湖州燃气
HUZHOU GAS

湖州燃氣股份有限公司
Huzhou Gas Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6661)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- Revenue for the Period was RMB1,158.6 million, representing a decrease of 8.49% as compared with the corresponding period in 2022.
- Gross profit for the Period was RMB117.3 million, as compared with a gross loss of RMB6.4 million for the corresponding period in 2022.
- Profit attributable to owners of the Company for the Period was RMB53.9 million, representing an increase of 3.65% as compared with the corresponding period in 2022.
- Basic earnings per share for the Period amounted to RMB0.27, as compared with RMB0.35 in the corresponding period in 2022.

The board (the "**Board**") of directors (the "**Directors**") of Huzhou Gas Co., Ltd.* (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Reporting Period**" or the "**Period**"), together with comparative figures for the relevant period in 2022 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2023

	Notes	For the six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	4	**1,158,561**	1,266,078
Cost of sales		**(1,041,228)**	(1,272,501)
GROSS PROFIT/(LOSS)		**117,333**	(6,423)
Other income and gains	5	**22,298**	115,824
Selling and distribution expenses		**(14,467)**	(12,847)
Administrative expenses		**(19,498)**	(19,940)
Impairment losses on financial assets		**(907)**	(364)
Other expenses		**(2,607)**	(1,269)
Finance costs		**(1,912)**	(465)
Share of losses of:			
Joint ventures		**(244)**	(1,249)
PROFIT BEFORE TAX	6	**99,996**	73,267
Income tax expense	7	**(24,239)**	(18,536)
PROFIT FOR THE PERIOD		**75,757**	54,731
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value reserve of financial assets at fair value through other comprehensive income:			
Initial recognition of bills receivable as settlement of trade receivables		**(426)**	(551)
Changes in fair value		**356**	659
Income tax effect		**18**	(27)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(52)**	81
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(52)**	81
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**75,705**	54,812

	Notes	For the six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Profit attributable to:			
Owners of the parent		**53,888**	51,976
Non-controlling interests		**21,869**	2,755
		75,757	54,731
Total comprehensive income attributable to:			
Owners of the parent		**53,837**	52,044
Non-controlling interests		**21,868**	2,768
		75,705	54,812
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the period (RMB)	*9*	**0.27**	0.35

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2023

	Notes	**30 June 2023 *RMB'000* (Unaudited)**	31 December 2022 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Lease receivables		**3,375**	3,563
Property, plant and equipment	*10*	**923,274**	896,881
Investment properties		**1,612**	1,638
Right-of-use assets		**58,134**	48,151
Goodwill		**28,506**	28,506
Other intangible assets		**80,601**	84,344
Investments in joint ventures		**5,337**	5,581
Deferred tax assets		**1,751**	1,662
Other non-current assets		**776**	9,900
Total non-current assets		**1,103,366**	1,080,226
CURRENT ASSETS			
Inventories		**19,472**	29,254
Lease receivables		**2,170**	1,607
Trade and bills receivables	*11*	**70,302**	58,255
Prepayments, other receivables and other assets		**31,201**	35,401
Due from related parties		**16,019**	14,373
Pledged deposits	*12*	**40,024**	24
Cash and cash equivalents		**1,003,635**	1,079,703
Total current assets		**1,182,823**	1,218,617

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and bills payables	*13*	**113,363**	101,348
Other payables and accruals		**404,199**	448,970
Contract liabilities		**265,140**	279,241
Interest-bearing bank and other borrowings	*14*	**20,000**	–
Due to related parties		**14,771**	10,264
Tax payables		**19,849**	26,417
Lease liabilities		**366**	700
Total current liabilities		**837,688**	866,940
NET CURRENT ASSETS		**345,135**	351,677
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,448,501**	1,431,903
NON-CURRENT LIABILITIES			
Contract liabilities		**125,336**	110,289
Deferred tax liabilities		**38,893**	40,623
Deferred income		**3,245**	2,942
Other non-current liabilities		**84,392**	72,679
Lease liabilities		**8,097**	8,055
Total non-current liabilities		**259,963**	234,588
Net assets		**1,188,538**	1,197,315
EQUITY			
Equity attributable to owners of the parent			
Share capital	*15*	**202,715**	202,715
Other reserves		**921,320**	928,297
		1,124,035	1,131,012
Non-controlling interests		**64,503**	66,303
Total equity		**1,188,538**	1,197,315

