

The Hong Kong and China Gas Co. Ltd. (003.hk)

Incorporating

Towngas China Co. Ltd. (1083.hk)

2013 Annual Results

19 March 2014



Disclaimer

This presentation and subsequent discussion may contain certain forward-looking statements. These forward-looking statements reflect the company's view on some future events and involve known and unknown risks and uncertainties and other factors which may cause actual performance and development differ materially. Past performance cannot be relied on as a guide for future performance.

Agenda

- **Results Overview**
- **Utilities**
- **Group Financials Review**
- **Conclusions & Outlook**



Results Overview



0003.HK Hong Kong & China Gas Co Ltd

(HK\$Bn)	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenue	28.24	24.92	+13.3%
PAT (Before revaluation & one-off items)	6.68	5.91	+13.0%



0003.HK Hong Kong & China Gas Co Ltd

OPAT by Business

(HK\$Bn)	<u>2013</u>	<u>2012</u>	<u>Change</u>
HK Core Business	2.67	2.52	+5.8%
Mainland Utilities	3.06	2.55	+19.9%
New Energy	0.57	0.63	-9.4%
Total	<u>6.30</u>	<u>5.70</u>	<u>+10.5%</u>

Towngas China (1083.HK) Results

(HK\$Bn)	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenue	6.7	5.2	+30%
PAT	1.1	0.8	+32%
Profit per share (HK cents)	42.46	34.17	+24%

0003.HK Hong Kong & China Gas Co Ltd

Hong Kong Core Business Characterized by :

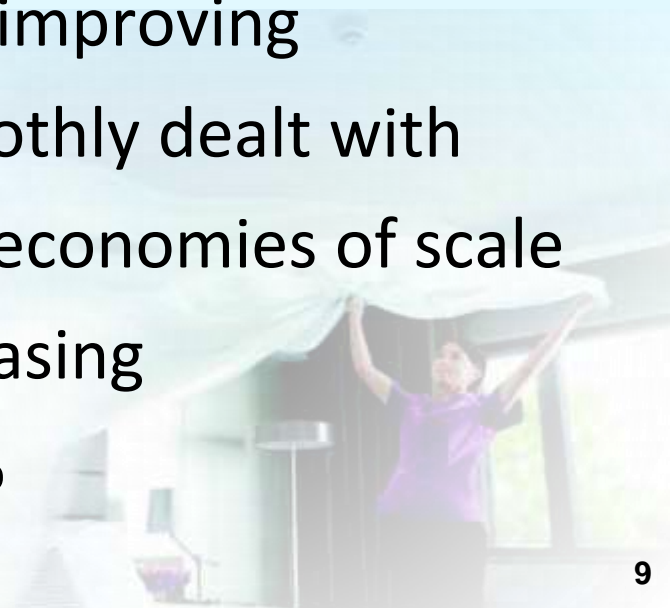
- Stable Business
- Minor Growth
- Good Cash-flow
- Fuel Cost Pass-Through
- 25 Years LNG Supply (USD25/barrel)
- More Housings in 10 Years
- Tariff increase



0003.HK Hong Kong & China Gas Co Ltd

Mainland Utilities Business Characterized by :

- Double digit organic growth
- >10 new City Gas projects a year
- Urbanization drives housing demands
- Air Quality issue favors gas consumption
- Upstream Supply remains bottleneck, but improving
- Natural gas reformed happened, was smoothly dealt with
- Operating costs on the rise, countered by economies of scale
- C&I gas sales dominates at 77%, and increasing
- Water business volume growth around 5%



0003.HK Hong Kong & China Gas Co Ltd

New Energy Business characterized by :

- HK Operations remain steady
- Depressed commodity market; coal, methanol, etc
- Crude & related products stayed price stable
- Inner Mongolia Coal Mine & Coal to Methanol project has commenced production
- Thai Oilfield project is preparing for a 3,000 bpd output in 2014



0003.HK Hong Kong & China Gas Co Ltd

New Energy Business characterized by : (continue)

- Several clean energy technologies are undergoing end tail of R&D stages
- Four Energy Conversion projects, total investment RMB1.3Bn, have commenced construction
- Captured a total of 48 CNG/LNG Refueling Station projects
- Looking for marine based CNG/LNG refueling business



0003.HK Hong Kong & China Gas Co Ltd

Business Prospects:

- Urbanization will continue in the coming decade
- Air quality problem should drive utilization of natural gas
- Government policies to tackle the severe environmental issues should soon come
- Natural gas price reform should facilitate more supply
- Pipeline network reform likely to trigger 3rd Party Access

0003.HK Hong Kong & China Gas Co Ltd

Business Prospects: (continue)

- Coal gasification projects encouraged by NDRC
- Oil giants not likely to further expand their downstream portfolios
- Tremendous automobile increase demanding more fuel consumption (CNG/LNG, oil, electric)
- Clean coal projects going to attract more policy support
- Privatization of SOE assets is on the Go
- Liquidity crunch likely to result on more acquisition opportunities











Mainland China Businesses:

Project Additions Remain Strong



36 projects added, total **182** projects
in **23** provincial regions

Utilities

City-gas	124	(HKCG: 33  + TCCL: 91 )
Midstream	8	   
Water & Sewage	6	
Filling station	1	

New Energy

Gas-based	3	
Coal-based	6	 coal-mine  chemical plant  logistics
Filling stations	17	

Telecommunications

10



Others

7



As of Feb 28, 2014

Utilities – Hong Kong & Mainland China



Hong Kong Business Performance

Profit After Tax

HK\$2.70Bn (+5.8%)

- Stable Business
- Fuel Cost Pass-through
- Gas volume: +0.7% (C&I +3.1%)
- Basic tariff hike: +4.6% (effective Q2 2013)

Customer Gains

+22,371

Total Customers

1.80Mn

Household
Penetration

74%

Coverage

86%

Mainland Utilities Performance (Towngas China inclusive)

A Growth Business

Profit After Tax

HK\$3.06Bn (+20%)

	City-gas	City-water	Midstream-gas
Volume:	13.4Bn m ³ (+13%)	414Mn ton (+6%)	3.1Bn m ³ (+22%)
Projects Number:	119 (+15)	6 (+2)	8
Customers Number:	17.3Mn (+2.5Mn)	1.0Mn (+0.6Mn)	
New Connections:	1.73Mn	(Strong connection fee growth, +20%)	



Towngas China

(1083.hk)



港华燃气
Towngas



Towngas China (1083.hk) Highlights

- Strong profit growth of 32% to HK\$1,106Mn
- Exchange gain accounted for 13.6%
- Gas sales volume grew by 15%
(excluding 13% owned Chengdu JV)
- Total 93 JVs (17 provincial regions)
 - 14 projects added in 2013
 - 6 projects added in 2014



Towngas China (1083.hk)

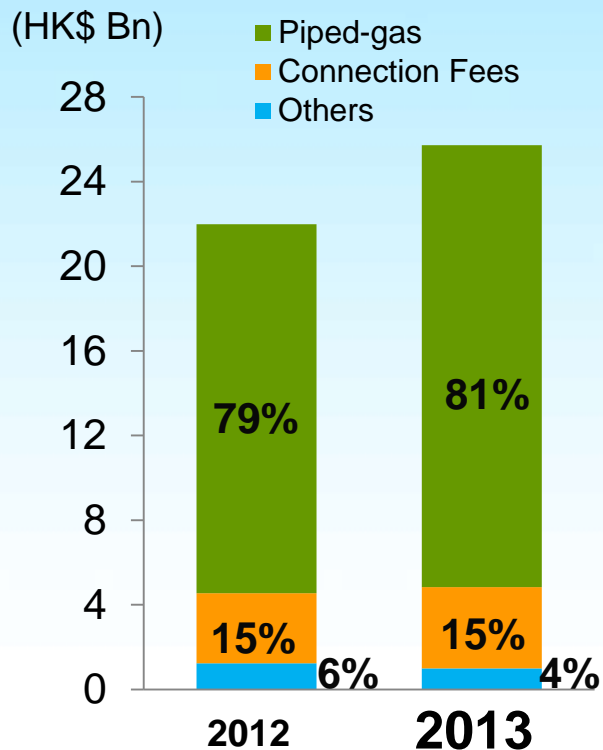
Results Highlights (Management)

(HK\$Mn)	2012	2013	Change
Shared Turnover	10,103	12,046	+19%
Operating profit	1,025	1,213	+18%
Profit margin ratio	10.1%	10.1%	Margin Maintained
Exchange difference	45	160	
Administration expenses	(116)	(140)	
Financial cost	(113)	(127)	
Profit attributable to shareholders	841	1,106	+32%

