

Zhongyu Energy Holdings Limited

2023 Interim Results Presentation

September 2023



中裕能源
ZHONGYU ENERGY



中裕能源
ZHONGYU ENERGY

- **Section I: Performance Overview**
- **Section II: Development Strategy**
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Section I Performance Overview



Performance Highlights

The core financial indicators have steady growth, Integrated energy sales increase significantly

Business indicators	1H2022	1H2023	YoY growth (%)
Gas Sales Volume (million m ³)	1,412	1,492	5.7 
Integrated Energy Sales Volume (million kWh)	29	582	1,906.9 
Revenue (HK\$ million)	6,615	7,021	6.1 
Gross Profit (HK\$ million)	1,182	1,232	4.2 
EBITDA (HK\$ million)	1,170	1,260	4.5 
Net Profit (HK\$ million)	270	281	3.9 
Profit Attributable to Owners (HK\$ million)	214	236	10.2 
EPS-Basic (HK cent)	7.55	8.34	10.5 



Steady development of various business segments, significant breakthroughs in smart energy

Gas supply in cities

As of the end of 1H2023

- Retail pipeline gas sales increased by **5.7% year-on-year to 1.49 billion cubic meters**
- The total length of gas pipeline network operated and maintained increased by **211 km to 27,474km**, the penetration rate of residential pipeline connection **reaches to 70.1%**
- New industrial and commercial pipelines gas clients **increased by 1,236**, the pace of that **year-on-year increase of 22.0%**



Smart energy

In 1H2023

- Integrated energy sales reached **582 million kwh, up 1,906.9%** year-on-year, with **22** new projects to **120**
- The Board of Directors propose **“an development model with integrates light and heavy assets”** for smart energy and establish a special working group to develop hydrogen energy and energy storage business
- Implement the **refueling and hydrogen charging comprehensive station** demonstration project in the chemical industry cluster area of Puyang City, and it is expected to be put into trial operation in this year

Gas sales
81.2%

Revenue of
HK\$7 billion in
1H2023



中裕能源
ZHONGYU ENERGY
上市代码: 03633.HK

Pipeline
construction
9.5%

Energy trade

In 1H2023

- The trade volume of pipeline gas and LNG **increased by 45% year on year to 330 million cubic meters**
- LNG direct procurement proportion **increased by 15% year-on-year**
- Quantify the **temperament sampling plan and assessment objectives**, comprehensively complete the temperament sampling work, and continuously increase safety investment, invest and use the online management platform of the dual system, organize **hidden dangers troubleshooting and safe training to staff**



Value-added business and new retail



As of the end of June 2023

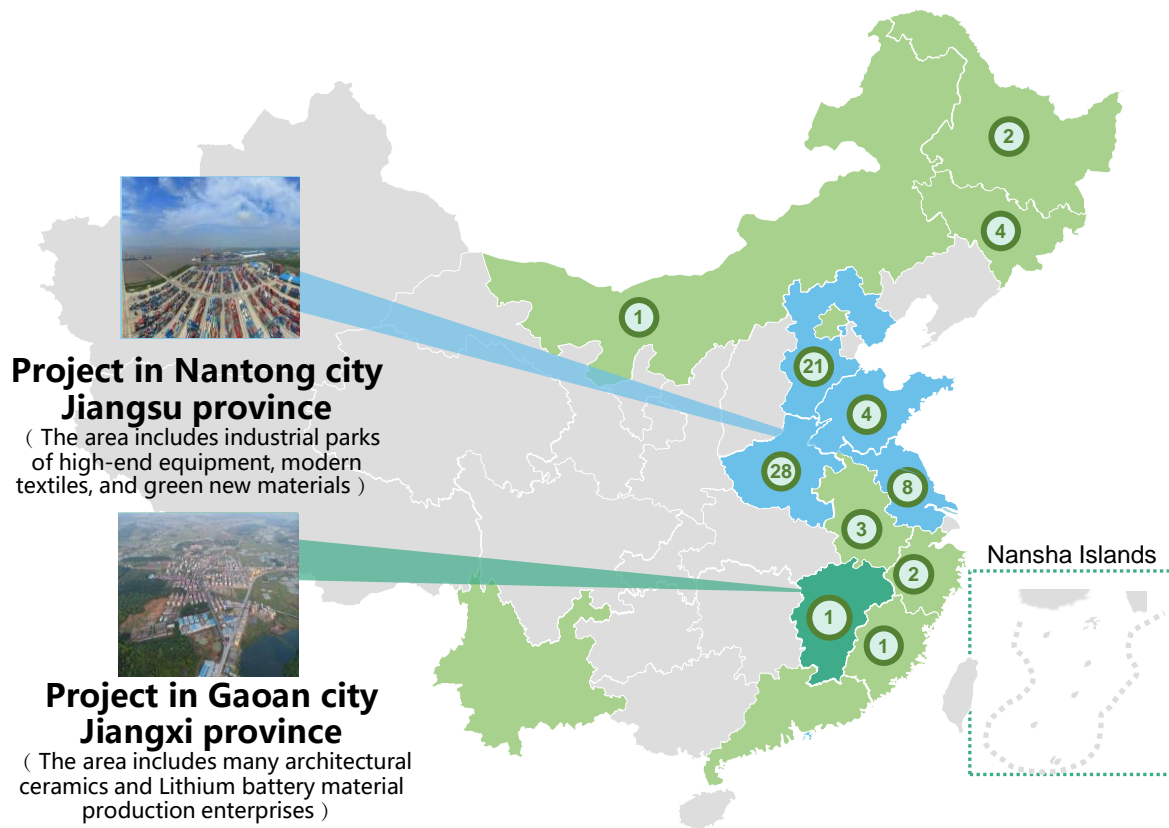
- Cumulative number of registered members of Zhongyu iHome 2.0 platform has reached **850,000**, with the number of products exceeding **30,000 SKUs**, and there were **8,000 self operated products, up 37% year on year**
- Sub-brand **OUGA** has built good cooperative relationships with **urban gas companies and 38 distributors**

Source: Company information



Overview of projects distribution

Focused on provinces with large population, strong economy and significant industrial presence



Urban gas projects	
Provinces	No. of urban gas projects
Henan	28
Hebei	21
Jiangsu	8
Shandong	4
Jilin	4
Fujian	1
Heilongjiang	2
Zhejiang	2
Anhui	3
Inner Mongolia	1
Jiangxi	1
Total	75



75 urban gas projects



56 filling stations



Member companies in 15 provinces



24.25mn accessible population



70.1% household penetration



27,500km existing hub and trunk pipelines



Urban gas projects



Provinces with key operations



Provinces with operational presence



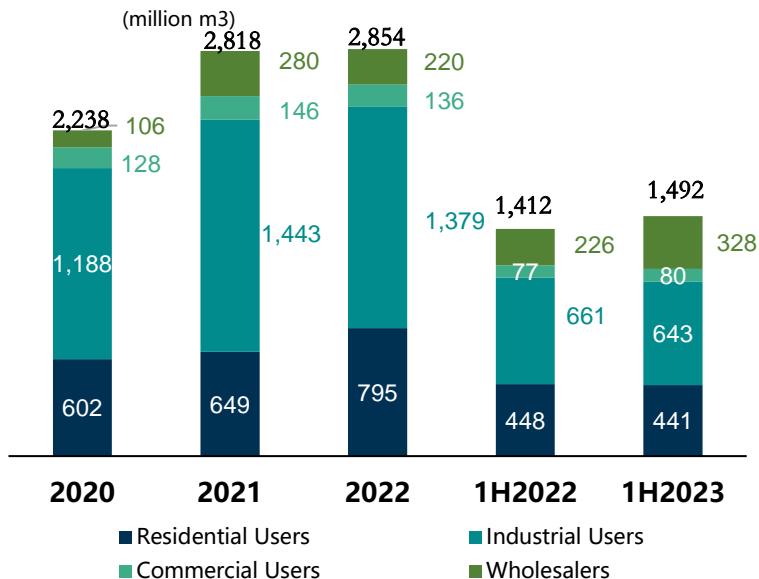
Provinces with newly established presence