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

1. CORPORATE INFORMATION

Huzhou Gas Co., Ltd. is a joint stock company with limited liability established in the People's Republic of China (the "**PRC**"). The registered office of the Company is located at No. 227, Sizhong Road, Wuxing District, Huzhou, Zhejiang Province, China.

During the six months ended 30 June 2023, the Group was involved in the following principal activities:

– the sale of gas, mainly piped natural gas ("**PNG**") (under the concessions) and liquefied natural gas ("**LNG**") in Huzhou;

– the provision of construction and installation services to construct and install end-user pipeline network and gas facilities for customers such as property developers and owners or occupants of residential and non-residential properties;

– others, including the sale of household gas appliances and relevant equipment, energy, distributed photovoltaic power and the leasing of properties in Mainland China.

The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 13 July 2022.

2. BASIS OF PREPARATION AND CHANGES IN THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces the existing IFRS 4 *Insurance Contracts*. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which were largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and

- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

As the Group did not have contracts within the scope of IFRS 17, the standard did not have any impact on the financial position or performance of the Group.

(b) Amendments to IFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to IFRS 17. As the Group did not have contracts within the scope of IFRS 17, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendment to IFRS 17 is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17, which helps to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and to improve the usefulness of comparative information for users of financial statements. An entity that chooses to apply the transition option set out in this amendment shall apply it on initial application of IFRS 17. As the Group did not have contracts within the scope of IFRS 17, the amendment did not have any impact on the financial position or performance of the Group.

(d) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(e) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(f) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases and decommissioning obligations as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases and decommissioning obligations that occurred on or after 1 January 2022, if any.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available) of RMB2,454,000 (31 December 2022: RMB2,490,000; 1 January 2022: RMB473,000), and a deferred tax liability for all taxable temporary differences associated with right-of-use assets of RMB2,454,000 as at 1 January 2023 (31 December 2022: RMB2,490,000; 1 January 2022: RMB473,000). The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

The adoption of amendments to IAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

(g) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

The Group has only one reportable operating segment which engages in (i) sale of gas, mainly PNG (under the concessions) and LNG in Huzhou; (ii) provision of construction and installation services; and (iii) others, including the sale of household gas appliances and relevant equipment, energy, distributed photovoltaic power and the leasing of properties. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**1,158,561**	1,266,078

The revenue information above is based on the locations of the customers.

Seasonality of operations

The principal business activities of the Group include the distribution and sale of PNG and LNG, sale of energy and provision of construction and installation services. Historically, higher sales revenue is usually expected during the winter months due to higher gas consumption for heating. This information is provided only to allow for a better understanding of the results. Management has concluded that the Group's business is not "highly seasonal" in accordance with IAS 34.

4. REVENUE

An analysis of the Group's revenue is as follows:

Segments

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	**1,049,911**	1,171,174
Provision of construction and installation services	**103,436**	92,454
Distributed photovoltaic power	**2,984**	–
Others	**3,538**	2,932
Revenue from other sources		
Gross rental income	**137**	383
	1,160,006	1,266,943
Less: Government surcharges	**(1,445)**	(865)
	1,158,561	1,266,078