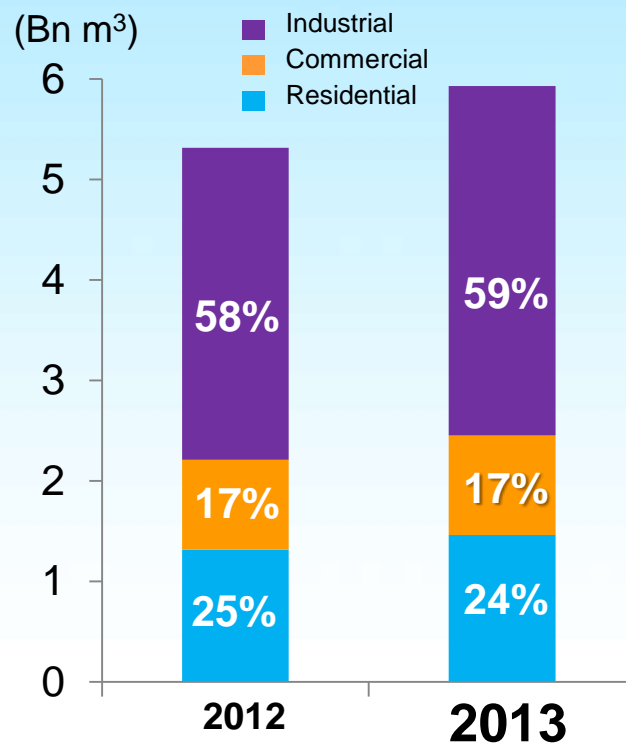
*All JVs on attributable basis

Towngas China (1083.hk): Operational Highlights

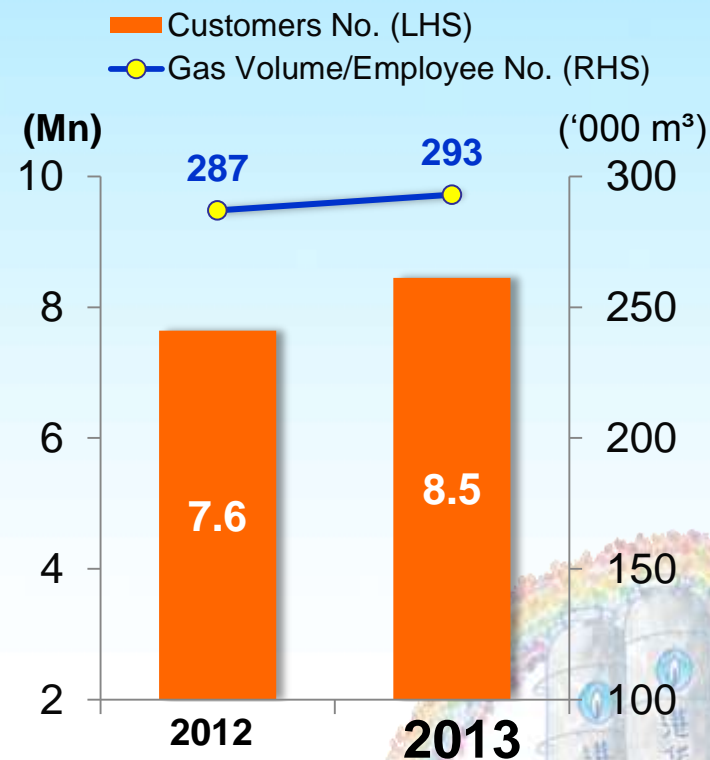
Turnover Mix* (%)



Sales Volume Mix (%)



No. of Customers & Productivity



*Towngas China, All JVs (100%)

Mainland Utilities

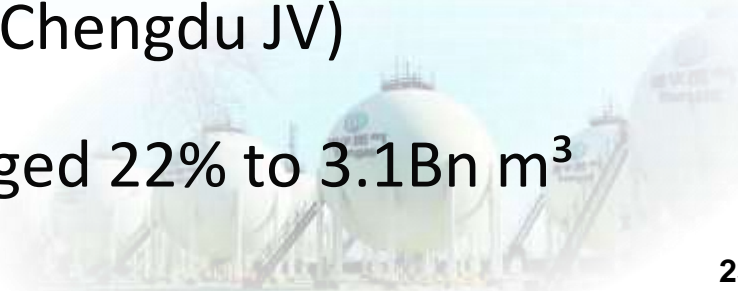
Group Highlights



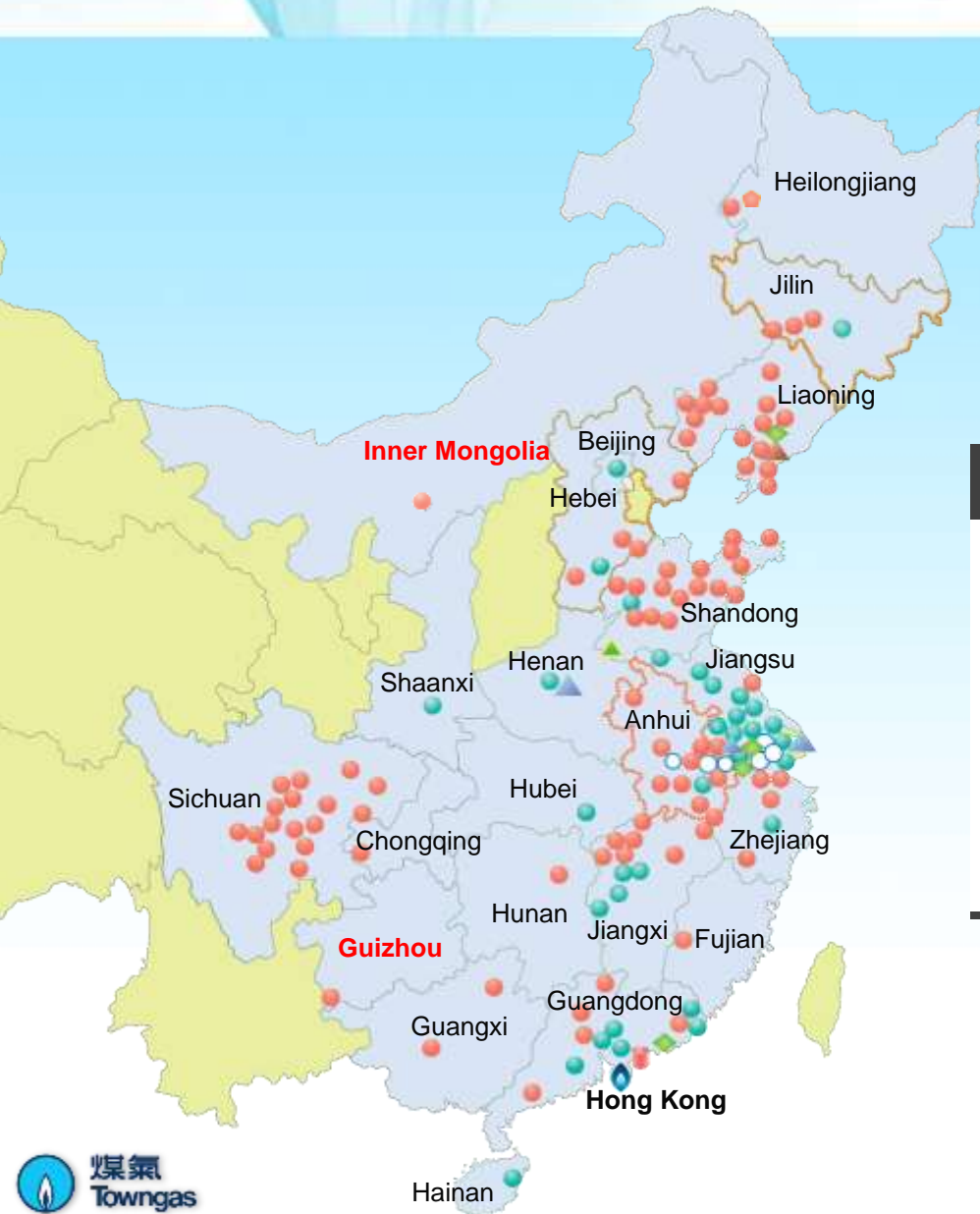
Mainland Utilities Highlights



- City-gas added 20 new projects (15 in 2013)
5 in 2014
- Water JVs added 2 new projects
- Midstream added 1 gas storage project
- New customers gain of 2.5 million
to a total of 17.3 million (New connections
of 1.7 million)
- City-gas volume increased by 14%
(excluding 13% owned Chengdu JV)
- Midstream volume surged 22% to 3.1Bn m³