Source: Company information

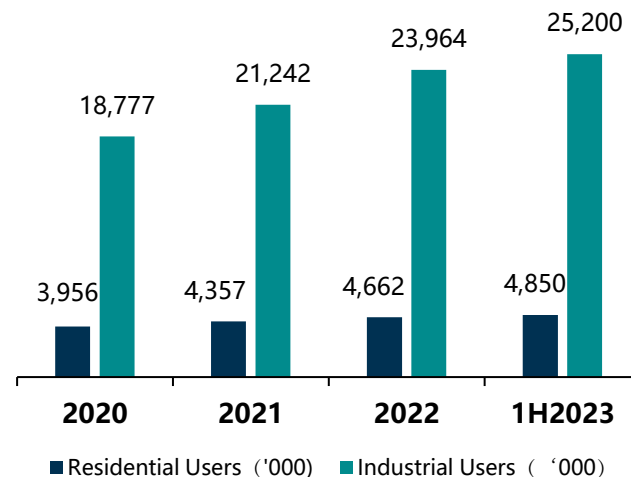


Core segment: Gas supply in cities

Stable gas sales for commercial and industrial customers, steady increase for residential customers



Cumulative user base



- Natural gas sales is the core business of Zhongyu Energy. Since its establishment in 2002, the company has been committed to the continuous expansion of **urban gas supply and customer base**
- Natural gas, as a **clean energy source that China is vigorously developing**, benefits from the national environmental protection policy and is of great significance to the continuous promotion of air pollution prevention and control. Benefiting from the industry development opportunities, Zhongyu Energy vigorously promotes gas market development and its gas sales business continues to grow
- The company has a **stable** and **diversified** customer base, with a diversified distribution of industrial and commercial customers and many well-known enterprises among the end-users

Source: Company information



Core segment: Smart energy

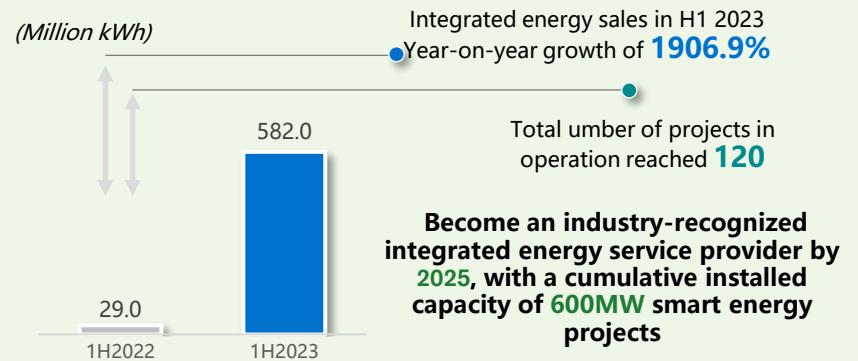
Smart energy business scope

Clean energy microgrid and energy storage	Multi-energy supply (steam, heating and cooling, and domestic hot water supply)	Clean and smart mobility (charging pile, fuel cells and vehicle-mounted systems, etc.)	Microgrid (incremental distribution grid)	Distributed natural gas generation (cogeneration of Heat, Power and Cooling)
Smart energy industrial chain investment and integration	Digital construction of integrated energy systems (Cloud Platform, A2, Internet+, AOT)	Carbon asset management and operation (carbon trading, carbon negative emissions technology development and utilization)	Construction of Zero Carbon Smart Industrial Parks	Energy technology consulting and design, engineering and construction, operation and maintenance escrow services and energy equipment agency services
				Energy saving services and energy management contracting (EMC)

Zhongyu Energy Green Projects

Renewable energy	Clean transportation
<ul style="list-style-type: none"> ✓ Distributed rooftop solar PV projects for commercial and industrial use ✓ Recovery of natural gas emissions ✓ LNG infrastructure upgrade ✓ Methane leak monitoring and control 	<ul style="list-style-type: none"> ✓ Charging pile project ✓ Incremental Distribution Grid ✓ Waste heat reuse from power plants ✓ Biomass and ground source heat pumps for energy supply
Pollution prevention and control	Energy efficiency improvement

Smart energy projects have been completed and put into operation one after another



Source: Company information



Core segment: Energy trade

Internally

1 Cost Center

- **Gas supply guarantee:** Secure supply in case of gas shortage by reaching out to more energy suppliers
- Optimize the **interconnection** and synergy capabilities among subsidiaries
- Adjust supply and demand ratios

Externally

2 Profit Center

- Generate revenue and **more profits**
- Strengthen **procurement and bargaining capabilities**

Customer type (RMB /m3, excluding tax)	FY2020	FY2021	FY2022	1H2022	1H2023	YoY growth ⁽²⁾
Average price of natural gas						
Residential users	2.44	2.49	2.53	2.53	2.56	1.2%
Industrial users	2.58	2.95	3.85	3.76	3.98	5.9%
Commercial users	3.08	3.34	3.87	3.75	4.23	12.8%
Wholesale users (LNG)	2.22	3.07	4.15	4.34	3.23	(25.6)% ⁽³⁾
Gas filling station	2.76	3.18	4.07	4.01	4.14	3.2%
Average purchase cost of natural gas⁽¹⁾	2.06	2.33	2.97	2.83	2.87	1.4%

- Effectively manage the purchase price and continuously improve the dollar margin
- Maximize the existing resources, improve the internal efficiency of procurement and distribution, and start to penetrate into the retail business

Source: Company information

Note:

(1) The amount does not include the average distribution cost of natural gas;

(2) YoY growth of 2022 vs. YoY growth of 2021



Core segment: Value-added business and new retail

Own-label well-known retail brands



- Zhongyu Phoenix is committed to becoming a full range of gas service provider, with nearly **200 high-quality gas appliances** in many categories, including gas stoves, gas water heaters, gas wall ovens, range hoods, etc.
- Built a **one-stop industrial model** of R&D, manufacturing, sales, distribution and installation, and after-sales service, tailored for gas customers
- As of the end of June 2023, our private brands have covered **15 province, autonomous regions and municipalities** directly under the central government.

"Internet+" new retail platform



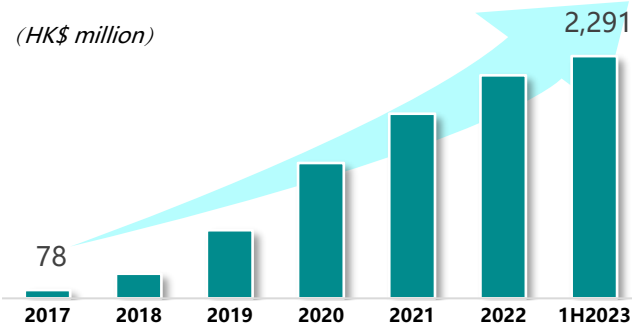
- By integrating Zhongyu Phoenix's branded product and third-party's high-quality products, we have formed Zhongyu's own product portfolio and new retail supply chain system, which better meet customer demand, tap into customer value and enhance customer stickiness
- In the first half of 2023, connected to the JD-VOP, the Zhongyu iHome 2.0 new retail platform has sold over **30,000 SKUs** on the shelves, and there were **8,000 self operated products, up 37% year on year**; with **160,000+ new registered members** and **850,000+ registered members**

Sub-brand OUGA



- Sub-brand OUGA has fully launched a total of **4 categories, 25 products** gas appliances
- Expand into the gas appliance market outside the franchise area, and has developed **over 40 distributors**