Revenue from contracts with customers		
Types of goods or services		
Sale of PNG	**1,022,216**	1,140,102
Sale of LNG	**6,635**	17,911
Sale of household gas appliances and relevant equipment	**14,506**	6,971
Sale of energy	**6,554**	6,190
Provision of construction and installation services	**103,436**	92,454
Sale of distributed photovoltaic power	**2,984**	–
Others	**3,538**	2,932
	1,159,869	1,266,560
Less: Government surcharges	**(1,445)**	(865)
	1,158,424	1,265,695
Timing of revenue recognition		
Goods or services transferred at a point in time	**1,056,433**	1,174,106
Services transferred over time	**103,436**	92,454
	1,159,869	1,266,560
Less: Government surcharges	**(1,445)**	(865)
	1,158,424	1,265,695

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	**15,962**	4,388
Finance income on the net investment in a lease	**375**	379
Government grants	**3,743**	101,021
Others	**407**	14
	20,487	105,802
Other gains		
Gain on disposal of property, plant and equipment	**–**	4,603
Fair value gains on wealth management products	**1,811**	5,419
	1,811	10,022
	22,298	115,824

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		For the six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Cost of inventories sold		**976,646**	1,120,628
Cost of services provided		**64,582**	61,140
Depreciation of property, plant and equipment	*10*	**31,367**	28,266
Depreciation of investment properties		**26**	31
Depreciation of right-of-use assets		**1,407**	958
Amortisation of other intangible assets		**3,743**	3,747
		1,077,771	1,214,770
Impairment of financial assets, net:			
Impairment of trade receivables		**853**	416
Impairment of financial assets included in prepayments, other receivables and other assets		**19**	(52)
Impairment of financial assets included in amounts due from related parties		**35**	–
		907	364
Bank interest income	*5*	**(15,962)**	(4,388)
Fair value gains on wealth management products	*5*	**(1,811)**	(5,419)
Interest expenses on lease liabilities		**209**	25
Loss/(gain) on disposal of items of property, plant and equipment		**385**	(4,603)

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

The provision for current income tax in Mainland China is calculated based on the statutory rate of 25% (2022: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**"), except for three certain subsidiaries of the Group in Mainland China, which were taxed at a preferential rate of 0%.

In accordance with the relevant provisions of the *Notice on the Implementation of the Catalogue of Enterprise Income Tax Preferences for Public Infrastructure Projects* issued by the Ministry of Finance and the State Administration of Taxation, the subsidiaries of the Company, Huzhou Huran New Energy Development Co., Ltd., Deqing Xinrui New Energy Co., Ltd. and Huzhou Huxun Fuel New Energy Development Co., Ltd. enjoy the preferential policy of enterprise income tax. For enterprises engaged in public infrastructure projects that meet the relevant conditions and technical standards and the relevant provisions of the state investment management in the Catalogue of Preferential Enterprise Income Tax for Public Infrastructure Projects approved on 1 January 2008, their income from investment and operation will be exempted from enterprise income tax from the tax year in which production and operation income is first generated to the third year, and the enterprise income tax will be reduced by half for another three years. 2022 was the tax year in which the production and operation income was first generated for Huzhou Huran New Energy Development Co., Ltd. and Deqing Xinrui New Energy Co., Ltd. , therefore the income tax of Huzhou Huran New Energy Development Co., Ltd. and Deqing Xinrui New Energy Co., Ltd. is exempted from 2022 to 2024 and the applicable tax rate will be reduced by half from 2025 to 2027. 2023 is the tax year in which the production and operation income is first generated for Huzhou Huxun Fuel New Energy Development Co., Ltd., therefore the income tax of Huzhou Huxun Fuel New Energy Development Co., Ltd. will be exempted from 2023 to 2025 and the applicable tax rate will be reduced by half from 2026 to 2028.

The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Income tax:		
Current tax	**26,041**	24,241
Deferred tax	**(1,802)**	(5,705)
Total tax charge for the period	**24,239**	18,536

8. DIVIDENDS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interim (Listed) – per ordinary share	**84,480**	–
Interim (Pre-Listed) – per ordinary share	**–**	211,975
	84,480	211,975

The Board of Directors did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares during the period.

