



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Stock Code : 3633.HK)

2018 Interim Results Presentation



Gas Distribution



**Gas Pipeline
Construction &
Connection**



**CNG/LNG Vehicle
Filling Station**



**Sales of Stoves
and Equipments**

*A leading player in clean energy in China
with clear vision to achieve sustained organic and M&A growth*

Company Overview



Stock Info

Stock code	:	3633.HK
Issued shares (as at 29 Oct 2018)	:	2,539,653,557
Share price (as at 29 Oct 2018)	:	HK\$5.35
Market cap (as at 29 Oct 2018)	:	HK\$13.59 Billion
Historical PE (as at 29 Oct 2018)	:	24.2x
Net assets value per share	:	HK\$1.44

1H18 Results Updates

HK\$ mn	1H2017	1H2018	Change
Turnover	2,142	3,699	+72.7%
Gross profit	503	1,183	+135.0%
Profit attributable to owners of the Company	148	420	+184.0%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange gain/loss)	112	512	+359.1%
Basic earnings per share (HK\$ cents)	5.86	16.63	+183.8%
Gross profit margin	23.5%	32.0%	+8.5p.p
Net profit margin	6.9%	11.4%	+4.5p.p

About Zhongyu

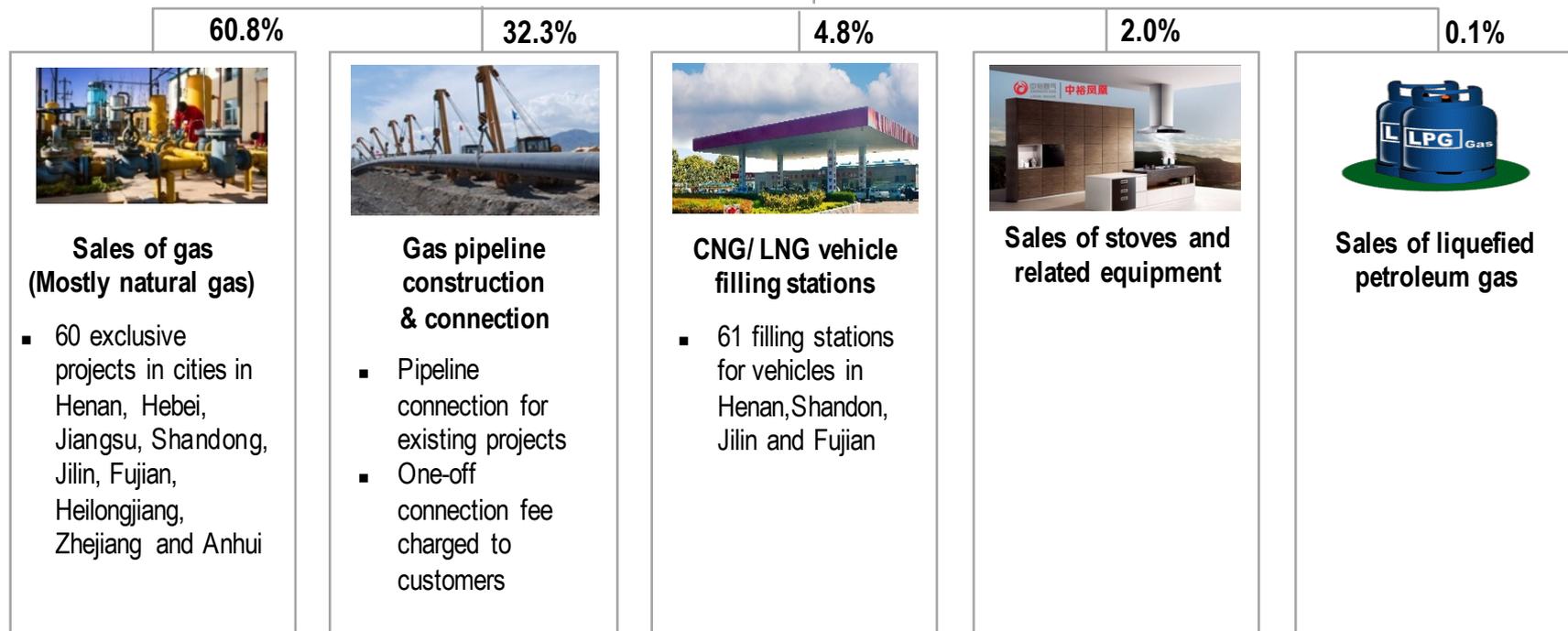
- **A piped natural gas operator riding on the robust demand for clean energy in the PRC with exclusive rights**
- **Core businesses:**
 1. Sales of natural gas
 2. Gas pipeline construction and connection
 3. CNG/LNG vehicle filling station
 4. Sales of stoves and related equipment
- **Core advantages:**
 1. Strong presence in provinces such as in Henan, Hebei, Shandong and Jiangsu which has heavy demand for natural gas
 2. Dual growth strategy: rapid expansion with organic growth and M&As
 3. Beneficiary of favorable government policies and the implementation of the “coal-to-gas” conversion
 4. Stable operating cash inflow
 5. Experienced management team
 6. Stable and reliable gas supply

Investment Highlights

- **20 greenfield projects** under the wholly-owned subsidiary, Harmony Gas
- **Favorable policies** to promote use of clean energy
- **Rapid demand growth in the operating regions**
- **Continuous growth in piped natural gas sales (1H18)**
 1. Sales to industrial customers **increased by 38.5%**
 2. New piped gas connections made for **350,276 residential households, surged by 192.8%**



% of turnover for the six months ended 30 Jun 2018



Growth drivers

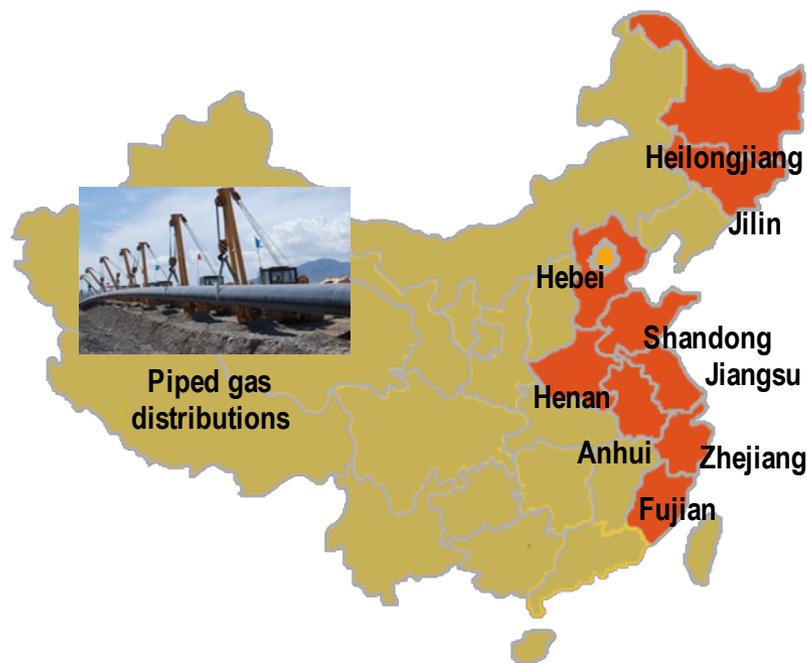
- (1) "Coal-to-gas" conversion policy
- (2) Integration of Harmony Gas
- (3) M&As to penetrate into other regions

- (1) "Coal-to-gas" conversion policy
- (2) Further penetration into the covered 2.5m residential households