Cumulative sales of value-added business amounted to nearly HK\$2.3 billion

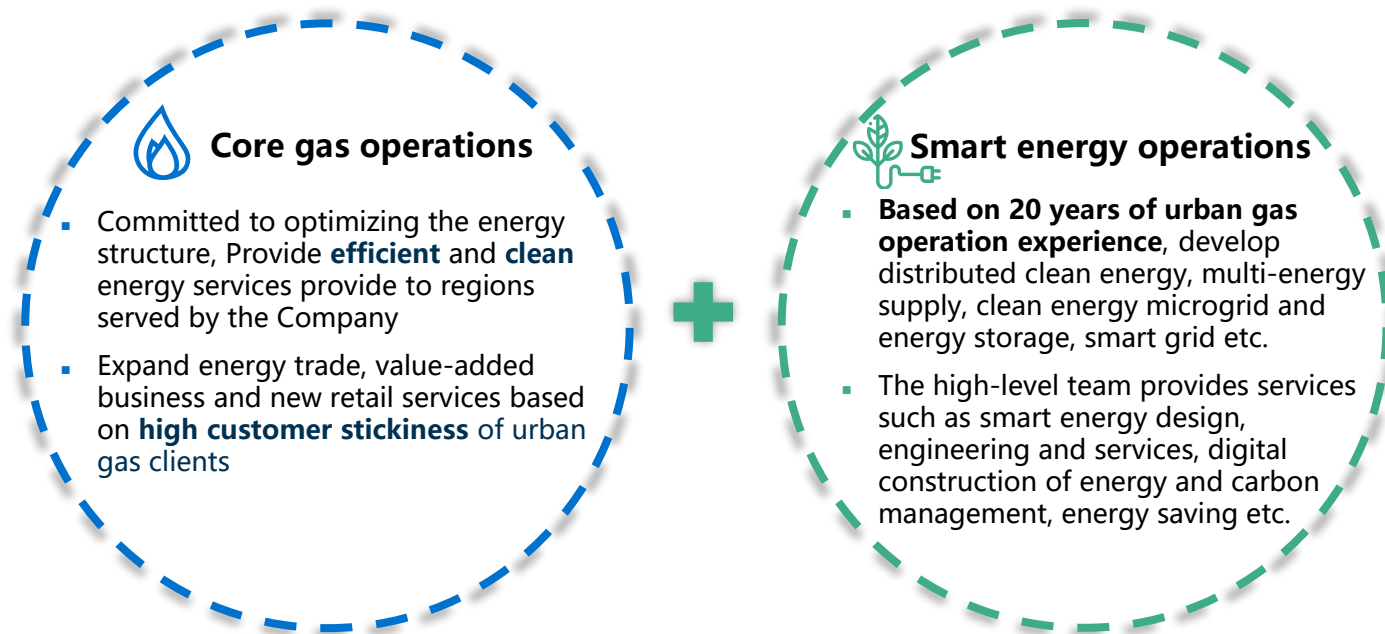


(Team building)

Section II Development Strategy



“Two-wheel drive” Strategies



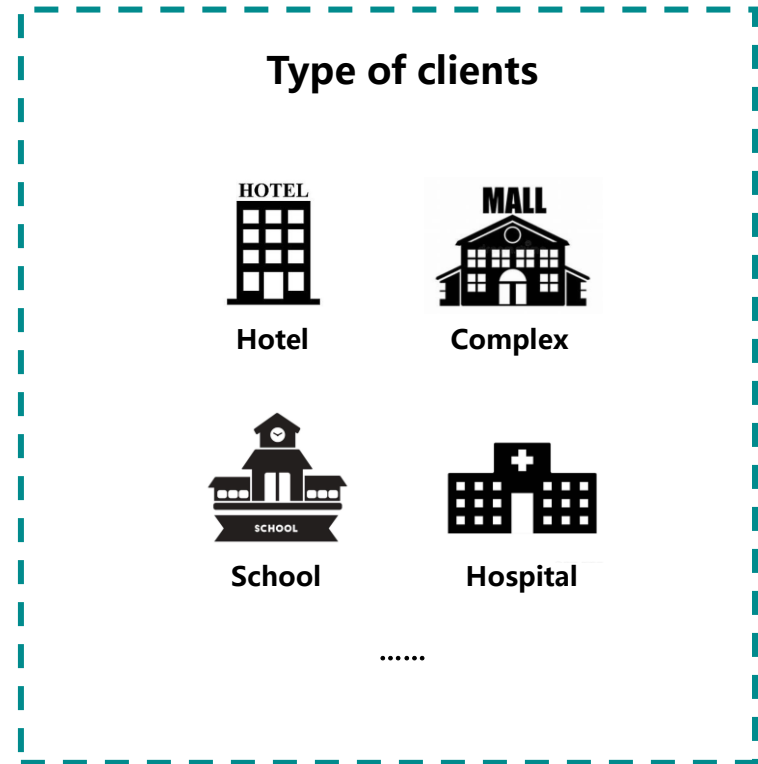


Diversified business

Major industrial and commercial customers are diversified in various industries, and the company is less affected by volatility in specific industries

Industrial clients: **4,104**

Commercial clients: **21,096户**

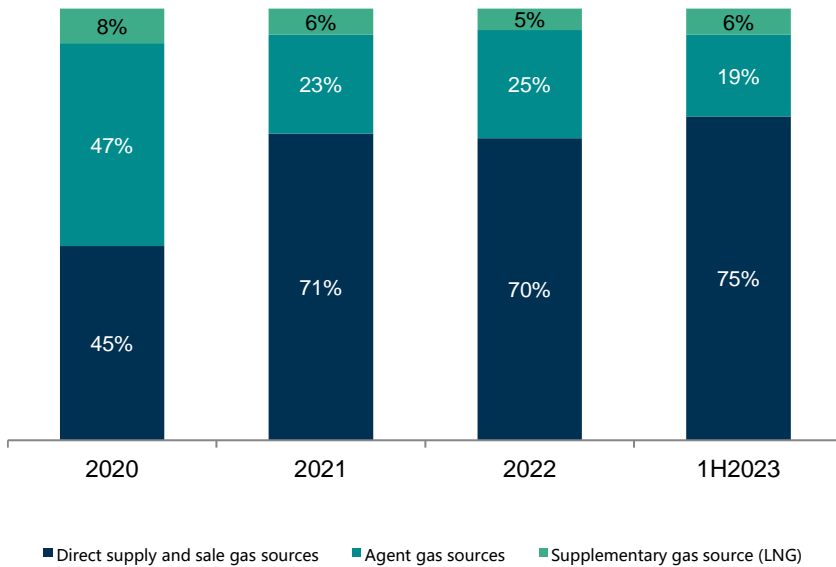


Source: Company information



- Maintain a good long-term relationship with PetroChina, Sinopec and CNOOC ("Three Barrels of Oil"), and the proportion of direct supply and direct sales of gas sources is rising continuously
- With the increase in the proportion of direct supply and direct sales of "three barrels of oil", the procurement cost has been effectively controlled and **the unit gross profit has been steadily increased**
- A flexible price mechanism is established for gas consumption by national residents, and the sale price can be adjusted accordingly.