The Company did not have any potential dilutive ordinary shares outstanding during the Reporting Period.

The calculation of basic and diluted earnings per share is based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**53,888**	51,976
	Number of shares	
	30 June 2023	30 June 2022
Shares		
Weighted average number of ordinary shares (in thousands)	**202,715**	150,000
Earnings per share		
Basic and diluted (RMB)	**26.6 cents**	34.7 cents

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Carrying value at beginning of period/year	**896,881**	835,650
Addition	**59,144**	119,530
Transferred from investment properties	**–**	249
Depreciation charge for the period/year	**(31,367)**	(56,763)
Disposals	**(1,384)**	(1,785)
Carrying value at end of period/year	**923,274**	896,881

11. TRADE AND BILLS RECEIVABLES

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Trade receivables	**35,734**	28,329
Impairment	**(2,023)**	(1,170)
	33,711	27,159
Bills receivable	**36,591**	31,096
	70,302	58,255

An ageing analysis of the trade and bills receivables as at the end of the Reporting Period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Within 1 year	**70,302**	58,255

12. PLEDGED DEPOSITS

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Time deposit*	**40,000**	–
ETC deposit	**24**	24
	40,024	24

* The Company pledged a three-year time deposit certificate of RMB40,000,000 as collateral for obtaining bank loans and issuing bank acceptance bills. The pledge periods were from 13 January 2023 to 1 July 2023 and from 30 March 2023 to 30 September 2023.

13. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**110,736**	96,012
Over 1 year	**2,627**	5,336
	113,363	101,348

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	**Maturity**	**30 June 2023**	31 December 2022
			RMB'000	*RMB'000*
			(Unaudited)	(Audited)
Current				
Bank loans – secured*	**2.40%**	**Within 1 year**	**20,000**	–
Analysed into:				
Bank loans repayable:				
Within one year or on demand			**20,000**	–

* The Group's bank loans were secured by the Group's time deposit amounting to RMB20,000,000 (As at 31 December 2022: Nil).

15. SHARE CAPITAL

	Number of shares	**Nominal value**
		RMB'000
Ordinary shares as at 31 December 2022 (audited)	202,714,500	202,715
30 June 2023 (unaudited)	202,714,500	202,715

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

As the cleanest and low-carbon fossil energy, natural gas is an indispensable and important component in the construction of China's new energy system. Since the beginning of the 21st century, with the sustained and rapid growth of China's economy, the acceleration of the urbanization and industrialization process, and the impact of increased environmental requirements on the energy consumption structure, China's natural gas consumption and production volume has grown rapidly, with growth rates far higher than the world's average level. China's natural gas production volume has maintained an upward trend, with its production volume reaching 207.6 billion m^3 in 2021, representing a year-on-year increase of 7.8%, with the compound annual growth rate (CAGR) of 7.3% during the period from 2012 to 2021. In 2022, China's natural gas production volume amounted to 220.0 billion m^3, representing a year-on-year increase of 5.98%.

With the continuous implementation of the domestic "double carbon" development strategy since the "14th Five-Year Plan", the construction of the green energy system was continuously promoted, and the clean energy market accelerated to expand its capacity. In the first half of 2023, the international natural gas market was affected by factors such as warmer temperatures during the heating season, high inventory levels in underground gas storage facilities in Europe and America, and the slowdown in global economic growth, resulting in the significant alleviation of supply and demand tension. The marginal effects of geopolitical factors such as the Ukrainian crisis on the international energy market were weakened, and the overall development of China's natural gas market remained stable. From January to June 2023, the national natural gas consumption volume amounted to 194.1 billion m^3, representing a year-on-year increase of 5.6%; the natural gas production volume amounted to 115.5 billion m^3, representing a year-on-year increase of 5.4%; the import volume of natural gas amounted to 79.4 billion m^3, representing a year-on-year increase of 5.8%. The demand continued to recover, and the natural gas market sought progress while maintaining stability.