Major Contributor: Piped Gas Distribution



Strong Presence in Populous and Industrially Developed Provinces



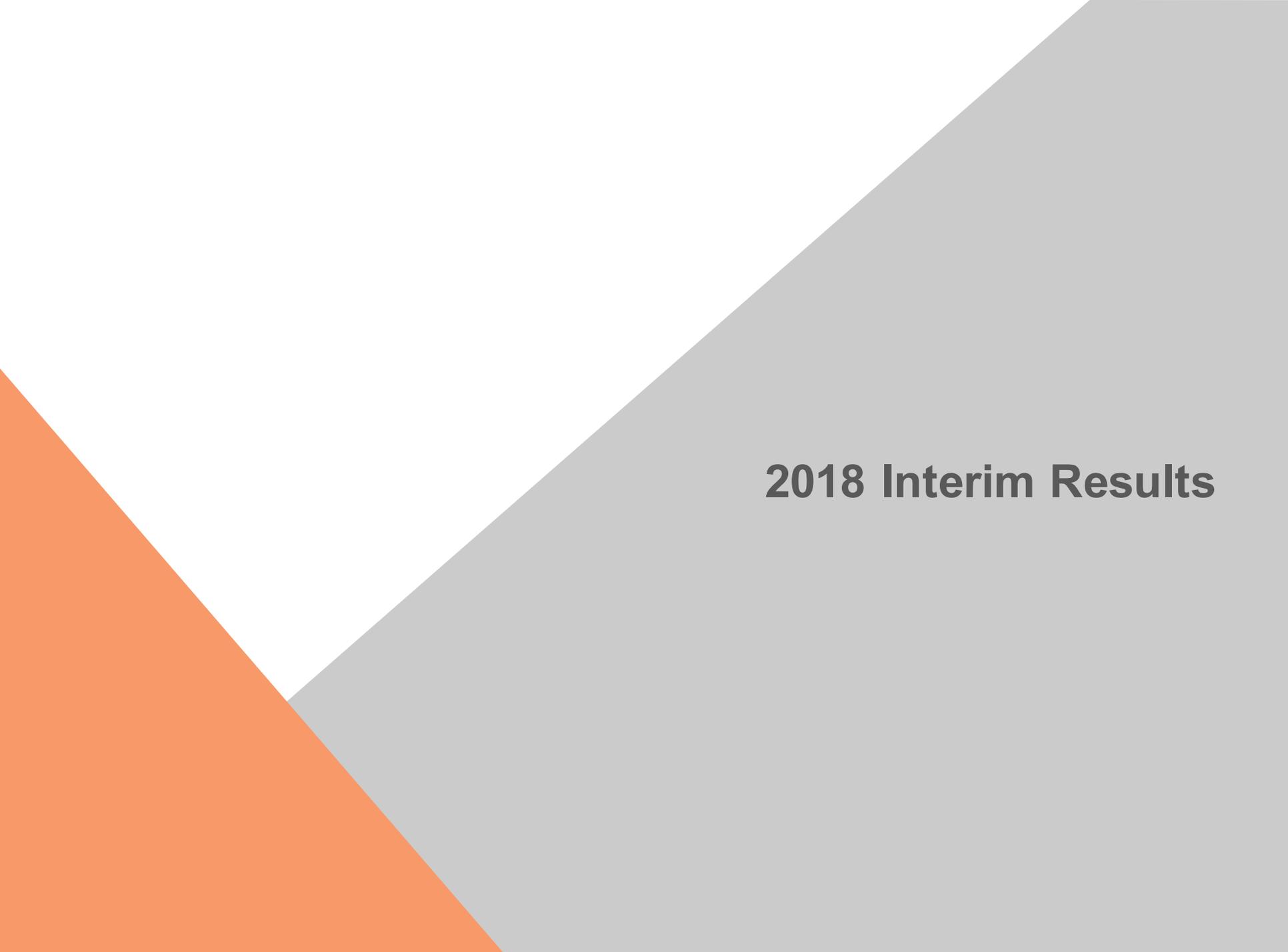
No. of operating locations

<i>Henan Province</i>	24
<i>Hebei Province</i>	19
<i>Jiangsu Province</i>	5
<i>Shandong Province</i>	4
<i>Jilin Province</i>	2
<i>Fujian Province</i>	1
<i>Heilongjiang Province</i>	1
<i>Zhejiang Province</i>	2
<i>Anhui Province</i>	2
Total	60

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.

Customer Coverage

Numbers of Connected Users	As at 30 Jun 17	As at 30 Jun 18	Change
<i>Residential Users</i>	1,964,517	2,509,802	+27.8%
<i>Industrial Users</i>	1,310	1,805	+37.8%
<i>Commercial Users</i>	6,915	9,048	+30.8%

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2018 Interim Results

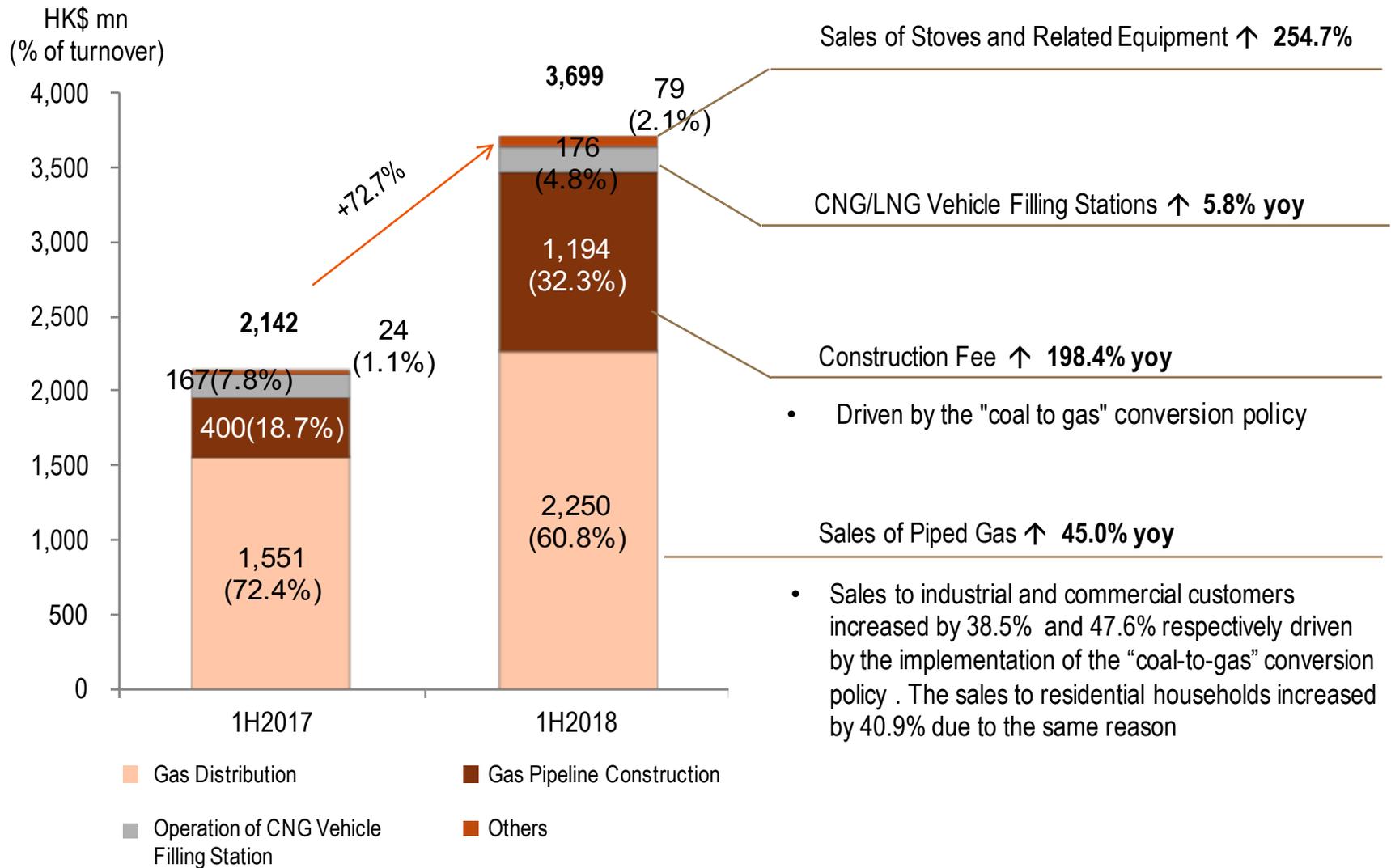
Financial Highlights



HK\$ '000	For the six months ended 30 Jun		
	2017	2018	Change
Turnover	2,142,291	3,699,210	+72.7%
Gross profit	503,483	1,183,015	+135.0%
Profit Attributable to Owners of the Company	147,861	419,980	+184.0%
Adjusted profit attributable to owners of the Company*	111,518	511,972	+359.1%
EBITDA*	486,640	1,094,590	+124.9%
Gross Profit Margin	23.5%	32.0%	+8.5p.p.
EBITDA Margin*	22.7%	29.6%	+6.9p.p.
Net Profit Margin	6.9%	11.4%	+4.5p.p.
Weighted Average Number of Ordinary Shares ('000)	2,525,008	2,525,008	--
Basic Earnings Per Share (HK\$ cents)	5.86	16.63	+183.8%

*Does not include foreign exchange gains and losses

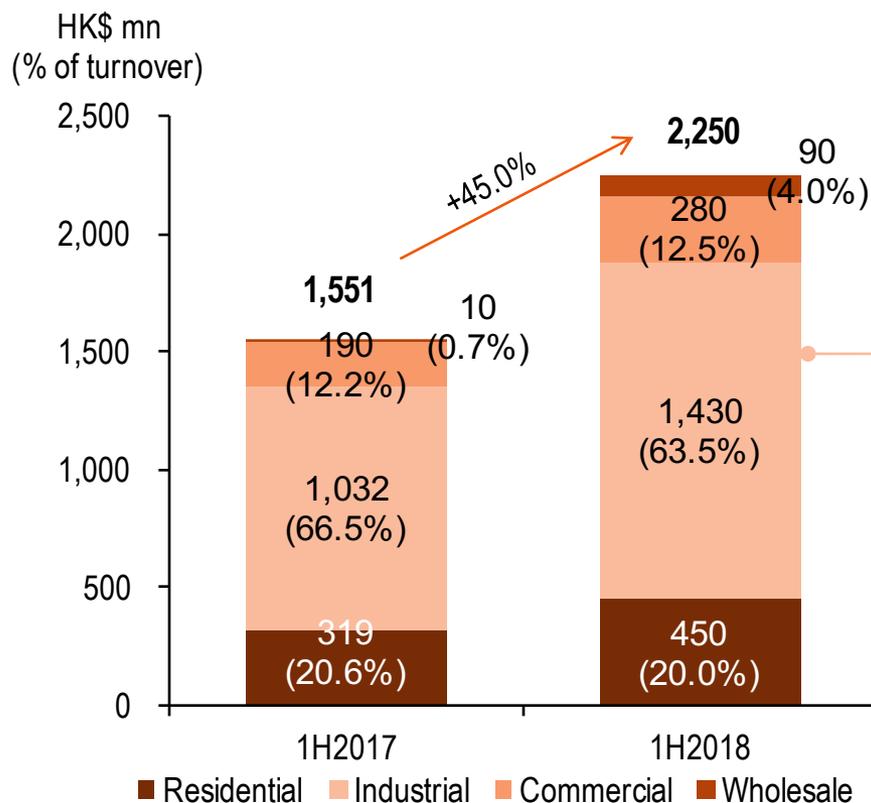
Turnover Breakdown by Business Segments



Turnover Analysis: Gas Distribution



Sales of gas by customer



Driven by the "coal to gas" policy :