Diversified and stable gas source combination¹. The proportion of direct supply and direct sales gas sources is increasing



Supply-end

- Determine the procurement policy of oil companies represented by "three barrels of oil", supplemented by their own resources or non-oil companies, **optimize the gas source, reduce the procurement cost**
- **Refine the gas source procurement management**, lease the underground gas storage in the off-season or when the price policy is favorable, improve the resource guarantee ability and improve the economic efficiency
- Pay close attention to the gas sales policy of oil companies, seize the best procurement opportunity, **strengthen procurement management**, and timely adjust the natural gas procurement agreement with upstream manufacturers



Sales-end

- A flexible price mechanism is established for residential gas, and the natural gas sales price can be **adjusted to be higher than the purchase price**
- The urban gas projects in the franchise area of the company can be **efficiently implemented** at a favorable price for the residential users
- Industrial and commercial users implement the **price linkage mechanism**, which takes only about 10 working days at the earliest

Source: Company information:

1. Only the source of urban gas retail, excluding the wholesale part of energy trade

2. Excluding the average distribution cost of natural gas

3. Include tax, exclude gross difference of pipeline transportation cost, the weighted average volume of gas exclude wholesale gas



Continuously innovate to expand value-added business and new retail market

【 Innovate marketing channels to expand the market in the franchise area 】



【 Develop sub-brand to expand the market outside the franchise area 】



Source: Company information



Scientific layout of smart energy, deeply explore clients' energy demand in the franchise area

Build deep user profiles and provide diversified integrated energy services

Focus on exploring the energy demand of major industrial clients in the franchise area



From

Supply natural gas only



Provide a series of integrated energy services including gas, electricity, steam, cooling and heating, energy consulting, etc

Refined operation of the group

The large and above safety accident in 1H2023 was 0

“Reinforcement Management”



Refined top-down management of the group

Establish a sound hidden danger management mechanism

Implement detailed and hierarchical management and control

Strengthen emergency management capabilities

“Increase investment”



Organize hidden dangers troubleshooting of transport vehicles

Invest and use the online management platform of the dual system

Conduct fire drills, emergency drills, and safety training for driving and escorting personnel



Continuing to improve ESG and exploring cooperation opportunities in green finance

Strengthen corporate governance structure, practice ESG sustainable development concept



Environmental protection

- Zhongyu Energy has established a **monitoring mechanism** to develop and adopt specific measures to ensure proper management and reduction of greenhouse gases, air pollutants, waste and wastewater emissions from its operations
- **20 years** of city gas experience, and diversified resources fuel the development of comprehensive energy business, and vigorously promote the strategy of renewable energy transition



Social responsibility

- The Group values equal opportunities and builds a **diverse workforce**, promoting individual initiatives to achieve growth. It also continuously enriches training curriculum for employees to support their development
- The Group has comprehensively standardized the approval process and investment plan for community investments to actively **give back to the community** and **fulfill its social responsibilities**



Corporate governance

- **ESG Committee** was established in February 2022, chaired by the Chairman of the Board and the core leadership
- The ESG Office under the ESG Committee reports directly to the ESG Committee and is responsible for supervising and implementing business units
- Improve the **audit and accountability system** to ensure that the Group is free from any form of corruption, bribery, extortion, fraud and money laundering in its operations

Green awards and certifications



USD400 Million Equivalent Term Loan Facilities with Green Tranche



Green Finance Framework



SPO on Green Finance Framework by HKQAA

Section III

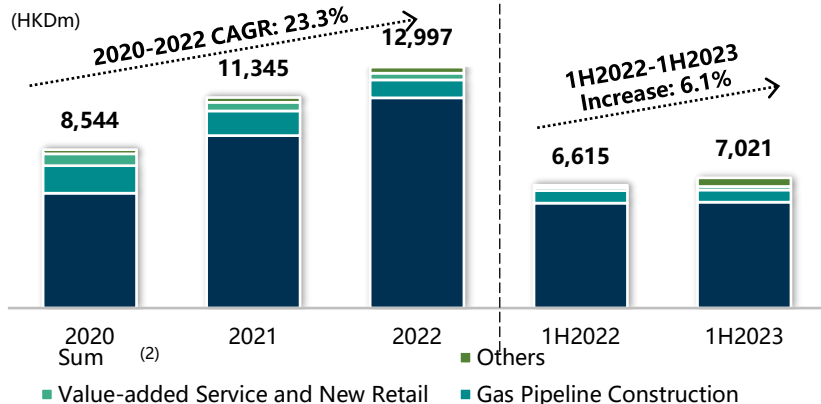
Financial Overview



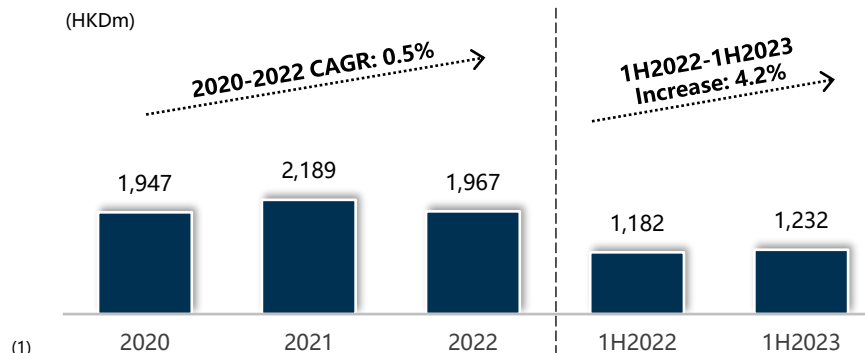
Financial Summary

The steady growth of core financial indicators

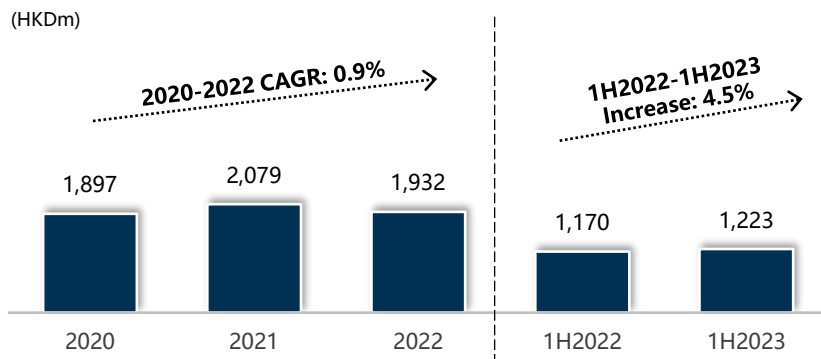
Revenue



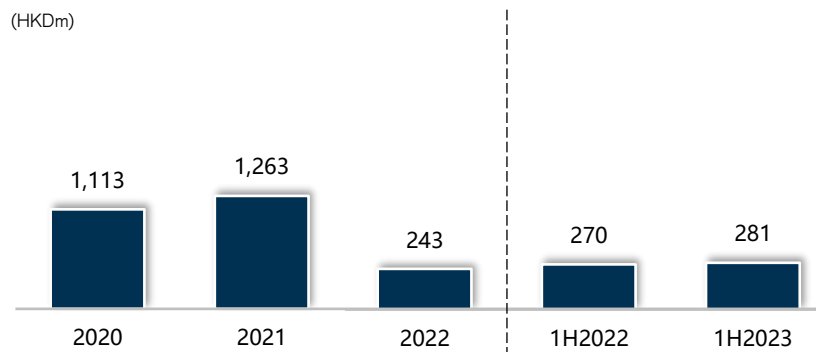
Gross Profit⁽³⁾



EBITDA⁽⁴⁾



Net Profit⁽⁵⁾



Source: Company financial reports

Notes:

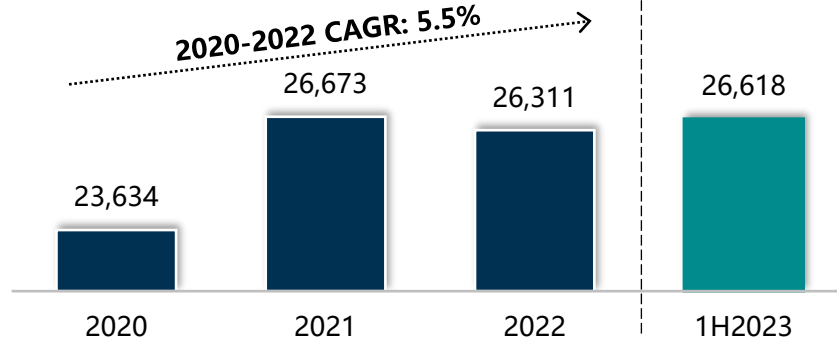
- (1) Including smart energy business
- (2) Including sales of liquefied petroleum gas and operation of compressed natural gas / liquid natural gas stations
- (3) Total gross profit after excluding VAT expenses
- (4) Profit from continuing operations before deducting financing costs, taxes, depreciation, amortization, foreign exchange gains/losses, impairment losses/write-back impairment losses and share options expenses
- (5) The net profit of 2020 includes the net gain of foreign exchange of HK \$558 million, the net profit of 2021 includes the net gain of foreign exchange of HK \$224 million, the net profit of 2022 includes the net loss of foreign exchange of HK\$523 million, the net profit of 1H2022 includes the net loss of foreign exchange of HK\$361 million, and the net profit of 1H2023 includes the net loss of foreign exchange of HK\$242 million