At present, the world's energy is undergoing a transformation period from high-carbon to low-carbon, from fossil energy to renewable energy, and from single energy to composite energy, and is in the process of building a diversified energy structure for common development, where oil and gas energy will still occupy an important position in the long term. At the same time, natural gas has multiple advantages such as flexibility, cleanliness, stability and efficiency, which can also support the coordinated development with various energies, and it will continue to play a positive and important role in carbon peaking and even carbon neutrality strategies.

DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2023, the Group will continue to improve its gas supply guarantee capability, safety guarantee capability and service guarantee capability in accordance with the "1+3+N" industrial pattern goal, and continuously strengthen the resilience and elasticity of the industrial chain through the promotion of diversified businesses such as gas, heat, cold and electricity, so as to enhance its core driving force, overall competitiveness and risk resistance, and promote the transformation from a gas supplier to an urban green energy manager.

BUSINESS REVIEW

Since 2004 and 2009, as a concession grantee, the Group has been the exclusive distributor of PNG in its operating areas in Wuxing District and Nanxun District of Huzhou, respectively. The main businesses include the sale of PNG (under the concessions) and LNG in Huzhou, the provision of services to construct and install end-user pipeline network and gas facilities, and the sale of household gas appliances and relevant equipment, energy, distributed photovoltaic power and the leasing of properties in Mainland China. As at the end of the Reporting Period, the Group provided gas supply service to 269,000 residential users and 3,367 industrial and commercial users, with a gas sales volume of 264.9 million m^3, representing a decrease of 2.32% as compared with the corresponding period of previous year.

As at the end of the Reporting Period, the Group was the largest PNG distributor in Huzhou City, Zhejiang Province, the PRC, and the length of the natural gas pipeline network operated within the operating areas in Huzhou was approximately 1,493.3 kilometers.

FINANCIAL OVERVIEW

Revenue

The Group's revenue for the Period was RMB1,158.6 million, representing a decrease of 8.49% as compared with RMB1,266.1 million in the corresponding period of previous year. The decrease in revenue was mainly arising from the reduction in natural gas sales prices for non-residential households starting from 2023, as well as the decrease in the demand for natural gas in Huzhou during the Reporting Period.

Gross Profit

The Group's gross profit for the Period was RMB117.3 million, representing an increase of 1,932.81% as compared with a gross loss of RMB6.4 million for the corresponding period of previous year. During the corresponding period of previous year, the gross loss was mainly arising from the PNG purchase and sale price inversion and the loss from the purchase and sale price inversion generated from residential gas consumption. During the Reporting Period, natural gas purchase price fell, leading to the decrease in the Group's natural gas procurement cost and the significant increase in gross profit.

Other Income and Gains

The Group's other income and gains for the Period were RMB22.3 million, representing a decrease of 80.74% as compared with RMB115.8 million in the corresponding period of previous year. It was mainly due to the decrease in fiscal subsidy fund in the first half of 2023.

Finance Costs

The Group's finance costs for the Period were RMB1.9 million, representing an increase of 280.00% as compared with RMB0.5 million in the corresponding period of previous year. It was mainly due to the increase in interest expenses arising from the increase in bank borrowings in the Period.

Income Tax Expense

The Group's income tax expense for the Period increased by 30.81% to RMB24.2 million from RMB18.5 million in the corresponding period of previous year. The effective tax rate for the Period was 24.20% (the corresponding period of previous year: 25.24%). The increase in income tax expense was mainly due to the increase of 36.43% in profit before tax as compared with the corresponding period of previous year. The decrease in effective tax rate was due to the preferential tax rates enjoyed by certain companies within the Group and the tax policy on an increase in the proportion of the additional deduction for research and development expenses.