- Sales of industrial customer increased by 38.5% yoy
- Sales of commercial customer increased by 47.6% yoy
- Sales of residential customer increased by 40.9% yoy

Pre-tax ASP of natural gas

RMB per m ³	1H2017	1H2018	Change
Residential	2.11	2.17	+2.8%
Industrial	2.32	2.76	+19.0%
Commercial	2.74	3.07	+12.0%
Wholesale	1.67	2.03	21.6%
Average cost (excluding tax)	2.00	2.39	19.5%

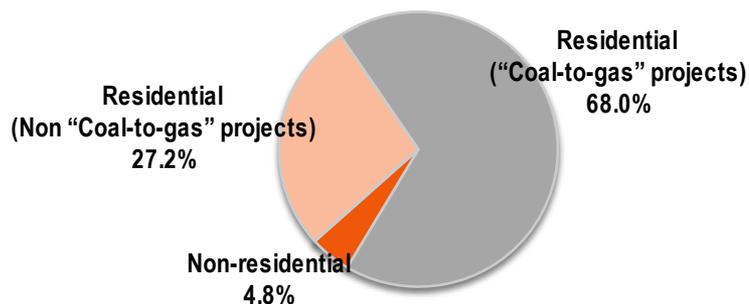
Unit of piped natural gas sold

mn m ³	1H2017	1H2018	Change
Residential	132	168	+27.4%
Industrial	388	414	+6.6%
Commercial	61	74	+21.4%
Wholesale	5	8	+59.0%
Total	586	664	+13.3%

Turnover Analysis: Gas Pipeline Construction and Connection



Turnover for gas pipeline construction breakdown



Turnover of HK\$1.19bn for 1H2018 (↑ 198.4%yoy)

Connection Fee

Customer Tariffs (pre-tax) (RMB)	1H2017	1H2018	Change
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Residential households

- "Coal-to-gas" projects	2,824	2,680	-5.1%
- Non "Coal-to-gas" projects	2,620	2,534	-3.3%

Non-residential

Case by case

No. of New Connection

	1H17	1H18	Change
Residential households	119,647	350,276	+192.8%
- "Coal-to-gas" projects	10,599	246,189	+2,222.8%
- Non "Coal-to-gas" projects	109,048	104,087	-4.5%
Industrial	139	159	+14.4%
Commercial	859	792	-7.8%

Penetration

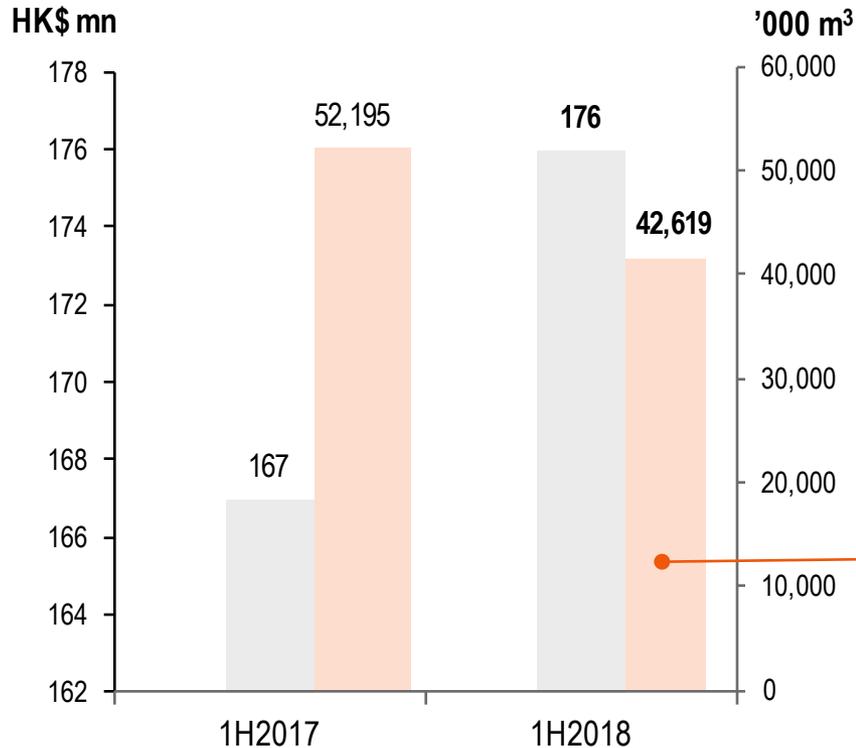
	1H2017	1H2018	Change
Connectable Urban Population ('000)*	11,153	12,698	+13.9%
Household Penetration Rate*	61.7%	69.2%	+7.5%
Total Existing Intermediate & Main Pipelines (km)	11,302	13,118	+16.1%

*The penetration rates of residential pipeline connection represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions.

Turnover Analysis: CNG/LNG Vehicle Filling Stations



Turnover increased moderately by 5.8% yoy



The decrease in sales volume was due to:

- International crude oil prices remained at a low level and keen competition

Average Selling Price

RMB per m ³	1H17	1H18	Change
CNG/LNG Filling Stations	2.82	3.36	+19.1%

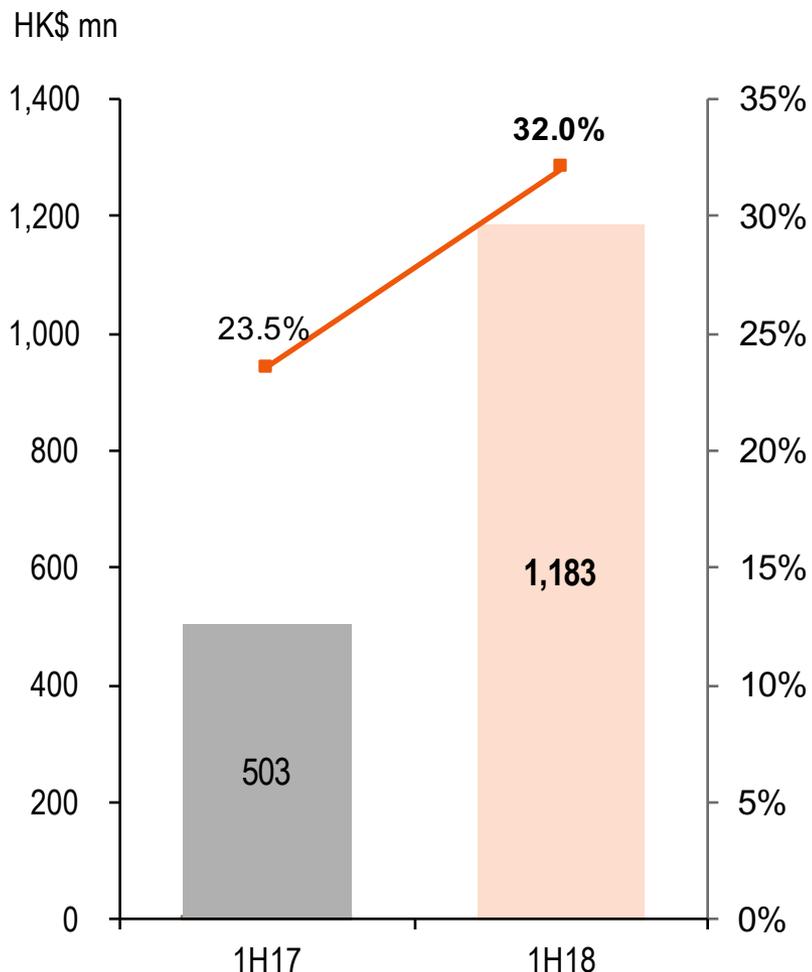
No. of CNG/LNG vehicle filling stations

Unit	1H17	1H18	Change
CNG/LNG Vehicle Filling Stations	60	61	+1

Gross Profit and Gross Profit Margin Analysis



Gross Profit and Gross Profit Margin



Gross Margins of Major Business Segments

	1H17	1H18	Change
Sales of Piped Natural Gas	15.3%	10.1%	-5.2p.p.
Gas Pipeline Construction & Connection	65.2%	76.9%	+11.7p.p.
Operation of CNG/LNG Vehicle Filling Stations	3.9%	10.9%	+7.0p.p.