Territorial Coverage



24 projects added, total **142** projects
in **22** provincial regions

Utilities

City-gas	124	(HKCG: 33  + TCCL: 91 )
Midstream	8	   
Filling Station	1	
Water & Sewage	6	
Others	3	

As at Feb 2014



2013/2014 New Projects

City-gas **20** & Filling Station **1** projects

- | | | |
|----------------------|------------------------|--|
| 1 Hangzhou, Zhejiang | 9 Yanshan, Hebei | 17 Siping, Jilin |
| 2 Feicheng, Shandong | 10 Cangxian, Hebei | 18 Xingyi, Guizhou |
| 3 Zhengpugang, Anhui | 11 Mengcun, Hebei | 19 Lishui Songyang, Zhejiang |
| 4 Mianzhu, Sichuan | 12 Dafeng, Jiangsu | 20 Baotou Guyang, I.M. |
| 5 Boxing, Shandong | 13 Jiangping, Liaoning | 21 Qiqihar, Heilongjiang (Filling Station) |
| 6 Wuhu, Anhui | 14 Zhongwei, Guangxi | |
| 7 Fengxi, Guangdong | 15 Shijiazhuang, Hebei | |
| 8 Bozhou, Anhui | 16 Leshan, Sichuan | |

Gas consumption in 5 years:
3.5Bn m³ /year
Investment: **Rmb3.2Bn**

Midstream **1** project

- | | |
|--|---|
| 22. Ganghua, Jiangsu
(gas storage facility) | Gas consumption in 5 years: 75Mn m³ /year
Investment: Rmb0.26Bn |
|--|---|

City-water **2** projects

- | | |
|-----------------------|---|
| 23 Zhengpugang, Anhui | Water consumption in 5 years: 40Mn ton/year
Investment: Rmb305Mn |
| 24 Jiangbei, Anhui | |



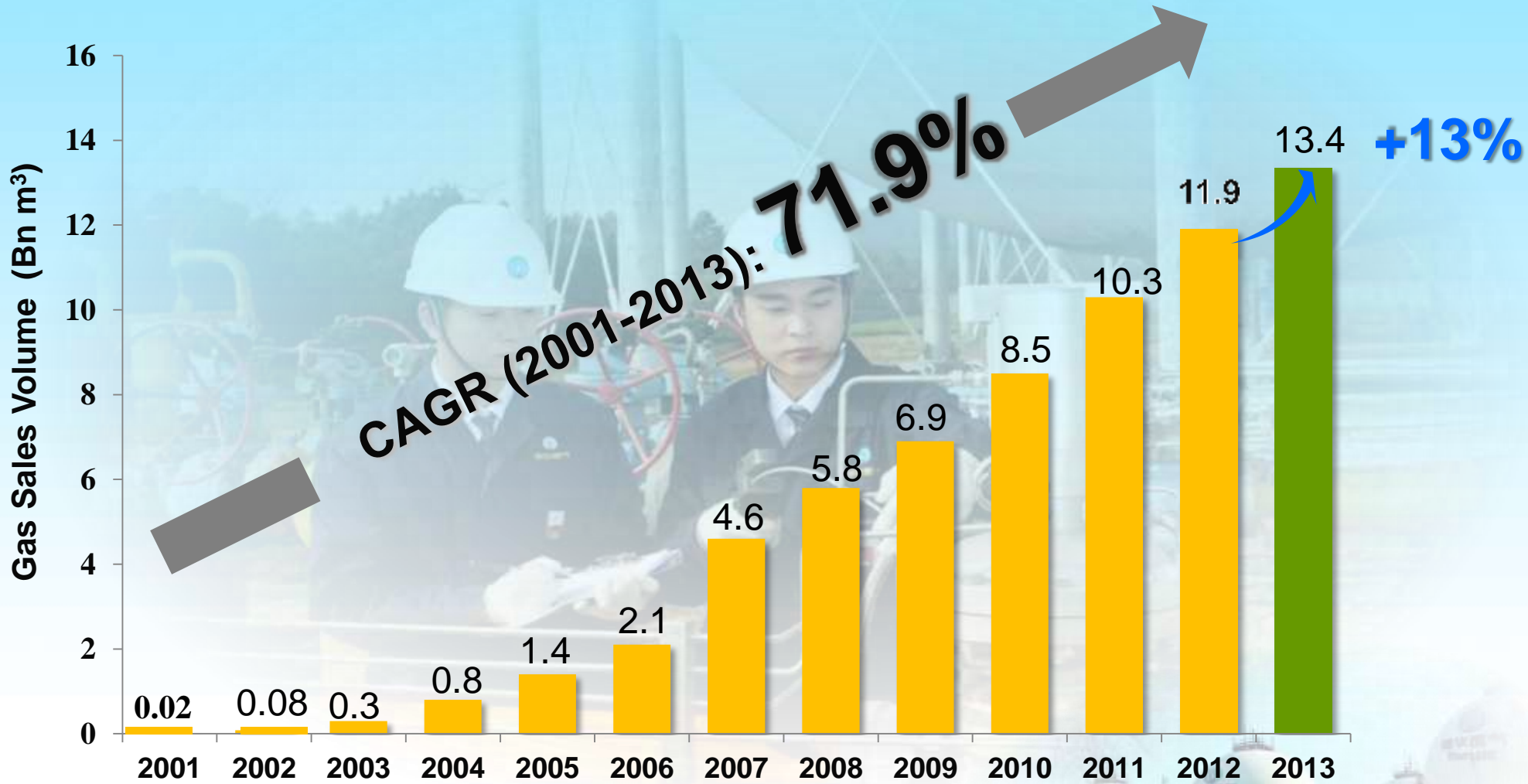
Gas Filling Stations

	2012	2013	Change
Number of Station	48	56	+17%
Sales Volume (Mn m³)	250	257	+3%
Average Margin (Rmb/m³)	1.27	1.28	+1.3%

Note: The stations are operated by city-gas companies

City-gas Business

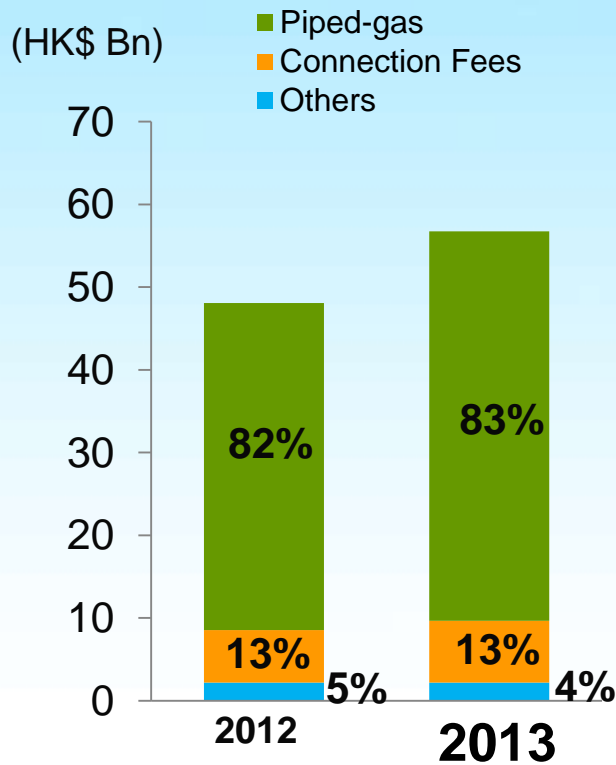
Growing Gas Sales Volume



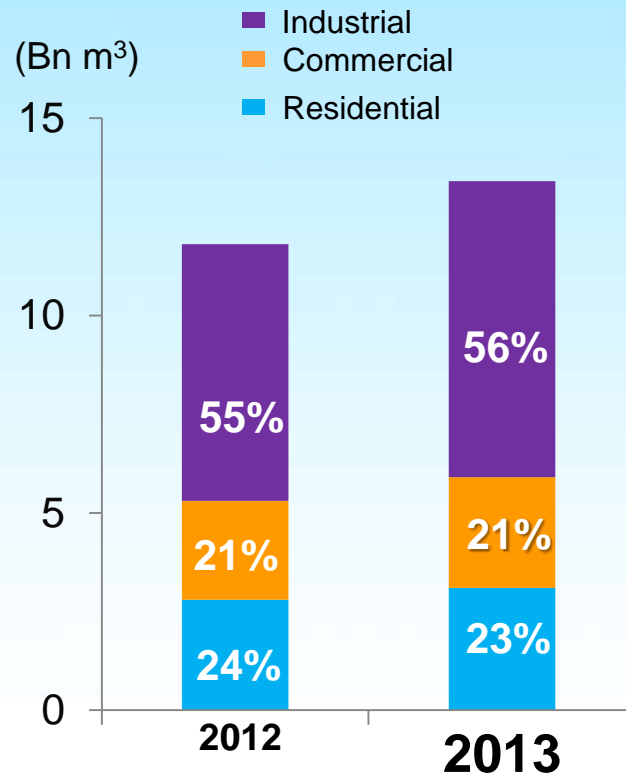
* All JVs (100%)