Financial Summary (continued)

Sound and efficient expansion of capital

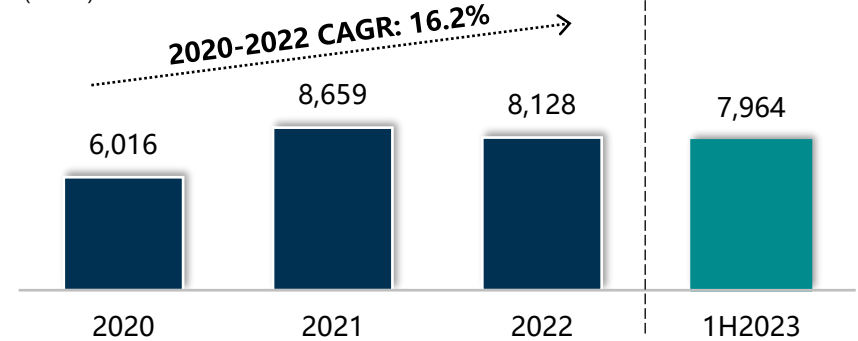
Total Assets

(HKDm)



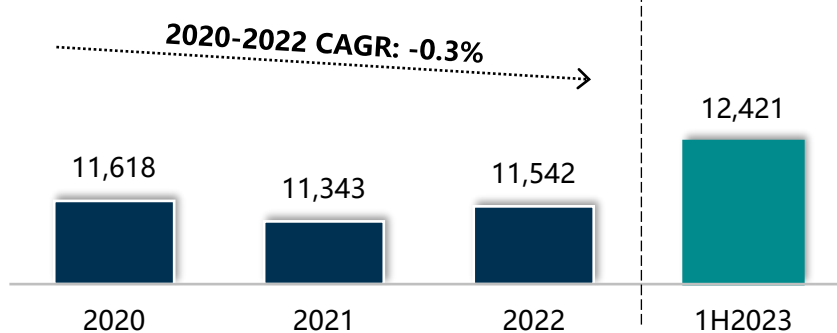
Total Shareholder's Equity⁽¹⁾

(HKDm)



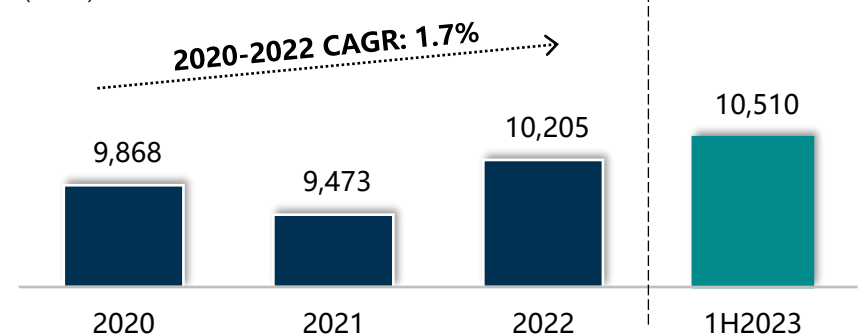
Total Debt⁽²⁾

(HKDm)



Net Debt⁽³⁾

(HKDm)



Source: Company financial reports

Notes:

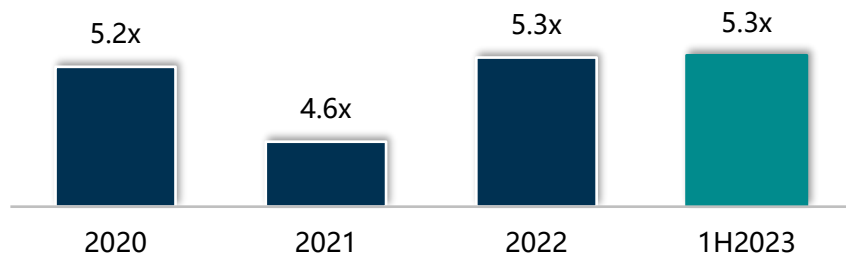
- (1) Total shareholders' equity = equity attributable to the owners of the company
- (2) Total debt = total borrowings + total lease liabilities
- (3) Net debt = total debt - bank balance and cash - pledged bank deposits

Company Debt Summary

The company continued to take measures to reduce leverage to further improve solvency and credit

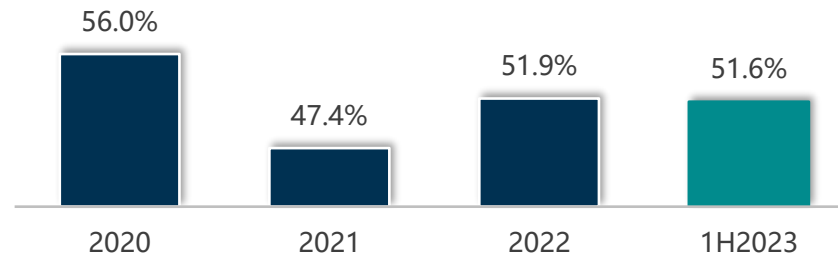
Net Debt⁽¹⁾ / LTM EBITDA

(x)



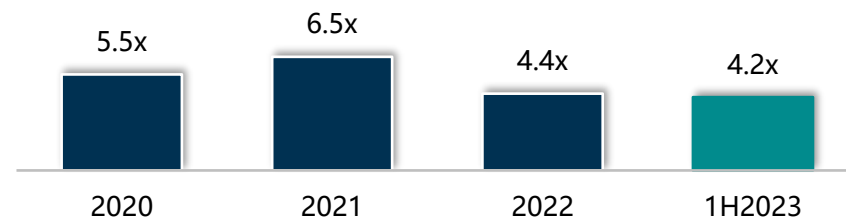
Net Debt/ Total Capital⁽²⁾

(%)



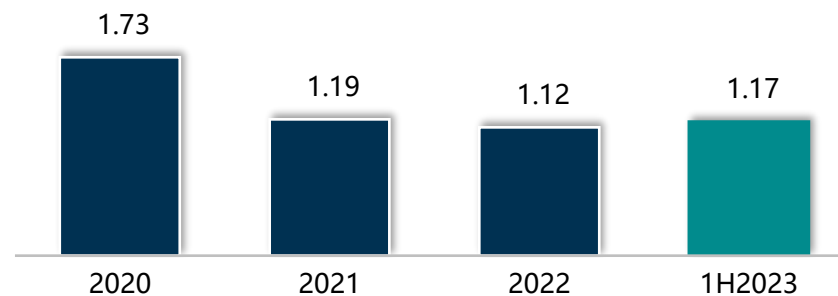
LTM EBITDA interest coverage⁽³⁾

(x)



Net Gearing Ratio⁽⁴⁾

(x)



Source: Company information

Notes:

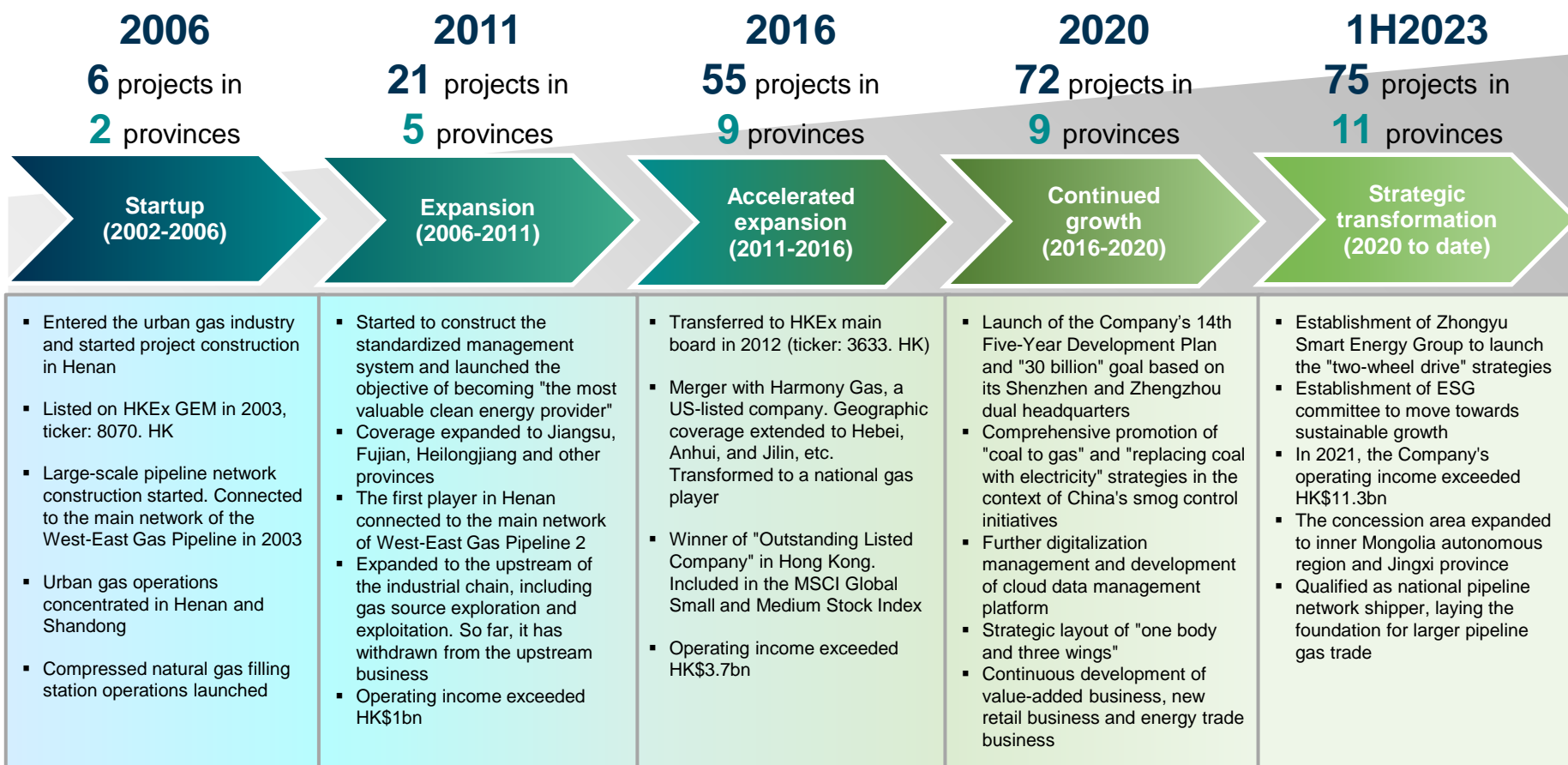
- (1) Net debt = total debt + total lease liabilities – bank balance and cash – pledged bank deposits
- (2) Total capital = total debt + total shareholders' equity (equity attributable to owners of the company)
- (3) EBITDA interest coverage rate = EBITDA / interest on borrowings and lease liabilities
- (4) Net gearing ratio = net debt / total shareholders' equity (including non-controlling interests)

Section IV Appendix



Group development milestones

- Established in 2002, Zhongyu Energy Holdings Limited ("Zhongyu Energy") is a pioneer in China's domestic gas industry, mainly engaged in urban gas, smart energy, energy trade, value-added business and new retail operations
- In 1H2023, the Company represented gas sales of **1.49bn** cubic meters (up **5.7%** year on year), operating revenue of **HK\$7.02bn** (up **6.1%** year on year), and net profit of **HK\$523mn**
- The Company was listed on HKEx GEM in 2003 (ticker: 8070. HK) and transferred to the main board in 2012 (ticker: 3633. HK)
- In 2022, it officially became the Deputy Director Member of the Safety Management Committee of China Urban Gas Association



Source: Company information

Notes: The net profit of 1H2023 excludes the net loss of foreign exchange of HK\$242 million



Professional management team

Professional management team with rich industry experience and excellent track record

More than **20 years of experience** in city gas industry in China and has a deep understanding of the industry



Wang Wenliang
Chairman of Board
Executive Director

- Overall strategic development, formulation and implementation of strategic plan
- More than 20 years of experience in city gas and energy industry
- Executive director of China Gas Holdings Limited between 17 January 2003 and 10 June 2003
- Has increased his shareholding several times since the listing of the company and never reduces his shareholding



Yiu Chi Shing
Vice Chairman
Executive Director

- Appointed as an executive director and vice chairman on 29th October, 2021
- Chairman of the board of directors of TransGlobal Group (International) Limited
- A member of the National Committee of the Chinese People's Political Consultative Conference, the president of the Hong Kong Association for the Promotion of Peaceful Reunification of China, a member of the Election Committee of the HKSAR and a Justice of the Peace of the HKSAR. He is also awarded the Gold Bauhinia Star by the Government of the HKSAR
- Honorary Doctor of Economics and senior economist



Lui Siu Keung
CEO
Executive Director

- Joined the Company in 2003 and appointed as executive director in 2007
- Responsible for the general business operations, management and financial, financing and investor relationship activities
- More than 20 years of experience in corporate finance, accounting and auditing fields
- An associate member of the Hong Kong Institute of Certified Public Accountants



Ge Yiming
Chief Finance
Officer

- With 13 years of international and domestic financial and investment experience, he has worked in Beijing, New York and Hong Kong for many years in charge of the corporate investment and financing strategic planning and industrial funds
- Joined for the first time in 2015 as Executive Assistant; left in 2016 and rejoined in June 2021, after which he was appointed as chief financial officer
- Current Senior Advisor of HOPU INVESTMENTS
- Worked in HOPU INVESTMENTS, Bank of China New York Branch and Great Wall Securities and Qianyi Huijin
- Practitioner Qualification of China Industry Association Fund

Outstanding performance in business growth, profitability, customer service, stable supply and security record



Jia Kun
Executive
Director

- Appointed as executive director in February 2019
- Joined the company in 2003 and currently appointed as executive president
- More than 9 years of judicial experience and over 20 years of legal, risk management and administrative management experience



Lu Zhaoheng
Executive
Director

- Appointed as executive director in June 2004
- Planning, design and consultation relevant to natural gas projects
- More than 30 years experience of natural gas industry
- Leading member of Henan Urban Planning Institute Corporation



Li Yan
Executive
Director









- Appointed as executive director in February 2019
- Joined the company in 2003 and currently appointed as executive vice president
- Senior economist in China, more than 30 years of accounting, finance and economics

Established a good relationship with the local government, three major upstream suppliers and customers