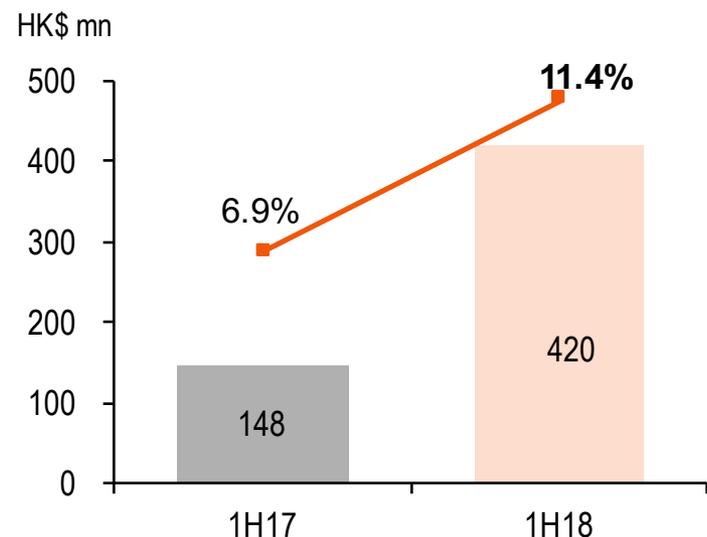
- The gross profit margin for the sales of piped natural gas reduced as a result of limited supply of natural gas and hence increased average cost
- The gross profit margin for the gas pipeline construction increased was mainly due to cost reduction after integration and improvement of design, material procurement and construction processes
- The gross profit margin for the operation of CNG/LNG vehicle filling stations increased because sales increment has been recorded in gas stations in Jilin Province, which have higher gross profit margin due to premium locations

Net Profit and Margin Analysis



Net Profit and Margin

HK\$ mn	1H17	1H18	Change
Profit attributable to owners of the Company	147.9	420.0	+184.0%



The increase in net profit was mainly due to:

- A significant gain in turnover
- Revenues generated by industrial customers from gas pipeline construction and connection section have increased significantly

Key Expenses

% of Turnover	1H17	1H18	Change
Selling and Distribution Costs	2.3%	1.8%	-0.5.p.p.
General Administrative Expenses	6.8%	4.7%	-2.1p.p.
Finance Costs	4.8%	3.3%	-1.5p.p.
Effective Tax Rate	35.5% of profit before tax	34.4% of profit before tax	-1.1p.p.



Financial Positions

HK\$ mn	1H2017	1H2018	Change
Property, Plant and Equipment	7,124	7,667	+7.6%
Total Assets	11,800	14,717	+24.7%
Bank Balances and Cash	464	1,525	+228.5%
Borrowings and Obligations under Finance Lease	5,705	7,824	+37.1%
Shareholder's Equity	3,173	3,641	+14.7%
Net Gearing Ratio*	1.41	1.48	+5.0%
Interest Coverage Ratio*	3.9	7.5	+3.6

*Net Gearing Ratio= Net Debt/Equity Value

*Interest Coverage Ratio= EBITA/Consolidated Interest Expense

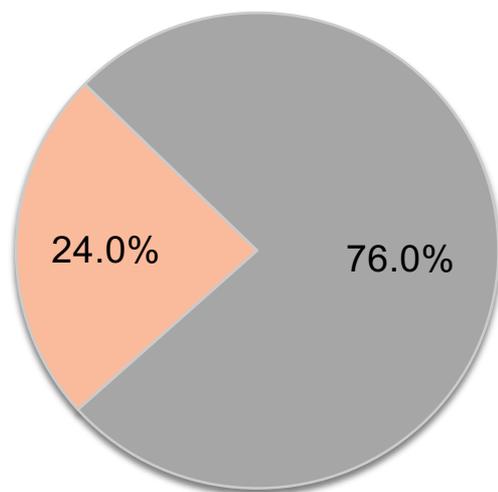
Operating Cash Flows, Inventory, Receivable And Payable Turnover Days

	1H2017	1H2018	Change
Inventory Turnover Days	16 days	23 days	+7 days
Average Trade Receivable Turnover Days	31 days	51 days	+20 days
Average Trade Payable Turnover Days	61 days	60 days	-1 days
Net Cash from Operating activities (HK\$ mn)	235	676	+187.4%



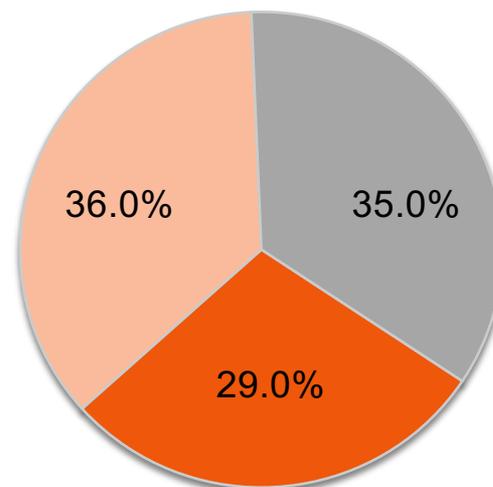
- As of 30 June 2018 , total borrowings and obligation under finance lease were HK\$7.82 billion
- The Group's financing cost were approximately 3.3% and majority of total debt carried interest at floating rates

Majority of total borrowings and obligation under finance lease were long-term debts
(as of 30 June 2018)



■ Short-term debt ■ Long-term debt

Debt has evenly distributed into RMB, HKD and USD,
reducing foreign exchange risk
(as of 30 June 2018)

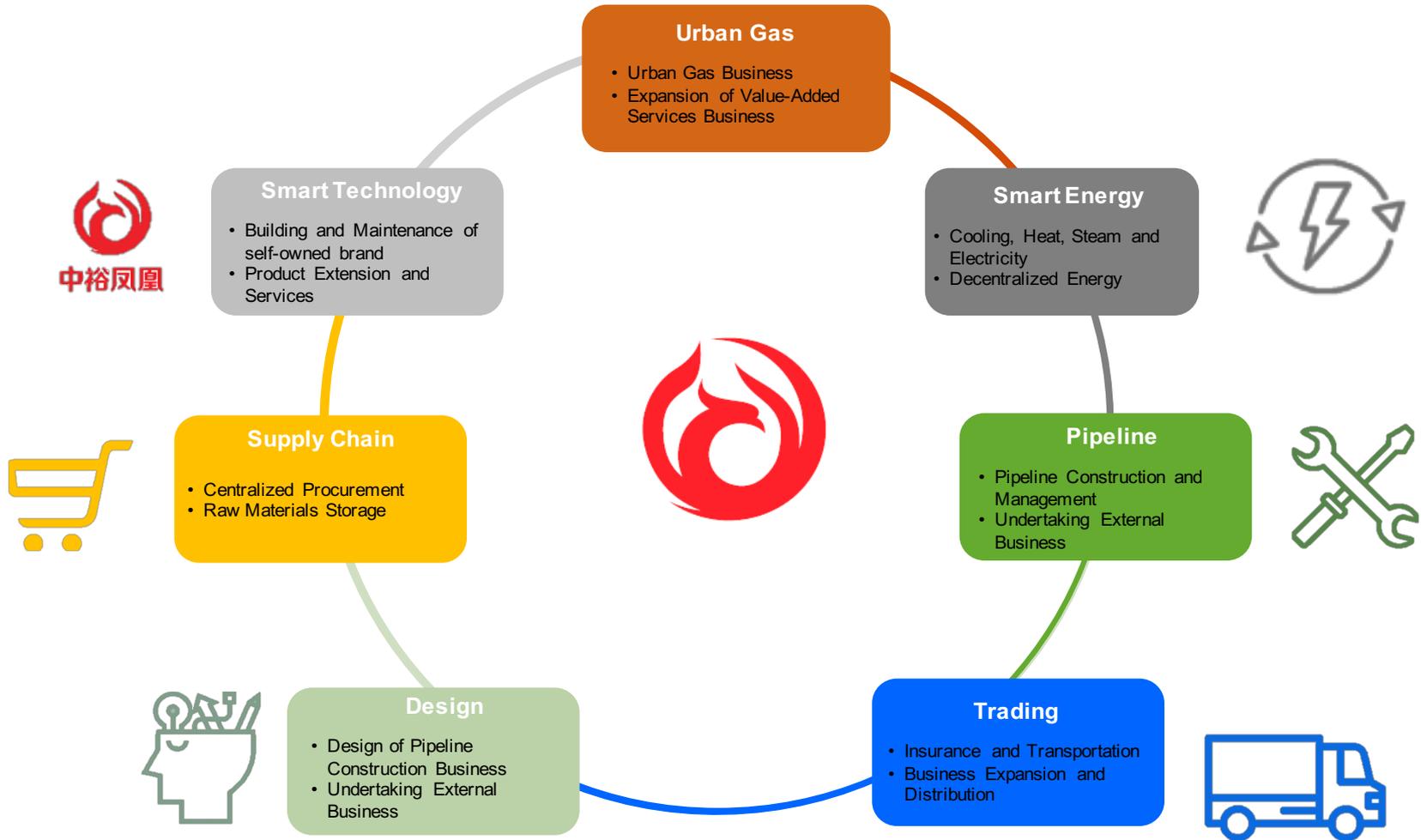


■ RMB ■ HKD ■ USD



Business Strategies

Transforming into an Urban-focused Integrated Energy Service Provider





**Zhongyu
Gas**

1

Accelerate “Coal-to-gas” conversion projects construction
- New connection targets for 2018: 800,000 residential, 280 industrial, 2,400 commercial