Profit attributable to Owners of the Parent

Profit attributable to owners of the parent for the Period was RMB53.9 million, representing an increase of 3.65% as compared with RMB52.0 million in the corresponding period of previous year. It was mainly due to the combined effect of the decrease in the Group's procurement cost and the increase in the gross profit from sale of PNG as a result of the decrease in the procurement price of PNG for the Period, and the decrease in fiscal subsidy fund in the first half of 2023, resulting in the increase in the profit attributable to owners of the parent as compared with the corresponding period of previous year.

Liquidity and Financial Position

As at 30 June 2023, the current assets of the Group amounted to RMB1,182.8 million (31 December 2022: RMB1,218.6 million), of which cash and bank balance was equivalent to RMB1,003.6 million.

As at 30 June 2023, the current ratio (current assets/current liabilities) of the Group was 1.41 (31 December 2022: 1.41) and the asset-liability ratio (total liabilities/total assets) was 48.01% (31 December 2022: 47.92%). As at 30 June 2023, the unutilised bank credit balance was RMB655.0 million. The Group issued a letter of guarantee of RMB30.0 million by using the banking facilities for the performance bond required to be paid to National Oil and Gas Pipeline Network Group Co., Ltd.* (國家石油天然氣管網集團有限公司) under the Agreement on the Access of New Download Point Off-load Facilities of Natural Gas Infrastructure (《天然氣基礎設施新增下載點分輸設施接入協議》) entered into by Huzhou Nanxun Xinao Gas Company Limited* (湖州南潯新奧燃氣有限公司), a subsidiary of the Company, and National Pipeline Network Group Sichuan to East Natural Gas Pipeline Co., Ltd.* (國家管網集團川氣東送天然氣管道有限公司), and the term of the letter of guarantee was from 1 September 2022 to 30 June 2027.

The gearing ratio of the Group was approximately 2.40% as at 30 June 2023 (as at 31 December 2022: 0.73%). The ratio was calculated by dividing total interest-bearing liabilities by the total equity of the Group. As at 30 June 2023, the Group maintained a net cash position.

Exchange Rate Fluctuation Risk

As the Group operates all its businesses in the PRC, substantially all of its revenue and expenses are denominated in RMB. The foreign exchange risks the Group faces are mainly related to cash and cash equivalents (mainly denominated in Hong Kong dollars), which are the proceeds from the initial public offering of the Group. The Group will closely monitor the interest rate and exchange rate in the market and take appropriate countermeasures when necessary.

Contingent Liabilities

As at 30 June 2023, the Group had no material contingent liabilities.

Financial Guarantee Obligations

As at 30 June 2023, the Group had no material financial guarantee obligations.

Pledge of Assets

As at 30 June 2023, the Group pledged certain assets to obtain banking facilities granted to the Group. The total carrying amounts of pledged assets of the Group are as follows:

	30 June 2023	31 December 2022
	(RMB million)	*(RMB million)*
	(Unaudited)	(Audited)
Pledge of assets		
Pledged deposits	**40**	–

As at 30 June 2023, the Group secured a bank loan of RMB20.0 million (31 December 2022: Nil), which was denominated in RMB and bore interest at the rate of 2.40% per annum, and issued bank acceptance bills of RMB15.3 million (31 December 2022: Nil) by its pledged deposits.

Significant Investments Held, Material Acquisitions or Disposals, and Future Plans for Material Investments or Capital Assets

There were no significant investments held, or material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group during the Reporting Period, and the Company does not have any future plan for material investments or capital assets as at the date of this announcement.

Human Resources and Employee Compensation

As at 30 June 2023, the Group employed a total of 435 employees in China (30 June 2022: 427).

During the Period, the total employee costs of the Group were approximately RMB39.8 million. The Group further strengthened the training of employees to enhance their professional level and overall quality, by providing targeted training courses to the management, management personnel at various positions, professional technical personnel and service personnel, and by distributing relevant policies and regulations, industry information and knowledge documents to employees. The Group also provided employees with competitive remuneration packages, which is generally structured with reference to market terms and individual merits and reviewed by the management on a regular basis, so as to encourage them to work hard and show their talents when serving customers.

