 2023	200,000	6.07	6.11	1,217,210
16th May, 2023	200,000	6.07	6.13	1,218,020
17th May, 2023	200,000	6.04	6.11	1,216,330
18th May, 2023	200,000	6.03	6.10	1,216,400
19th May, 2023	200,000	6.04	6.13	1,215,240

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2023.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkex.com.hk under “Latest Listed Company Information” and the Company at www.zhongyuenergy.com under “Announcements and Circulars” respectively. The interim report of the Company for the six months ended 30th June, 2023 will be despatched to the shareholders as soon as possible and will be published on the websites of the HKEX and the Company accordingly.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Yiu Chi Shing (Vice Chairman), Mr. Lui Siu Keung (Chief Executive Officer), Mr. Jia Kun (Executive President), Mr. Lu Zhaoheng and Mr. Li Yan as the executive Directors and Mr. Li Chunyan, Dr. Key Ke Liu and Ms. Liu Yu Jie, as the independent non-executive Directors.

By Order of the Board
ZHONGYU ENERGY HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 25th August, 2023