2

Continue to develop greenfield projects

3

Explore opportunities in smart energy and decentralized energies; target to build pilot points of decentralized energy projects in 2018

4

Promote the value-added service of selling stoves and related equipment under “Zhongyu Phoenix” (“中裕鳳凰”) brand

5

M&A – focus on projects with close proximity to gas sources and strong local demand

Zhongyu Gas aims to become the most valuable integrated energy service provider in China and a first-tier player in the energy industry

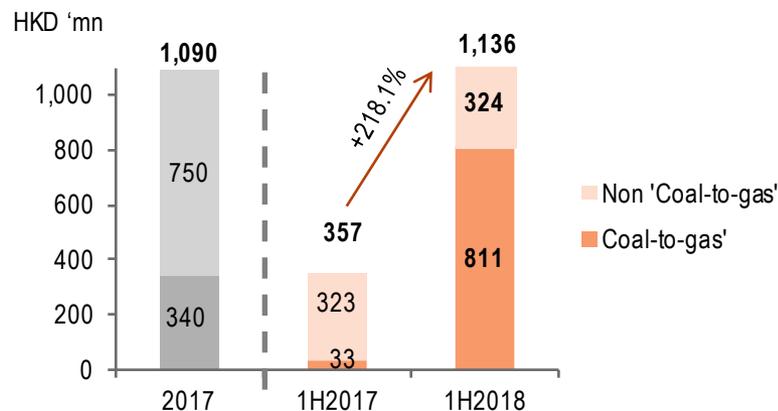
“Coal-to-gas” Conversion



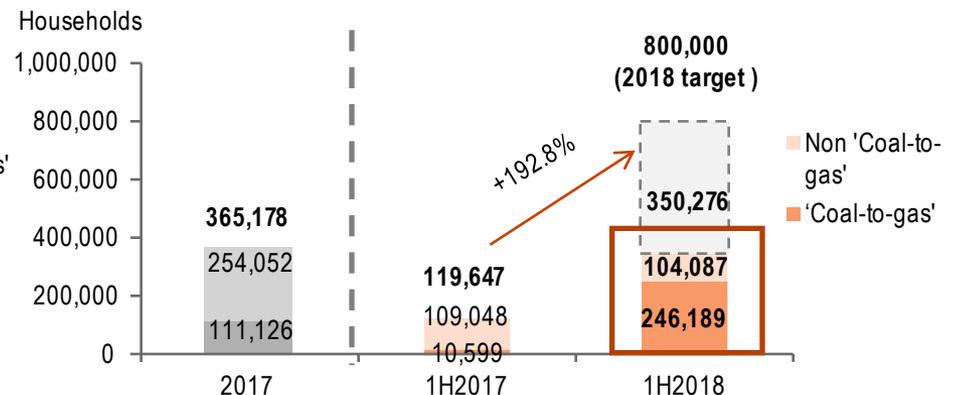
- Policies by **the NDRC** to promote the use of natural gas:
 - According to the NDRC, the residential city-gate price and non-residential city gate price will be unified, starting from 10 June 2018. The specific gate price will be negotiated and determined based on 20% upward adjustment and unlimited downward
 - Market Impact: The current non-residential consumption accounts for approximately 15% of the total consumption in China and the maximum city gate price adjustment is RMB 0.35 per cubic metre
 - The total length of natural gas pipeline is expected to reach 104,000 km by 2020 and 123,000 km by 2025
- **The State Council** targets to convert 189K steam ton/hour of industrial coal-fired boilers by 2020, which is expected to boost natural gas demand by 38 billion m³
- According to the **Chinese National Energy Administration**, the natural gas production in the PRC is expected to rise by 8.5% over 2017 to a record high in 2018
- According to **Sinopec Economics and Development Research Institute**, it is forecasted that the total annual consumption of natural gas in the PRC will reach approximately 260 billion m³ in 2018 with a year-on-year growth of 10.0%

“Coal-to-gas” projects (residential): Satisfactory progress made in 1H18, will continue to propel towards the 2018FY targets

Connection fee revenue (Residential)



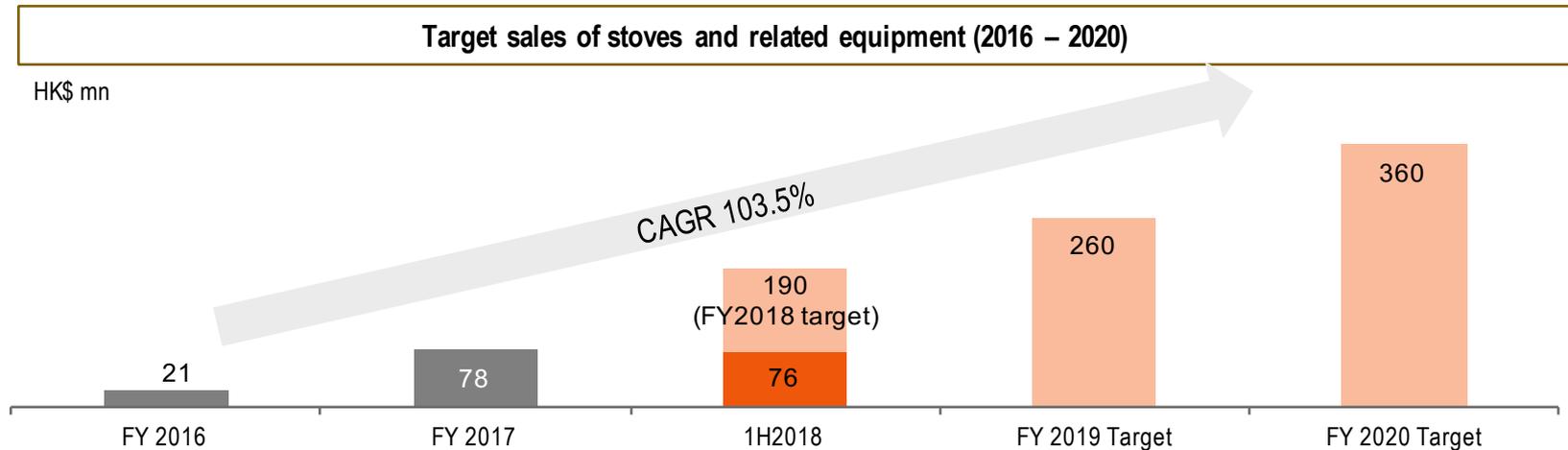
New piped gas connection (residential) reached 350,000 households in 1H18



Value-added Service to Residential Customers



Since 2012, leveraging its widespread residential customer network of **around 2.5 million households with a expansion target of 300,000 households per year**, the Group has been proactively cultivating its value-added services



2017 – 2020 : Strategy Formulation

- Building of Zhongyu Phoenix (“中裕鳳凰”) brand
 - Existing scale: 5 branches and 38 subsidiaries
- Formation specialist team in Smart Technology
- Launching 4 value added services:
 1. Zhongyu Phoenix Stoves, Kitchenware and related equipment
 2. Home insurance
 3. Stainless steel bellows
 4. Indoor repair and reconstruction services

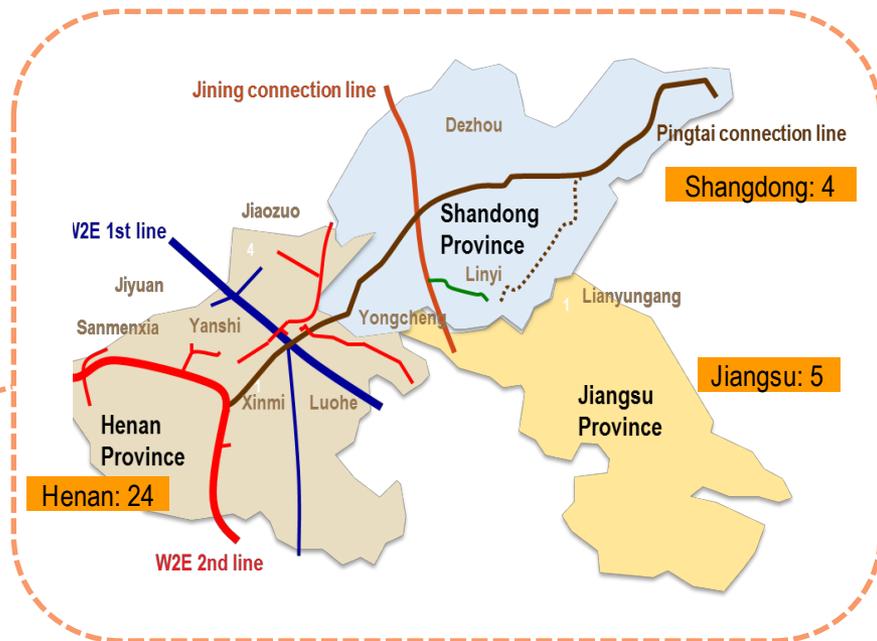
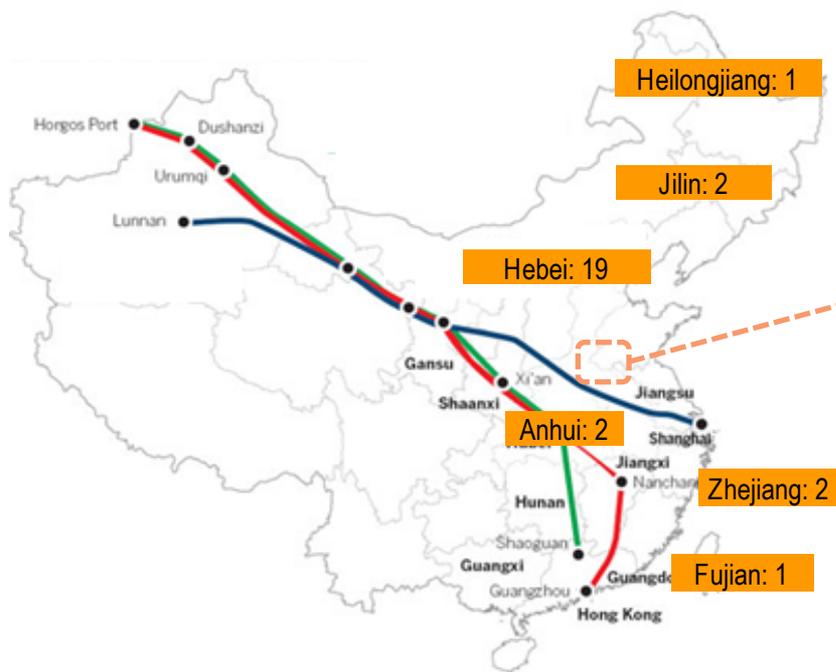
2020 – 2025 : Development Plan