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the end of the Reporting Period and up to the date of this announcement.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the Reporting Period and up to the date of this announcement.

USE OF NET PROCEEDS FROM LISTING

The H shares of the Company (the "**H Share(s)**") were officially listed on the Stock Exchange on 13 July 2022. The net proceeds from the global offering of the H Shares (the "**Global Offering**") (including proceeds from the additional H Shares issued and allotted pursuant to the exercise of the over-allotment option, and deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and exercise of the over-allotment option) were approximately HK$276.3 million (equivalent to RMB236.9 million) (the "**Net Proceeds**"). The Company has utilised and will utilise the Net Proceeds in accordance with the proportion of use allocation as stated under the section headed "Future Plans and Use of Proceeds" in the prospectus. As at 30 June 2023, the details of the use of the above Net Proceeds were as follows:

Designated use of Net Proceeds	**% of Net Proceeds from the Global Offering**	**Net Proceeds from the Global Offering and use of proceeds**			**Expected to be utilised prior to the following date**
		Amount allocated *(RMB'000)*	**Utilised** *(RMB'000)*	**Unutilised** *(RMB'000)*	
Enhance the sales volume of PNG by upgrading our pipeline network and operational facilities	20%	47,400	47,400	0	
Expand our business to other geographical areas through strategic acquisition	30%	71,000	0	71,000	By the end of 2024
Expand into distributed photovoltaic power generation business	30%	71,000	21,719	49,281	By the end of 2023
Promote the use of heat energy from vapour generated by our natural gas through natural gas boilers	10%	23,800	0	23,800	By the end of 2024
Working capital and general corporate purposes	10%	23,700	23,700	0	
Total	100%	236,900	92,819	144,081	

As at the date of this announcement, the unutilised Net Proceeds were deposited in an interest-bearing account opened with a licensed bank.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed the Company's listed securities during the Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard its shareholders' interests and enhance the Company's corporate value, accountability and transparency.

The Company has adopted the code provisions set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices. The Company has complied with all the code provisions set out in the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding dealings in the Company's securities by the Directors and supervisors of the Company (the "**Supervisors**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Code of Conduct**").

Having made specific enquiries to all Directors and Supervisors, they have confirmed that all of them have complied with the Code of Conduct during the Reporting Period.

The Code of Conduct also applies to employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Code of Conduct by the employees was noted by the Company during the Reporting Period.

INTERIM DIVIDEND

The Board has made no recommendation on the payment of an interim dividend for the six months ended 30 June 2023.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee (the "**Audit Committee**") comprising three independent non-executive Directors was established by the Company with its terms of reference in compliance with the requirements under the CG Code.

The Audit Committee has reviewed together with the Company's management and external auditors, Ernst & Young, the accounting principles and policies adopted by the Group and the unaudited interim results for the Reporting Period, and is of the opinion that the preparation of such interim results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made and has no disagreement with the accounting treatment adopted.

PUBLICATION OF INTERIM RESULTS AND 2023 INTERIM REPORT

This announcement is available at the websites of the Company (www.hzrqgf.com) and the Stock Exchange (http://www.hkexnews.hk). The interim report of the Company during the Reporting Period will be despatched to the shareholders of the Company and will be published on the websites of the Company and the Stock Exchange in accordance with the requirements of the Listing Rules in due course.

By order of the Board
Huzhou Gas Co., Ltd.*
Wang Hua
Chairman

Huzhou, the PRC, 28 August 2023

As at the date of this announcement, the Board comprises Mr. Wang Hua, Ms. Su Li and Mr. Pan Haiming as executive Directors; Mr. Liu Jianfeng and Ms. Wu Zhanghuan as non-executive Directors; and Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfa as independent non-executive Directors.

* *For identification purposes only*