City-gas Business Operational Highlights

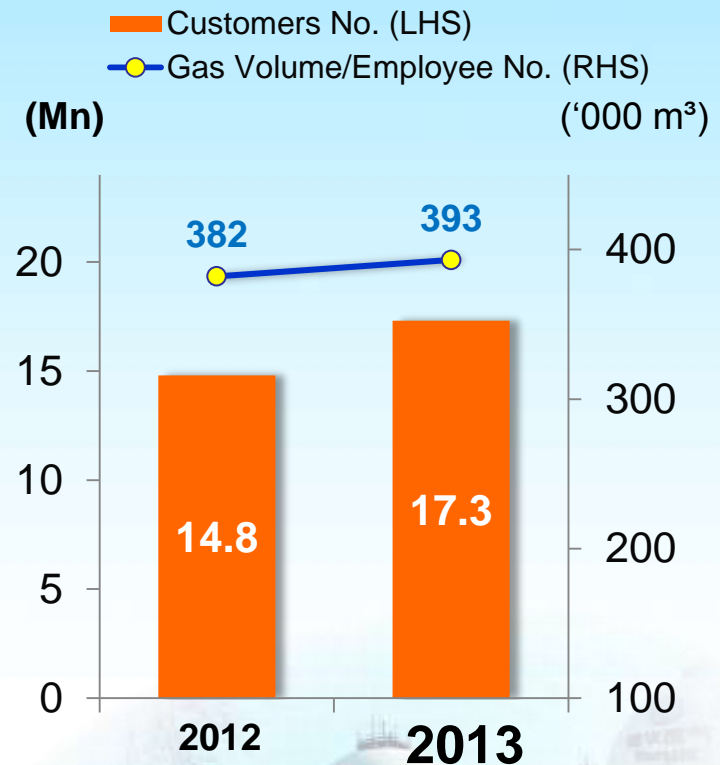
Turnover Mix* (%)



Sales Volume Mix (%)



No. of Customers & Productivity



HKCG Group, All JVs (100%)

Segment Results

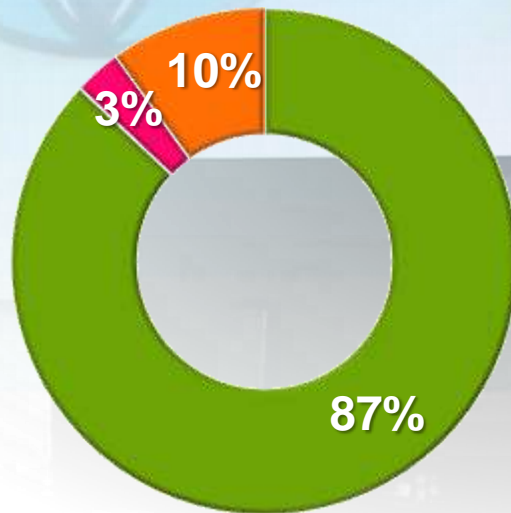
2013

Total
Turnover **+19.5%** ↑

HK\$ 65.1 Bn

Shared
Profit **+20%** ↑

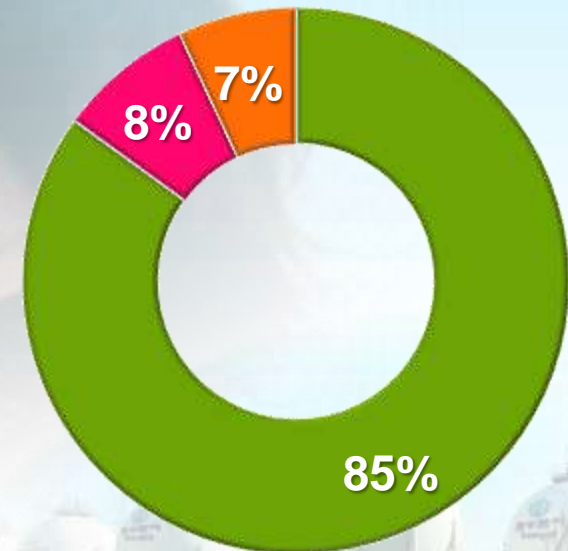
HK\$ 3.1 Bn



■ City-gas

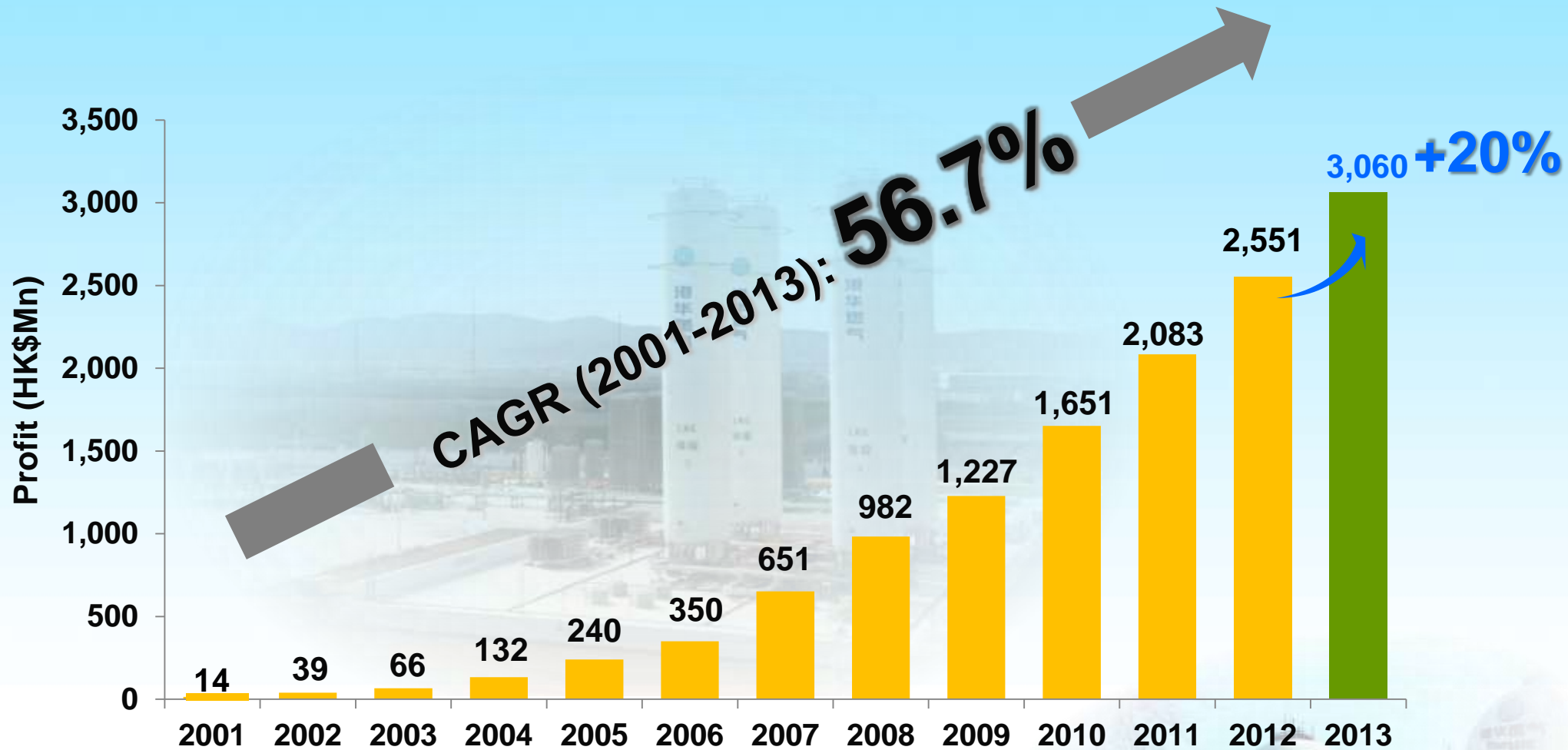
■ Water

■ Midstream



* Turnover: All JVs (100%)