- Expanding business scope:
 - Including sales of gas appliances and stoves to industrial and commercial customers
- Broadening product range to become a one stop household ware provider :
 1. Kitchenware
 2. Toiletries
 3. Groceries
 4. Water purifier

On-going Development of Greenfield Projects



Stable and reliable gas supply & proximity to West-East gas pipelines to accelerate construction and reduce costs



- W2E 1st line – primary line
- W2E 2nd line – primary line
- W2E 3rd line – primary line
- Pingtai connection line (W2E)
- Jining connection line

● Zhongyu's Gas Distribution Projects (No. of projects)

CAPEX	2017A	2018E	2019E	Total
Pipeline constructions	RMB 0.85bn	RMB2.95 bn	RMB1.09 bn	RMB4.89 bn



Strive to Becoming One of the Most Competitive Service Providers for Integrated Smart Energy

Development of renewable energy multi-generation system

Combined supply of heat, electricity and cooling

Decentralized renewable energy

Smart microgrid for energy

4 Benefits



Create synergies



Enrich customer experience in different energy use



Lower costs



Enhance general energy efficiency

Target Customers



Industrial Parks



New Towns



Public Facilities



Commercial Districts

Development of Smart Energy and Decentralized Energy (Con't)



Business Scope



Natural Gas



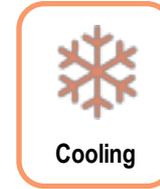
Electricity



Heat Supply



Steam and Hot Water



Cooling



Energy Saving



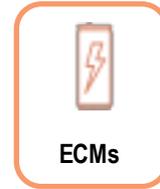
CHP



Photovoltaic



Response to Demand



ECMs



Estate Energy Monitoring System



Power Microgrid

New projects

POWER GENERATION

Successfully obtained a wind power project in Gaoxin district of Henan. Developments include the low-voltage distribution network, new circuit for substation, and electricity supply proposal for key customers within the industrial park

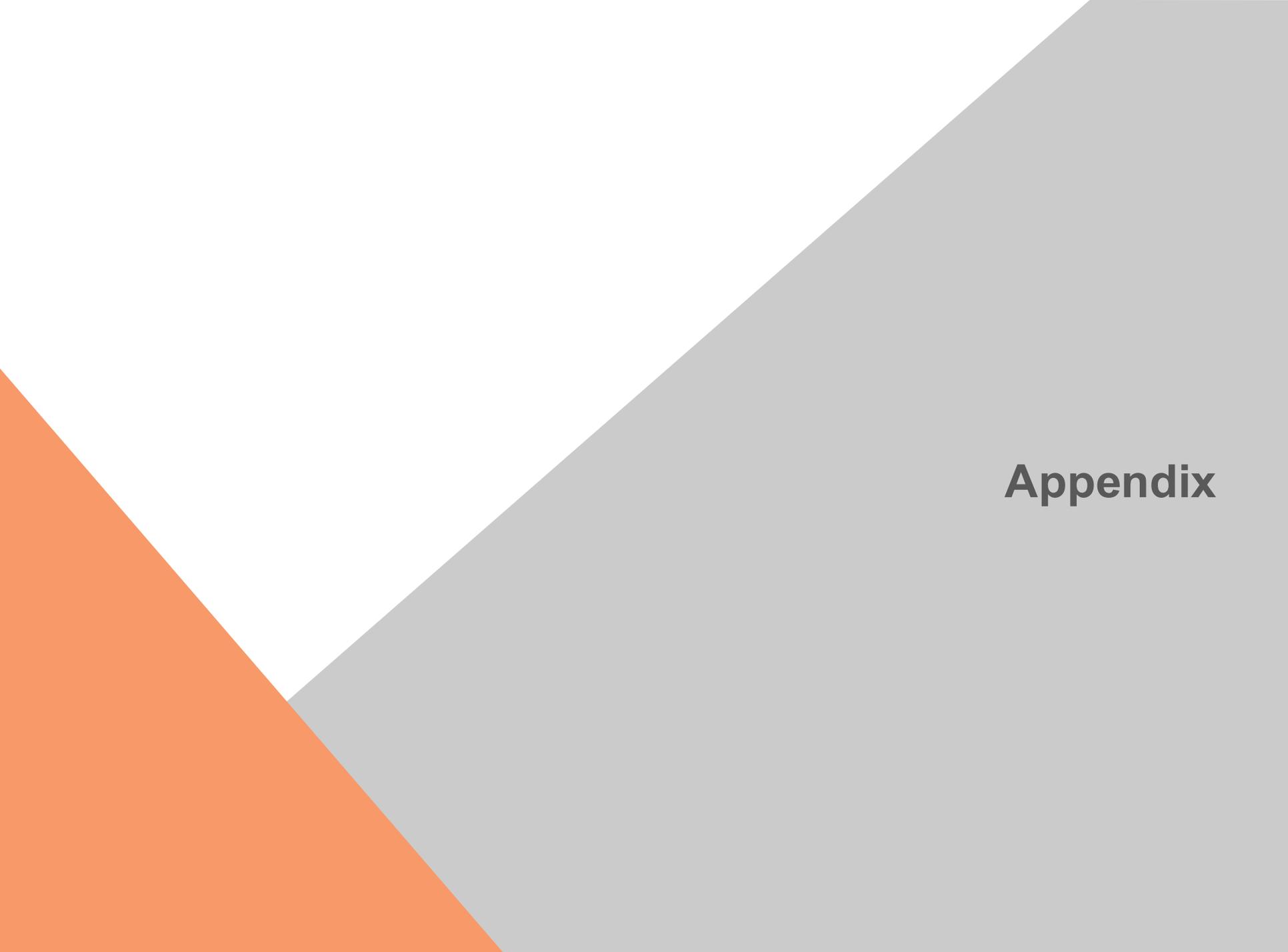
COMBINED SUPPLY OF COOLING, HEATING AND POWER PROJECT

This project mainly aims at the combined supply of cooling, heat and electricity via natural gas in industrial parks

DEVELOPMENT FOR RENEWABLE ENERGY ADAPTATION

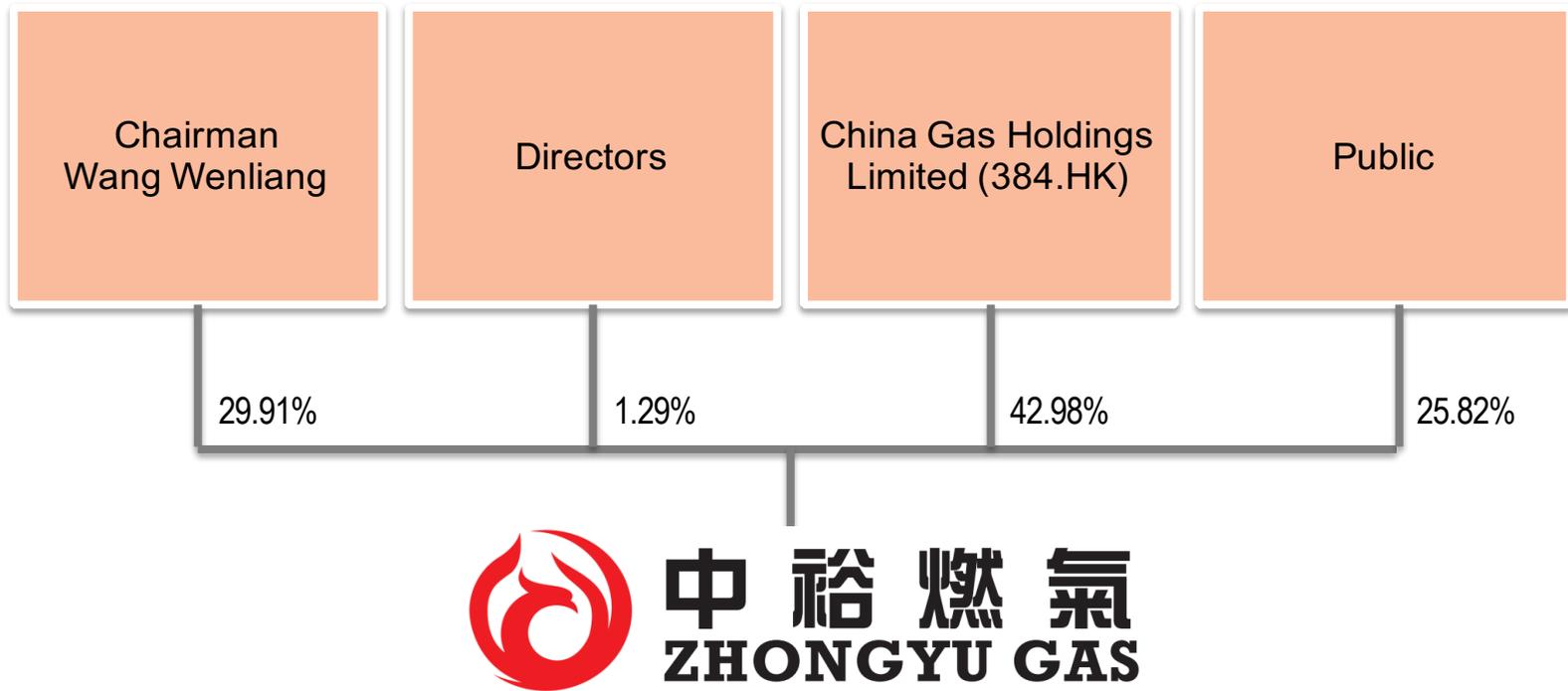
Build a National Standard Internet and Smart Energy Demonstration Project. This project aims to develop an energy supply form by an integration of photovoltaic power plant, smart grid, gas network and heating network