Pioneer in the gas industry

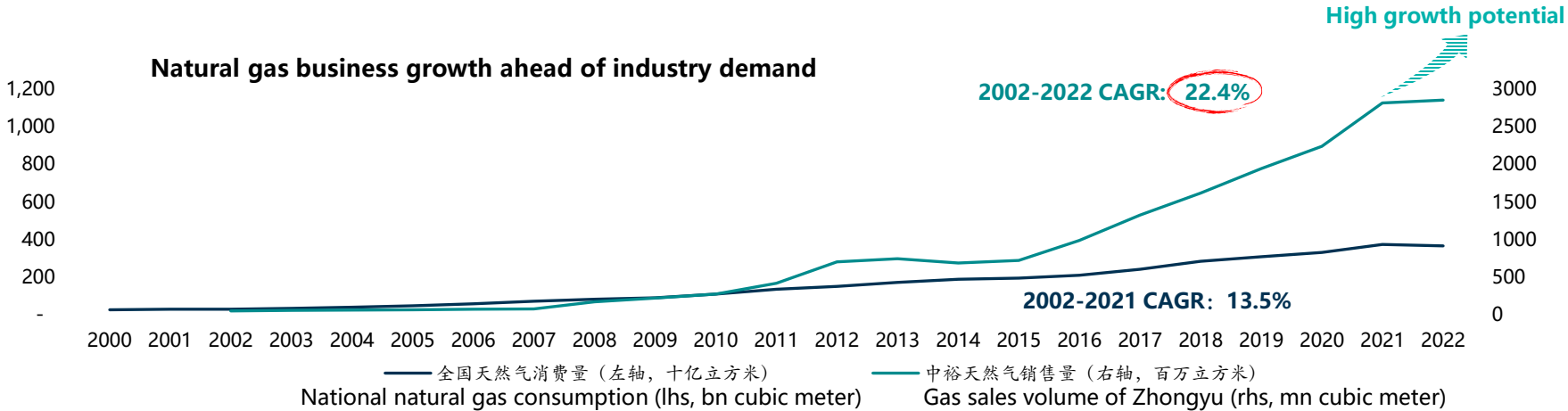
Deeply cultivating the urban gas industry for 20 years with rapid growth for consecutive years

						
	Zhongyu Energy	China Energy	Kunlong Gas	Tianlun Gas	Xinao Gas	CR Gas
	2002	2010	2011	2010	2002	2010
	2002	2007	2010	2012	1993	2009

Zhongyu Energy has unique advantages

- 20 years of deep cultivation in the industry with diversification of business regions
- The layout of gas projects focuses on provinces with large populations, strong economies and high industry proportion
- Customer diversification, urbanization and customer penetration provide further growth momentum

Zhongyu Energy has seized the development opportunity of the urban gas industry to meet the rapidly growing demand for natural gas in China, and achieved rapid growth since its establishment



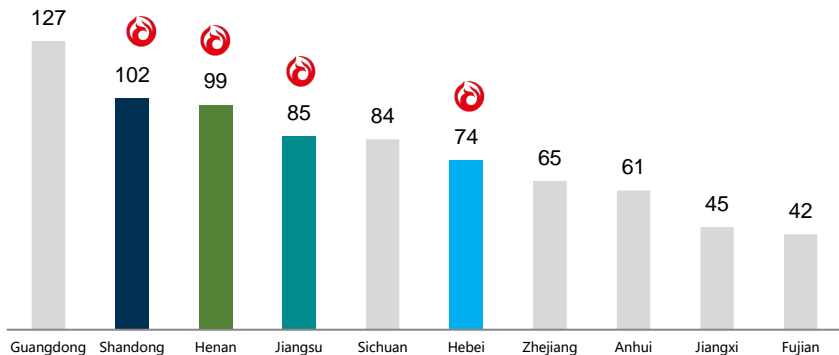
Source: company filing, National Bureau of Statistics



Diversified business

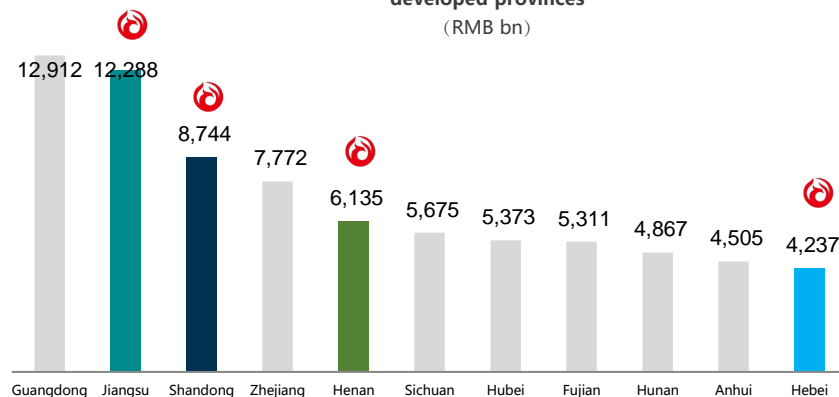
Complete the strategic layout in provinces with large population and high industry proportion, which lays a solid foundation for the results

Zhongyu Energy's business is mainly distributed in four populous provinces (mn people)



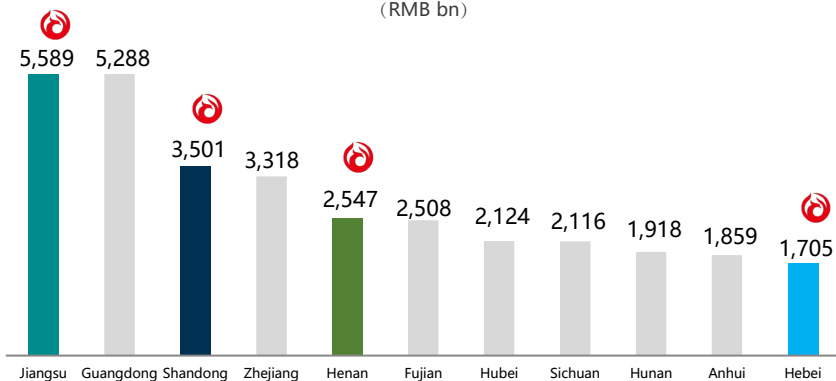
Ranking of permanent resident population in each province in 2022

Zhongyu Energy's business is mainly distributed in four economically developed provinces (RMB bn)



2022 provincial GDP ranking (excl. municipalities)

Zhongyu Energy's business is mainly distributed in four big industrial provinces (RMB bn)



2022 Secondary industry GDP ranking of provinces

Zhongyu Energy operates in leading cities in the province

The top five cities in Henan Province in terms of GDP¹

	Zhengzhou	Luoyang	Nanyang	Xuchang	Zhoukou
Covered by Zhongyu					

The top five cities in Hebei Province in terms of GDP¹

	Tangshan	Shijiazhuang	Cangzhou	Handan	Baoding
Covered by Zhongyu					

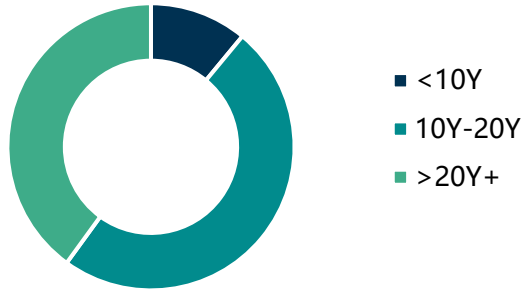
Source: company information, National Bureau of Statistics
Henan Bureau of Statistics, Hebei Bureau of Statistics

Exclusive franchise

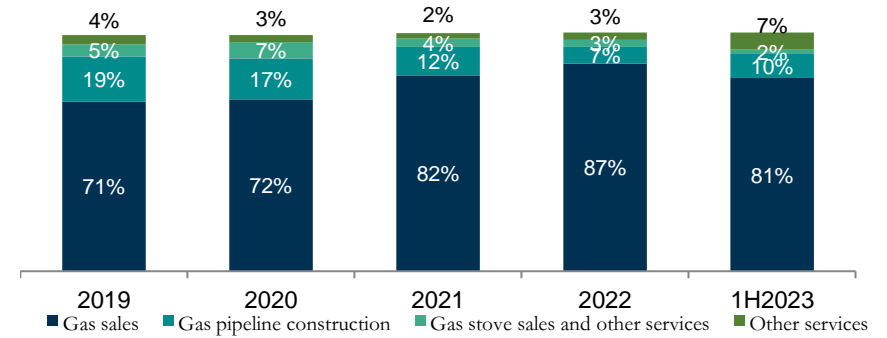
Possess of operation rights with long-year tenor and high likelihood to roll over