Consistent Profit Growth Path



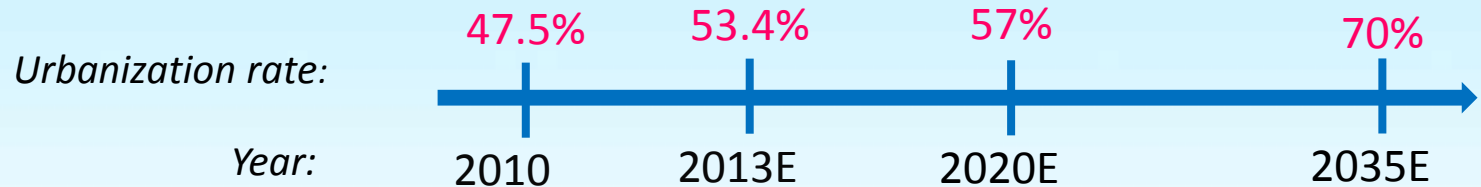
NG Gate-Price Adjustments Impact

- Effective 10 July 2013
- Affect non-residential consumption
- 68 JVs affected
- Progress-to-date:
 - 64 out of 68 affected JV passing-through
 - 99% of the affected volume passing-through
 - 2013 financial impact not significant



City-gas Business Outlook

- Increasing natural gas supplies:
 - W2E2, W2E3
 - W2E4, W2E5 (planning)
 - Myanmar pipeline
 - Russia Eastern Pipeline
- China remains a worldwide manufacturing base
- Increase in urbanization rate:

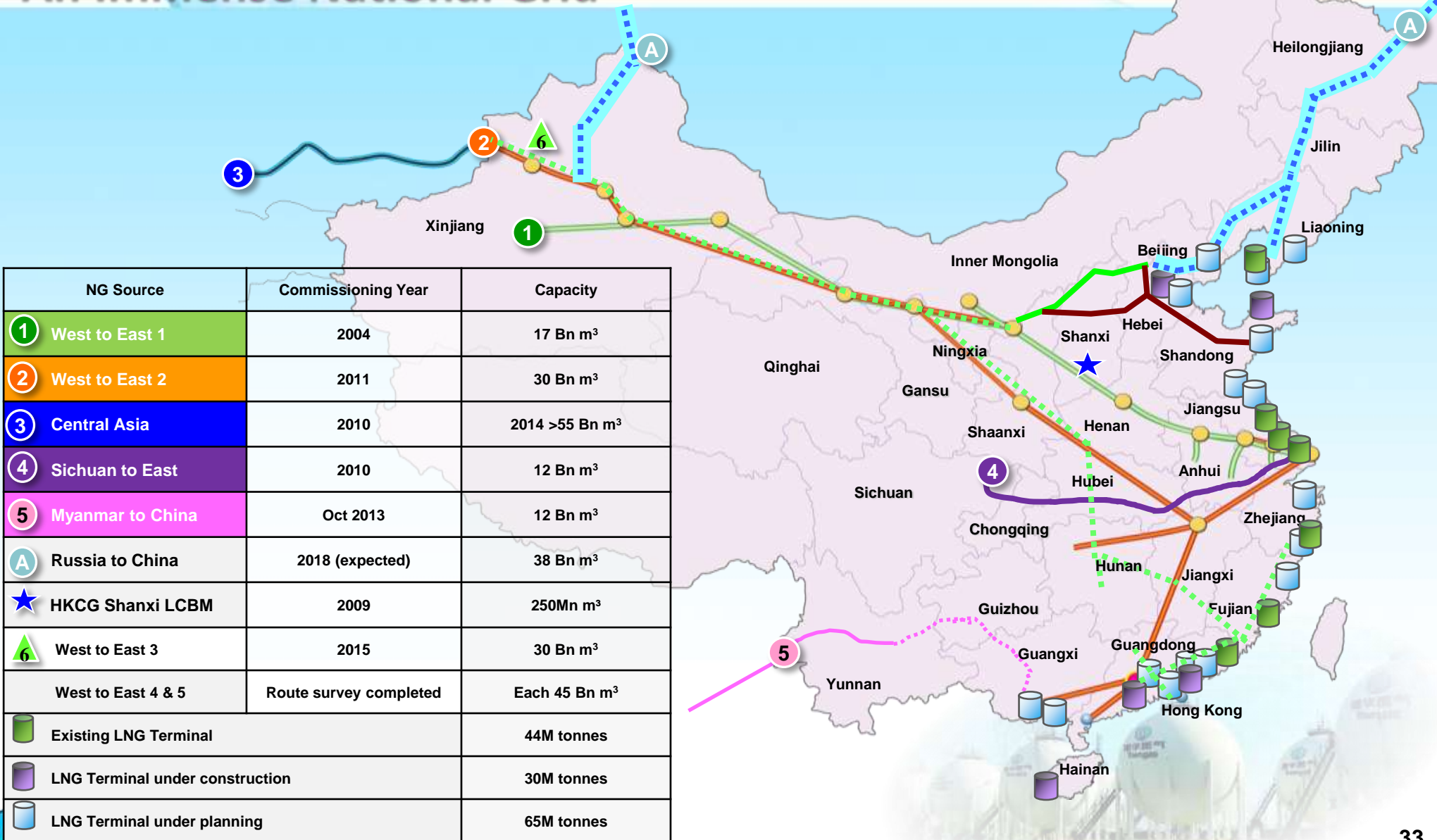


- No change in connection fee policy
- Chinese government plans to invest Rmb1,700 billion to tackle pollution problems in next 5 years
 - reduce emissions
 - promote utilization of natural gas



Pouring in Supply Infrastructure

An Immense National Grid



Our Business: Expanding Coverage



- Target: **10** new projects / year
- Penetration into neighboring cities
- Focusing in new territories:

- Inner Mongolia
- Shanxi
- Guangxi
- Guizhou
- Yunnan



Group Financials Review



HKCG (003.hk) Financial Highlights

(HK\$Mn)	2012	2013	Change %	
Turnover	24,923	28,246	3,323	+13%
Total operating expenses	(18,835)	(21,546)	(2,711)	+14%
	6,088	6,700	612	+10%
Other gains, net	1,007	965	(42)	-4%
Interest expense	(864)	(926)	(62)	+7%
Share of profits less losses of associated companies	2,455	1,389	(1,066)	-43%
Shares of profits less losses of jointly controlled entities	1,199	1,283	83	+7%
Profit before taxation	9,886	9,411	(475)	-5%
Taxation	(1,485)	(1,655)	(170)	+11%
Profit for the period	8,401	7,756	(645)	-8%
Non-controlling interests	(689)	(902)	(213)	+31%
Attributable to shareholders of the Company	7,712	6,854	(858)	-11%
Earnings per share – basic and diluted (HK cents)	80.7	71.7	(9)	-11%

*Adjusted for the bonus issue in 2013 36

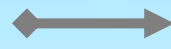
TCCL (1083.hk) Financial Highlights

(HK\$Mn)	2012	2013	Changes	
Turnover	5,183	6,716	1,529	+30%
Operating profit before returns on investments	744	925	181	+24%
Other gains, net	160	246	86	+54%
Share of results of associates	245	336	91	+37%
Share of results of jointly controlled entities	235	265	30	+13%
Finance costs	(148)	(163)	(15)	+10%
Profit before taxation	1,235	1,609	374	+30%
Taxation	(299)	(383)	(84)	+28%
Profit for the year	936	1,226	290	+31%
Non-controlling interests	95	120	25	+26%
Attributable to shareholders of the Company	841	1,106	265	+32%
Earnings per share - basic (HK cents)	34.17	42.46	8.29	+24%