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Appendix

Shareholding Structure



Number of issued shares(as at 29 Oct 2018): 2,539,653,557 shares



Mr. Wang Wenliang
王文亮 先生

Chairman and
Executive Director

- Overall strategic development, making and implementation of strategic plans
- Over 20 years of experience in energy, aluminum, property industries.



Mr. Lui Siu Keung
吕小强 先生

Chief Executive Officer

- Responsible for the general business operations and management as well as the financial, financing and investor relations activities
- Over 20 years experience in corporate finance, accounting and auditing. Associate member of the Hong Kong Institute of Certified Public Accountants

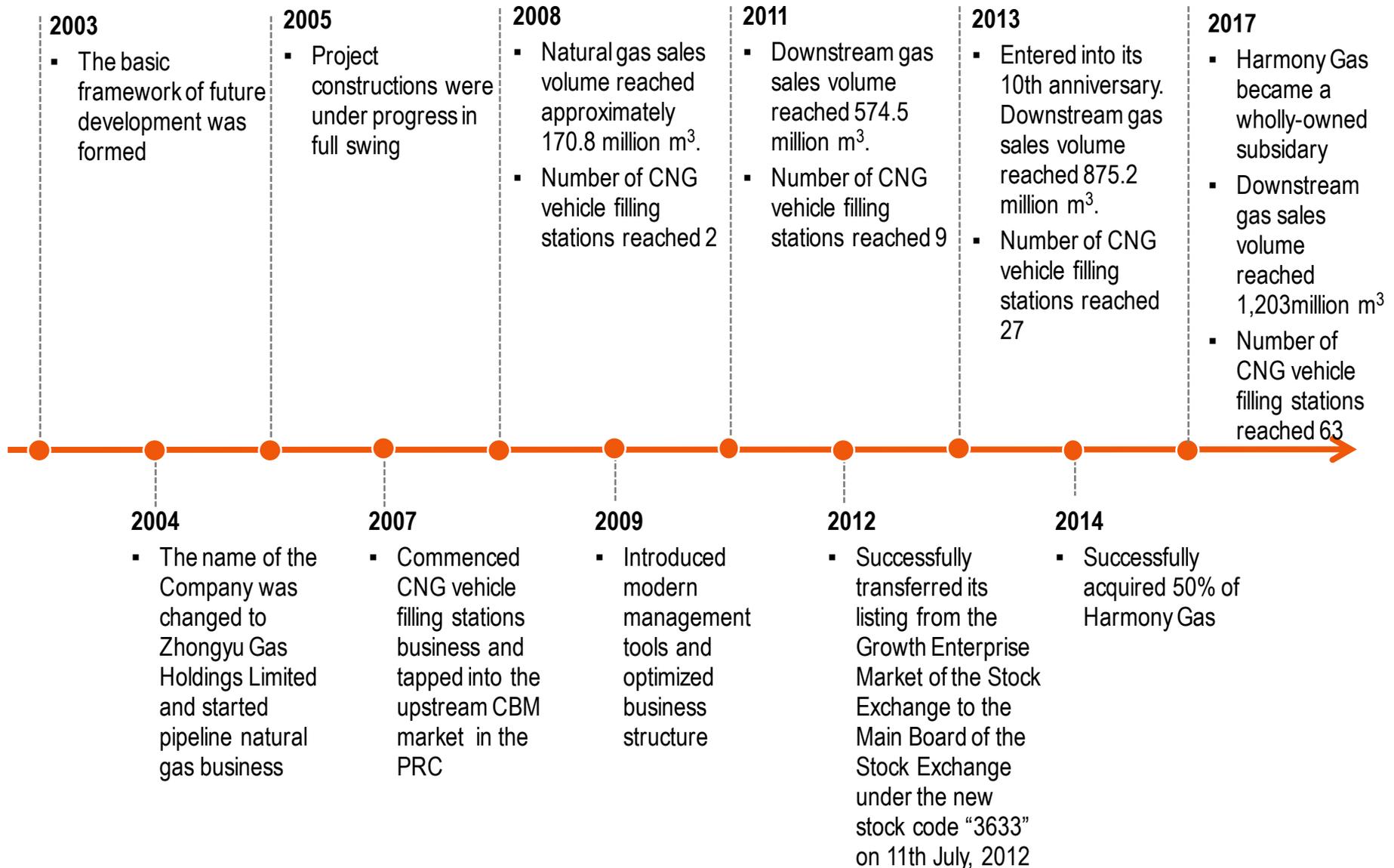


Mr. Lu Zhaoheng
鲁肇衡 先生

Executive Director

- Planning, design and consultation regarding natural gas projects
 - Over 30 years experience in NG industry, a leading member in the City Planning Design Institute of Henan Province
-

Milestones

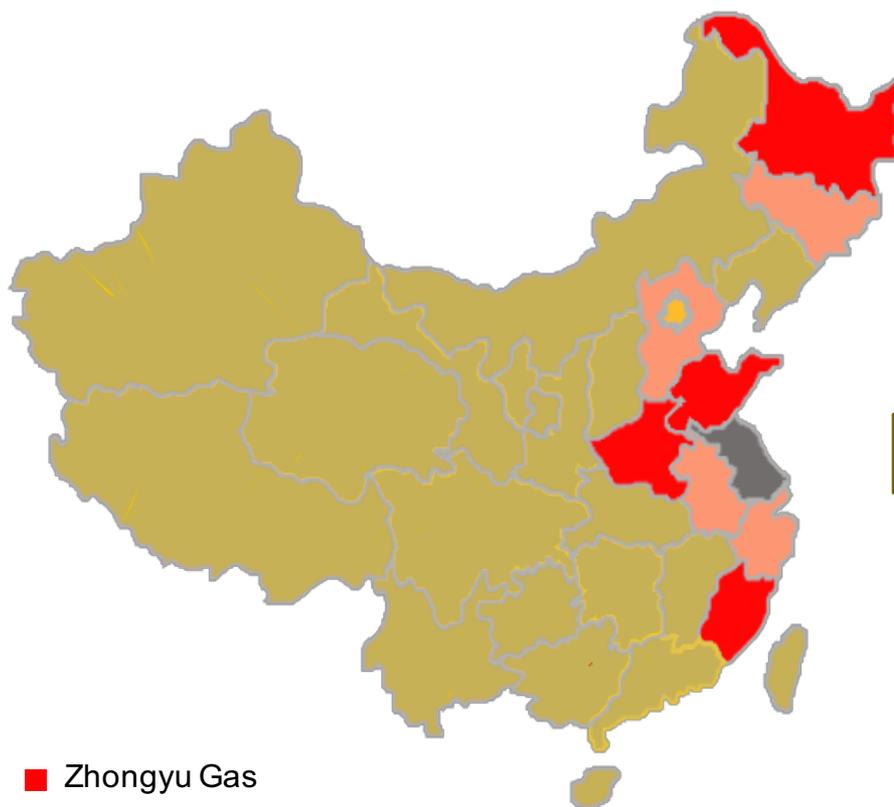


Completed Acquisition – Harmony Gas



Completed acquisition of 38.7% equity in Harmony Gas in July 2017 and Zhongyu Gas now owns 100% of Harmony Gas.