- The remaining years of franchise rights for the vast majority of projects are **more than 20 years**
- As of the end of June 2023, the cumulative length of pipelines laid has reached **27,474 kilometers**, and the average penetration rate of residential pipelines has continued to increase **70.1%** in 1H2023 from **55%** in 2015

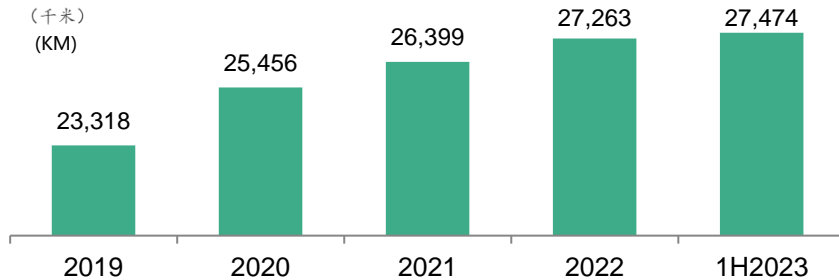
Most projects have a remaining franchise life of 20+ years ¹



The recurring income from the main business of gas sales maintained a high growth rate, and its proportion increased steadily



The pipeline network construction in the concession area has continued to grow over the years and is now fully constructed ³



Source: company information

Note:

1. As of June 2023, in terms of number of projects

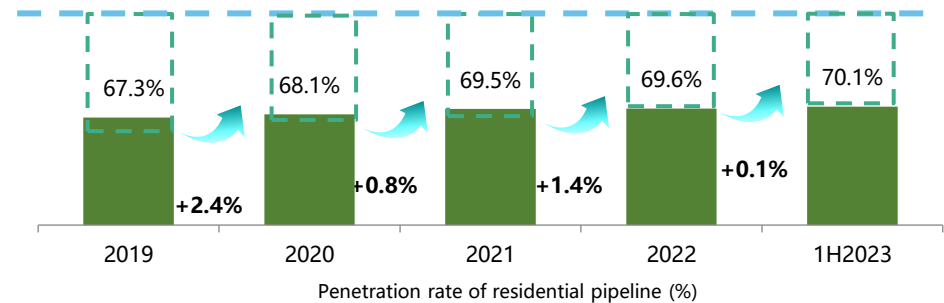
2. Including sales of liquefied petroleum gas and operation of vehicle filling stations for compressed natural gas and LNG

3. Only medium and high pressure central pipeline network, excluding branch pipeline network

4. Represented by the percentage of the cumulative number of connected resident households of the Group to the estimated total number of connected resident households in the operating area

Achieve organic growth by continuously increasing the penetration rate of residential pipelines with huge room for future development ⁴

The penetration rate of mature projects is about 90%

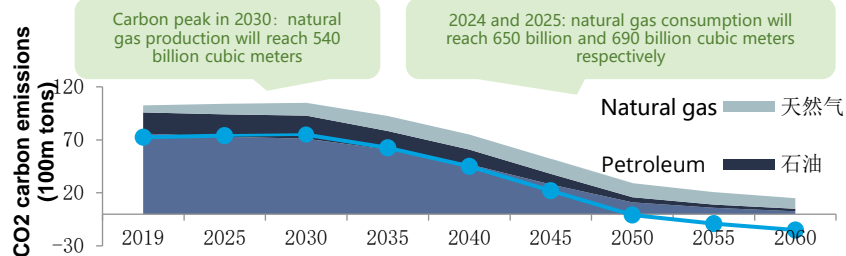


The national economic and energy development policies favor the leading enterprises in the industry

The industry has entered a high-quality development stage with clear direction of policy support, to boost the growth of industry leader

The reform of natural gas market will help market leaders optimize gross margin and improve competitiveness

Forecast of CO2 emissions from Chinese energy activities under the goal of carbon neutrality (100m tons)



"Nationwide network" to construct the industrial chain model of "X+1+X"

Illustrative of medium-and long-term natural gas backbone official network planning



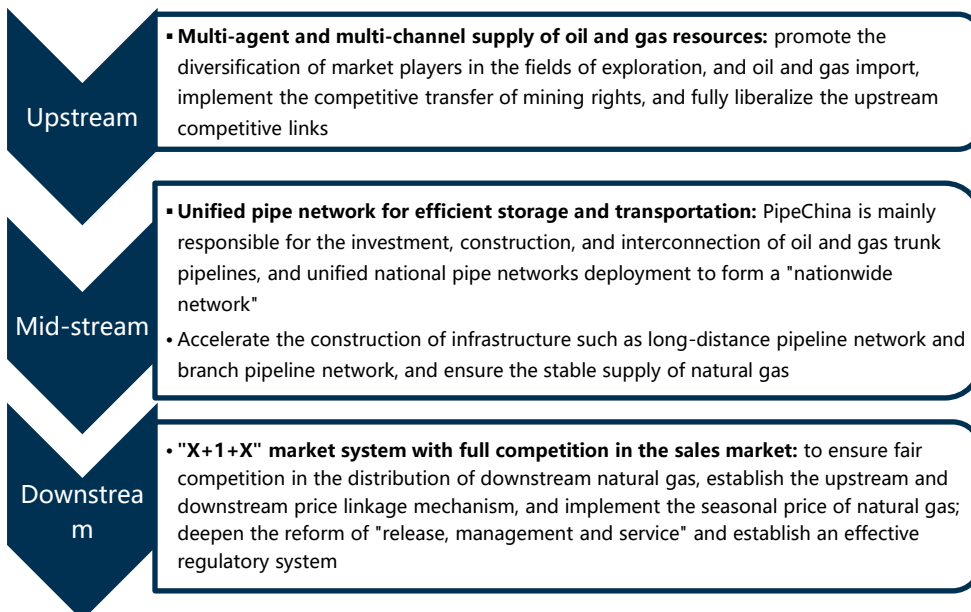
- December 2019**
SASAC officially announced the establishment of the PipeChina
- October 2020**
The official transfer of relevant oil and gas pipeline network facilities to the PipeChina, including those of the "three barrels of oil", marking the effective of PipeChina's business
- August 2021**
The four major import strategic channels have been fully completed, the domestic pipe network framework has been formed, and the interconnection of trunk pipelines has been realized
- August 2022**
The total mileage of the main national natural gas pipeline reaches 116,000 km

The 14th Five-Year Plan for Natural Gas Development

Items		Specific goals and contents
Development goals	Annual output	By 2025, the annual output of natural gas will reach more than 230 billion cubic meters
	Gas storage capacity	By 2025, the nationwide gas storage capacity will reach 55 billion-60 billion cubic meters , accounting for about 13% of natural gas consumption
	Infrastructure construction	By 2025, the scale of the national oil and gas pipeline network will reach about 210,000 kilometers
	Price mechanism reform	Steadily promote the market-oriented reform of natural gas price and reduce the level of gas distribution

The 14th Five-Year Plan for distributed photovoltaic development plan

Items		Specific goals and contents
Development goals	Urban coverage	During the 14th Five-Year Plan period, the installation rate of distributed photovoltaic in new industrial parks and new large public buildings reached more than 50%
	Rural coverage	Build about 1,000 photovoltaic demonstration villages
	Other scenarios	Focus on the use of idle land resources beyond the scope of land use on both sides of railway slopes, highways, trunk channels, park roads and rural roads to promote the distributed photovoltaic or small-scale centralized photovoltaic development and construction



Source: Company information

Accelerating the development of clean energy Paving the way for a better future

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