Strong Financial Position

As at 31 December 2013,

Cash on hand



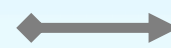
HK\$10.1Bn

Current ratio



113%

NAV



HK\$49.9Bn

ROE



14.4%

Leverage

Gearing

HKCG: 29.1%

TCCL: 20.9%

**Interest
coverage**

HKCG: 9.4x

TCCL: 13.0x

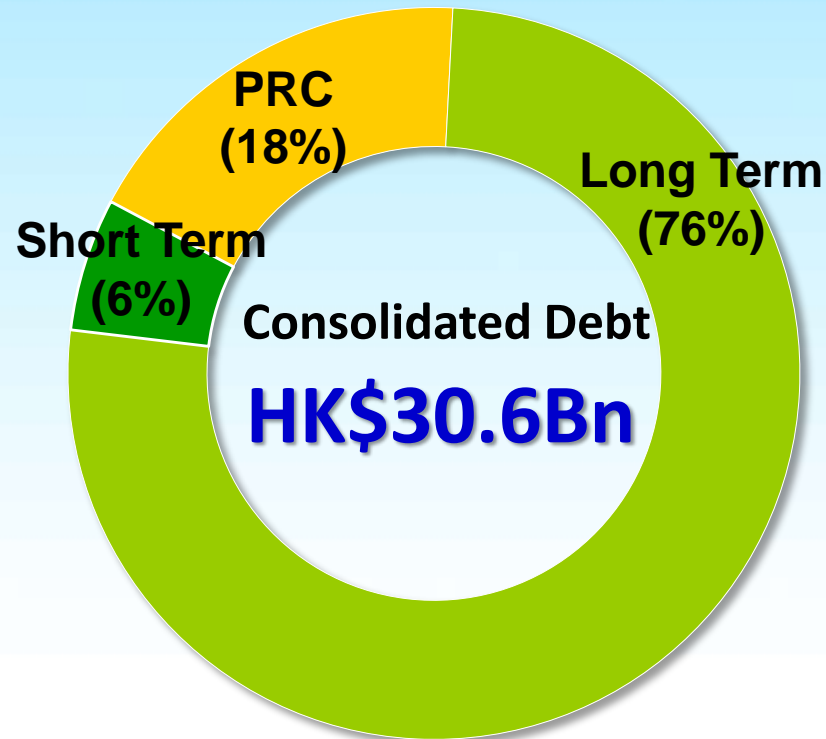
Credit ratings

HKCG: A1, A+

TCCL: Baa2, BBB

Debt Profile

Diversified Funding Sources & Tenors



	Debt Amount (%)	Avg. Tenor (yrs)
Bank Market	43%	2.5
Bond Market	57%	13.0

Issuance of Hybrid Perpetual Bond

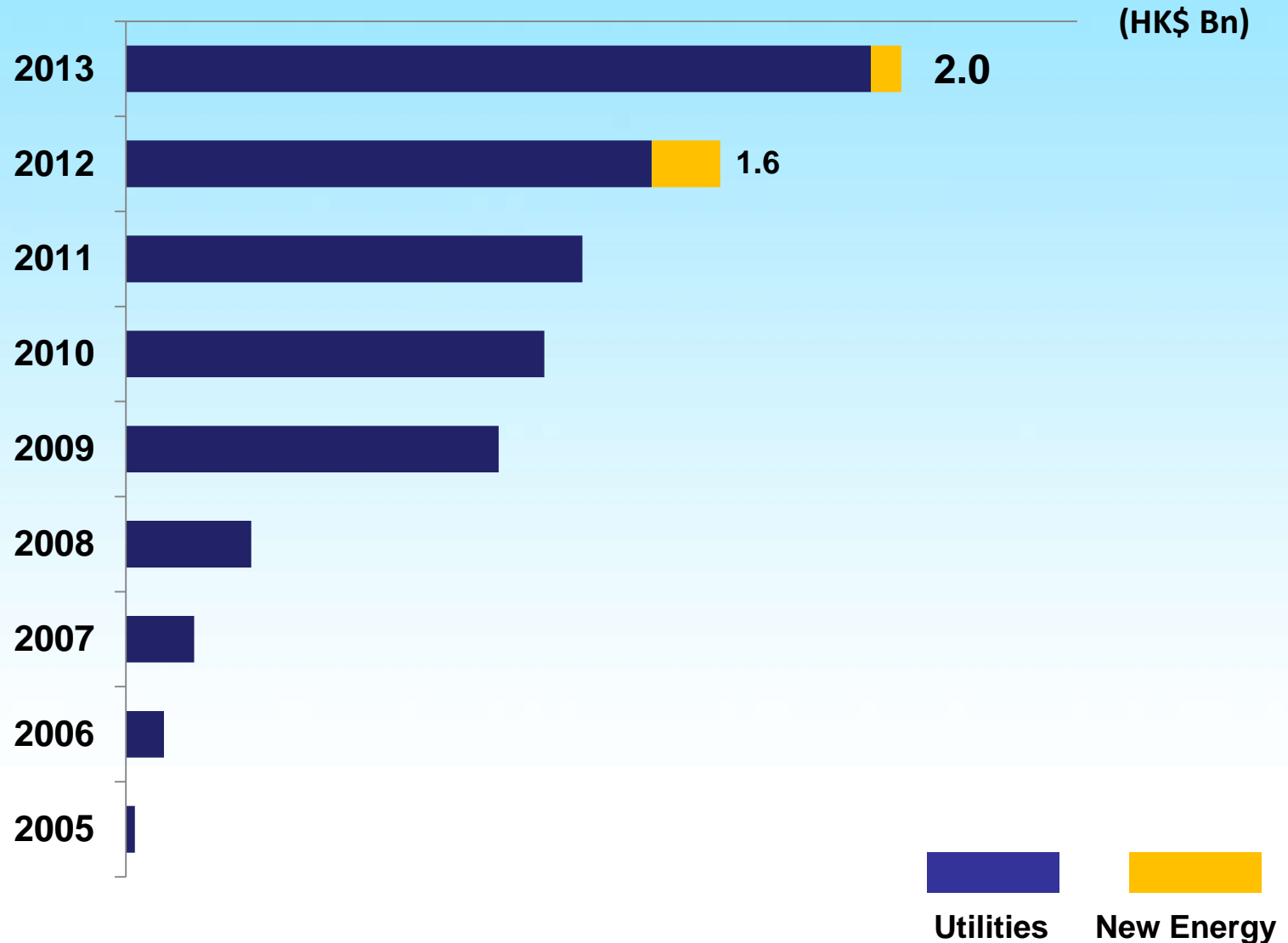
- **US\$300Mn**
- Initial yield: **4.75%**
- Overwhelming subscribed (6x book)
- 50% equity credit from Moody's & S&P
- Improve debt maturity profile, diversify funding sources, further strengthening on credit position