Broadened Coverage in the PRC



- Zhongyu Gas
- Harmony Gas
- Zhongyu Gas + Harmony Gas

Before the acquisition

As of 31 Dec 2014, Zhongyu had a total of 30 operational locations in:

- 1) Henan Province
- 2) Shandong Province
- 3) Jiangsu Province
- 4) Fujian Province
- 5) Heilongjiang Province
- 6) Zhejiang Province



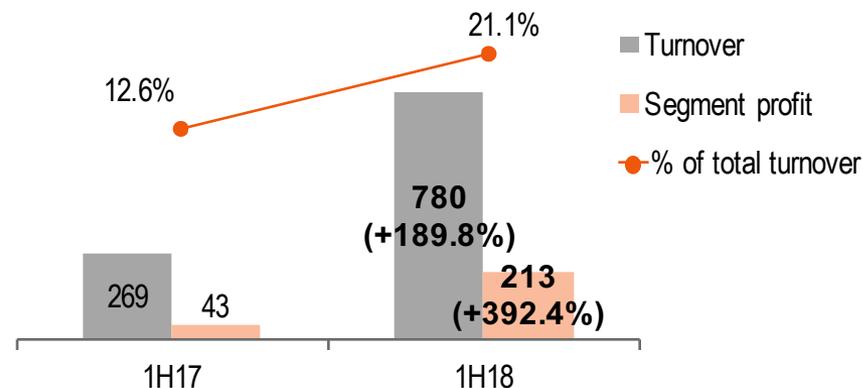
After the acquisition

Zhongyu's operation has been expanded to also include:

- 1) Uncovered areas in Jiangsu Province
- 2) Hebei Province
- 3) Anhui Province
- 4) Jilin Province
- 5) Beijing

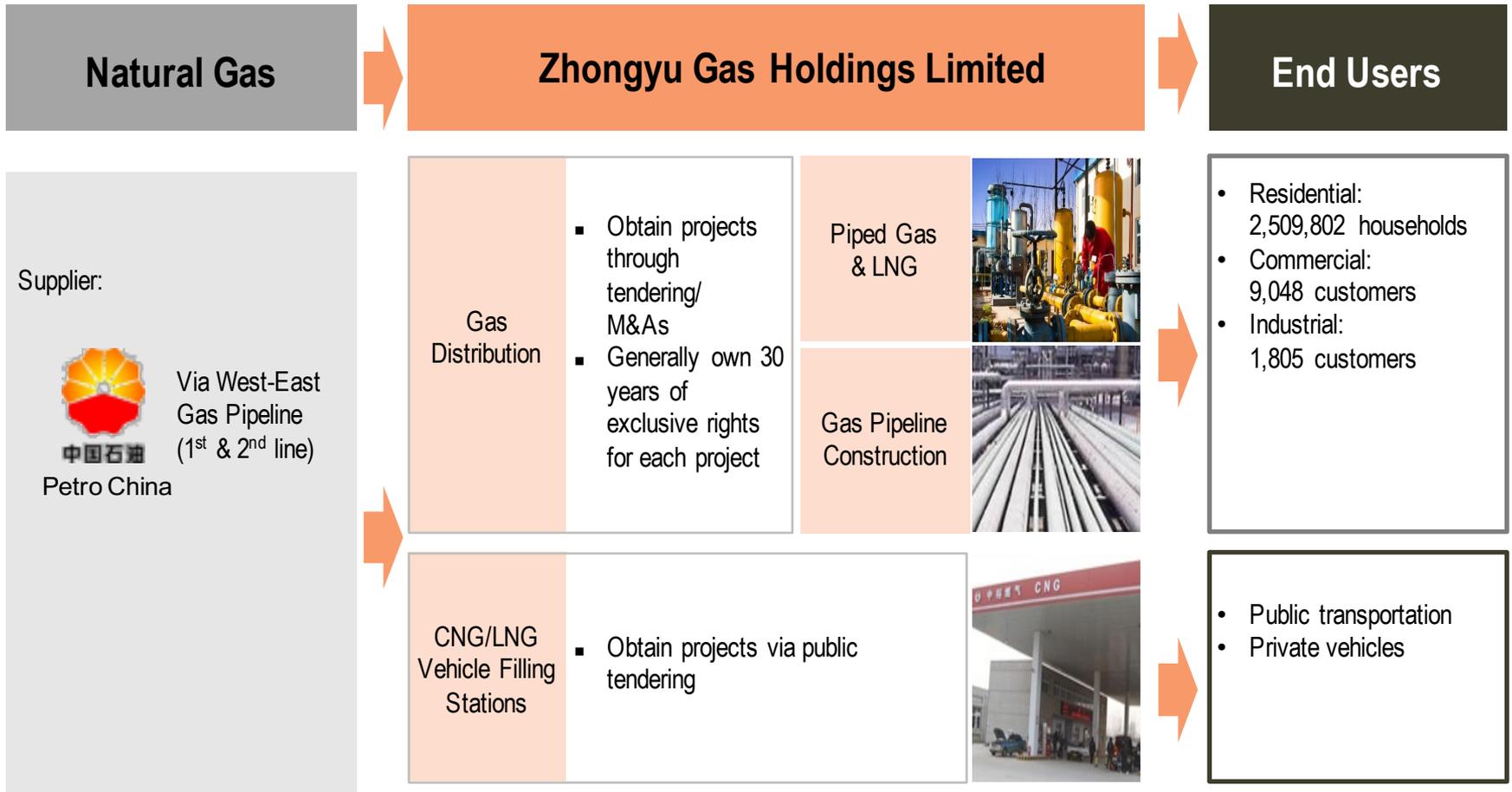
Contribution of Harmony Gas

HK\$ mn





Straight-forward business and pricing model for visible profitability



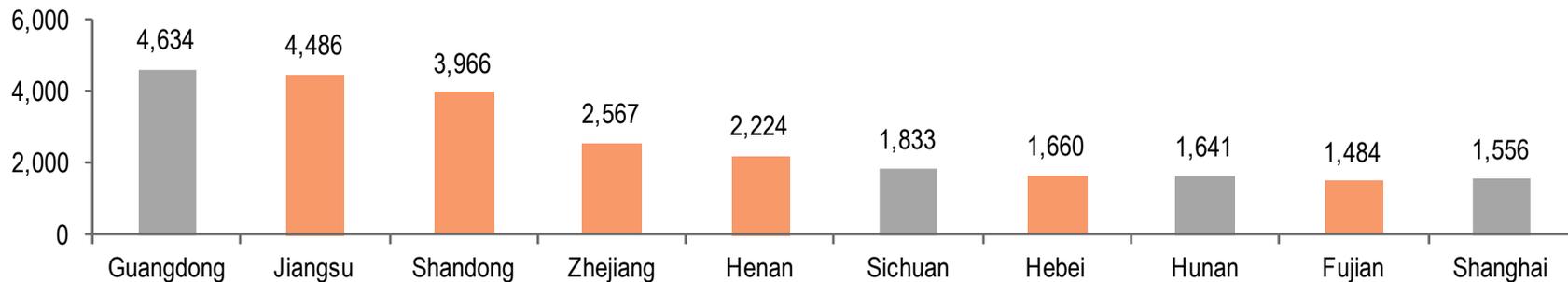
Core Markets with Strong Demand for Natural Gas



Top 10 Provinces with the Highest Industrial Output in 1H18

- Zhongyu has strong presence in 6 of the top 10 provinces

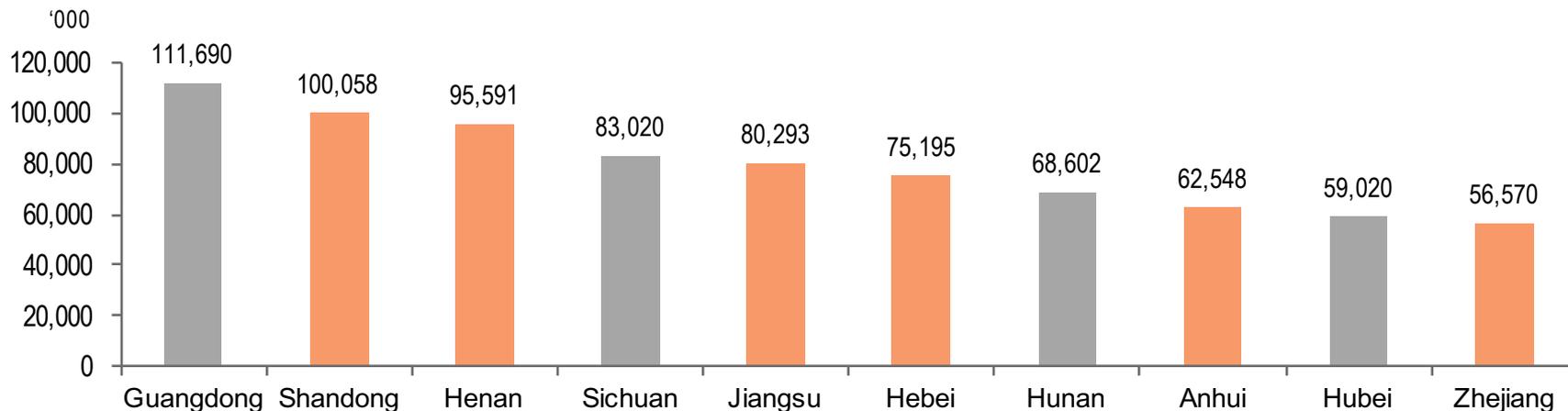
RMB bn



Source: National Bureau of Statistics of China

Population Distribution in 2017

- Pipeline network also connected to 6 of the top 10 most populated province



Source: National Bureau of Statistics of China

Thank you

Disclaimer

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