2 records

1. P/B rebate

2. Interest rate

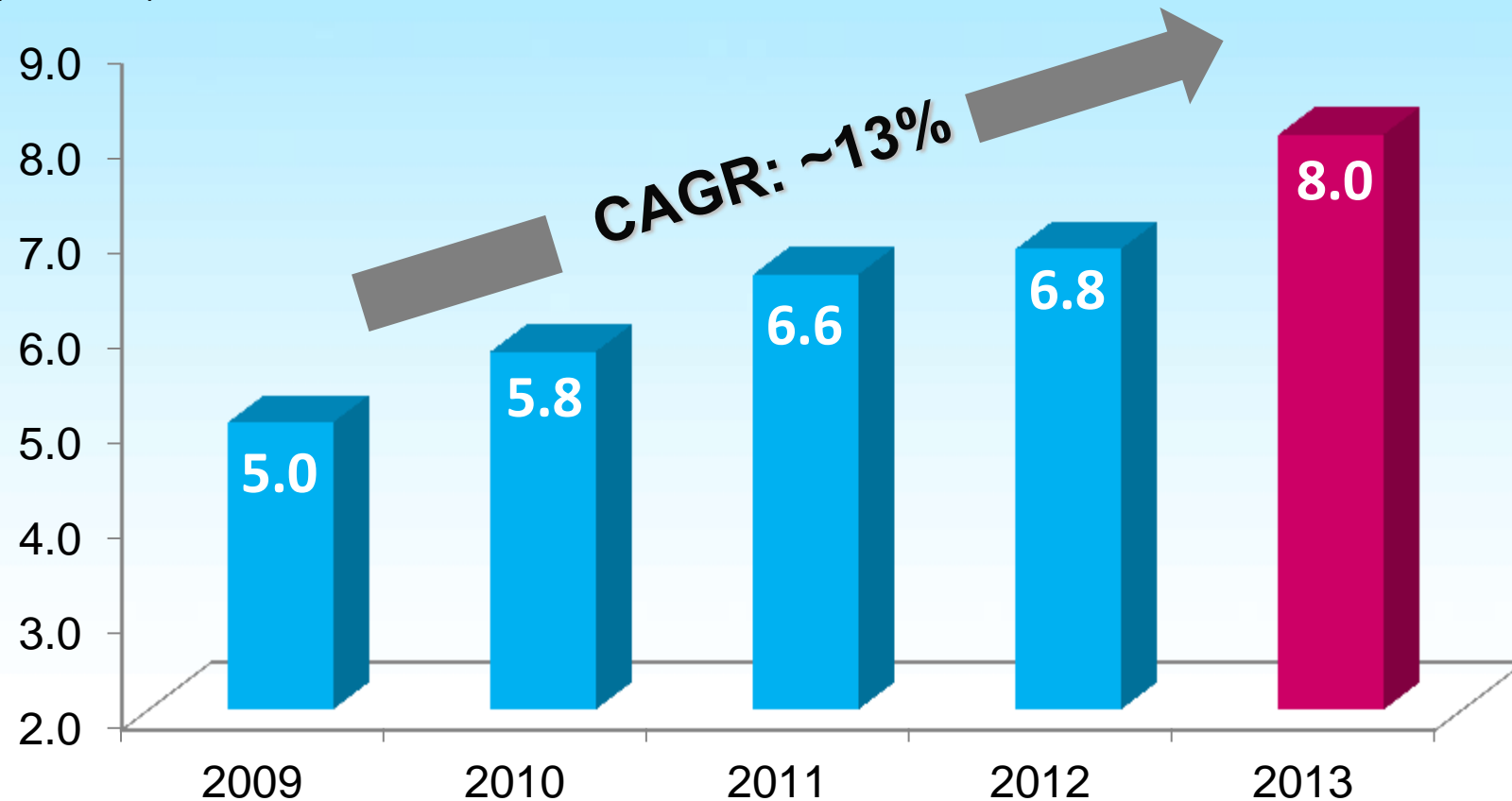
Dividend Declared from PRC JVs



Strong FFO Growth

Funds from Operation (HKCG Group)

(HK\$Bn)



Note: FFO defines as "PBT less share results of JCEs & Asso., add dividends received"

Rolling 3-Year Cashflow Projection

(HKD Bn)



Group Operation

13

PRC Dividends Distribution

5

18

(HKD Bn)



Dividend

11

New Investment

10

21

(HKD Bn)

Shortfall - Finance by Cash on Hand

3

Conclusions & Outlook



Our Targets (2014-2018)



HK Gas Business remains as a stable, low growth, cash generating operation.
Operation efficiency is the key.
More green energy sources, e.g. landfill gas.



Mainland City-gas Business is projected to continue having mid growth.
Capturing gas markets is the key.



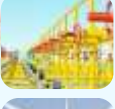




New Energy Business is positioned to deliver high growth.
Developing and applying high efficiency technologies in energy transmutation is the key.



Energy Consumption of Mainland China

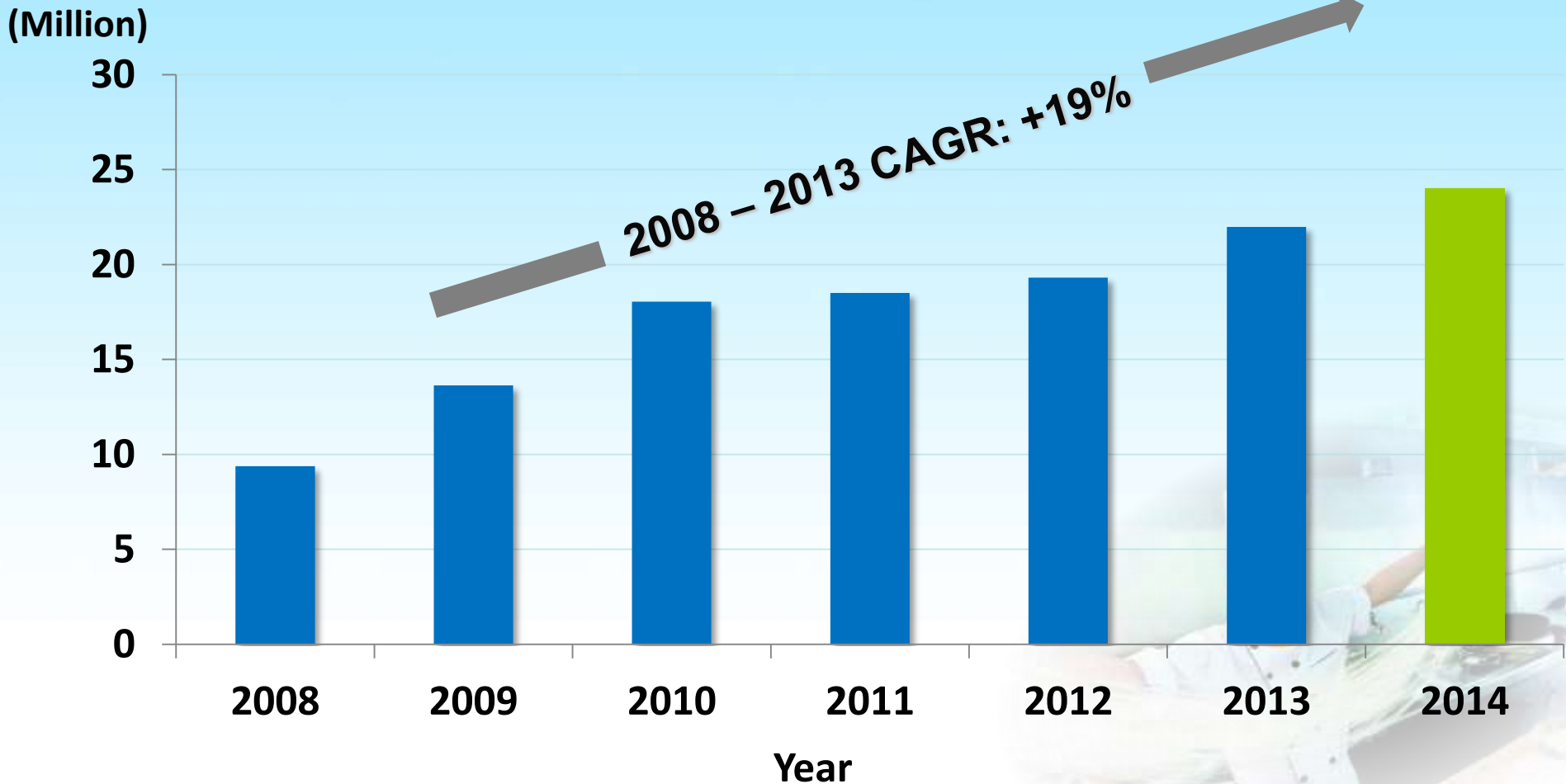
- China will consume more than 2x of energy in 30-year time.
- Natural gas is the **fastest growing** fossil fuel.

	Energy (Bn BOE)	2010A	2040E	% Change (2040E vs 2010A)
 Liquids		3.3	7.0	112%
 Coal		12.0	20.9	75%
 Natural Gas		0.7	3.2	360%
 Renewables		1.4	4.7	226%
 Nuclear		0.1	2.3	1814%
Total		17.5	38.1	+117%

(Source: EIA, International Energy Outlook 2013, basing on 2010 demands)

Growing Automobile Demands in China

Sales of automobiles in China



Substantial Import of Oil & Gas, & Rising



Crude / Oil

2013

58%

2015E

60%



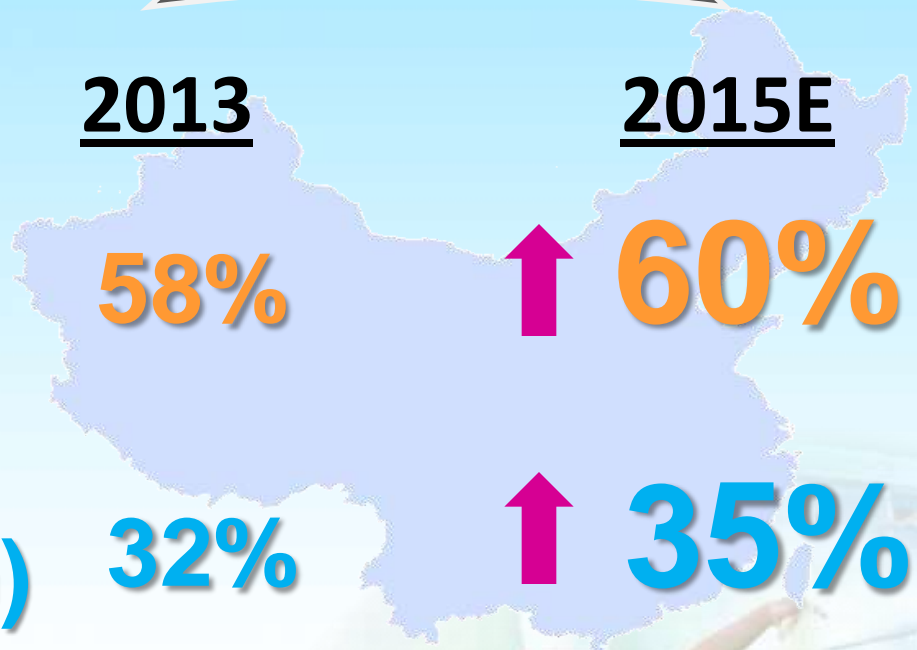
**Gas
(PNG + LNG)**

32%

35%



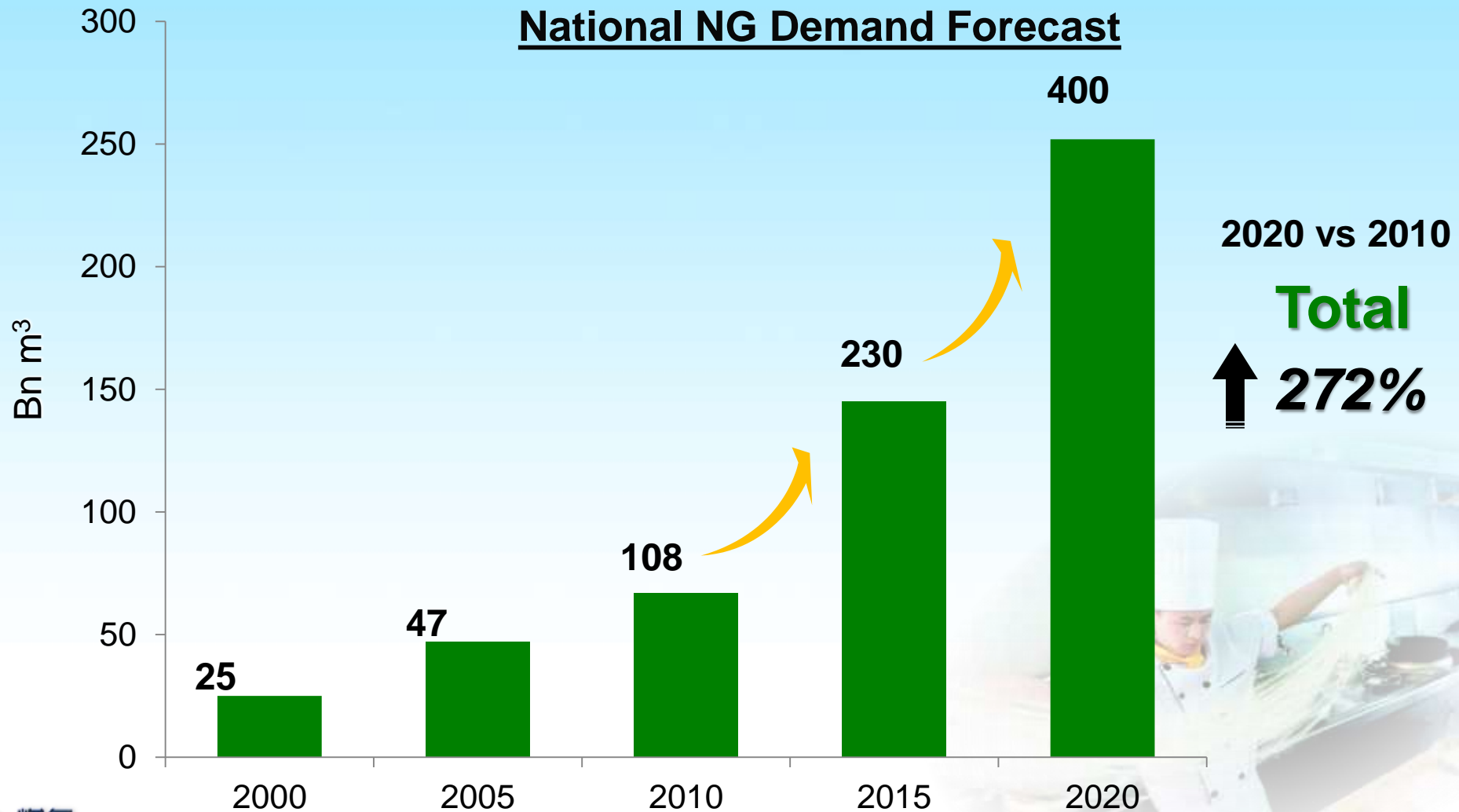
Import



(Source: NDRC, PRC Customs Statistics and Company research)

Strong NG Demand

Clipped by Supply Bottlenecks & Price Hikes



Our Approach on New Energy Business

- China's energy market is huge and rapidly growing.
- Demand growth inclines to crude and natural gas.
- Natural gas importation reaches 32%, and on the rise.
- Crude importation reaches 58%, and on the rise.
- China has a lot of coal reserves, but limited oil & gas.
- At the same time, China has plenty of industrial & agricultural wastes.

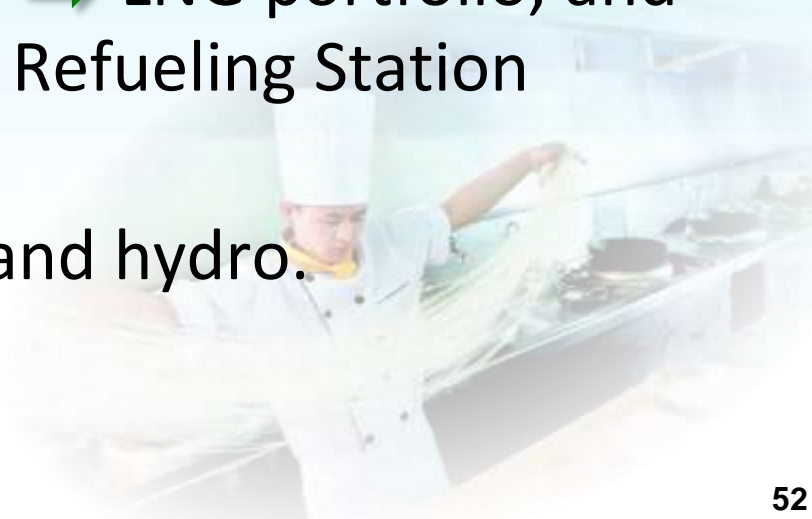


Our Approach on New Energy Business

(Continue)

As a conclusion :

- Our approach is to develop innovative technologies and integrate best-practice processes to convert low-value feedstocks to produce crude and natural gas substitutions in a capital investment and operation economy efficient manner.
- China's crude and natural gas markets are immense.
- We will continue expanding CBM/NG → LNG portfolio, and vertically integrate with downstream Refueling Station business.
- We are not interested in wind, solar and hydro.



NE Technologies Development

Feedstock



Industrial waste



Agricultural waste



Food waste



Coal



CBM

Process

- High efficiency & environmentally friendly conversion processes
- Self-developed technologies
- Scalable
- > 25% IRR
- < USD100Mn/Project

Product

- LNG
- Synthetic natural gas
- Ethanol
- Ethylene Glycol
- Gasoline/Diesel

Clean Energy

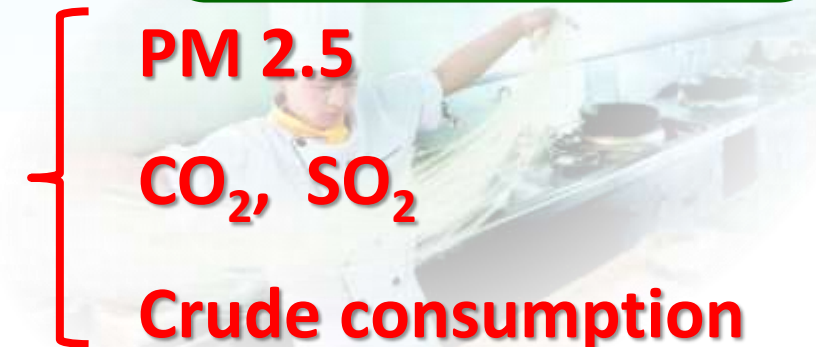


Reduce

PM 2.5

CO₂, SO₂

Crude consumption



New Energy Projects in Pipeline

Feedstock	Product	Annual Production Capacity (Ton)	HKCG Investment (Mn RMB)	IRR	Plant Location
Methanol	Gasoline (Equivalent)	140,000	280 (70% share)	>25%	Inner Mongolia
Coke Oven Gas	LNG	70,000	390 (80% share)	>25%	Jiangsu
Coke Oven Gas	LNG	140,000	380 (60% share)	>25%	Shanxi
Bio Acid Oil	Diesel	120,000	340 (100% share)	>25%	Jiangsu

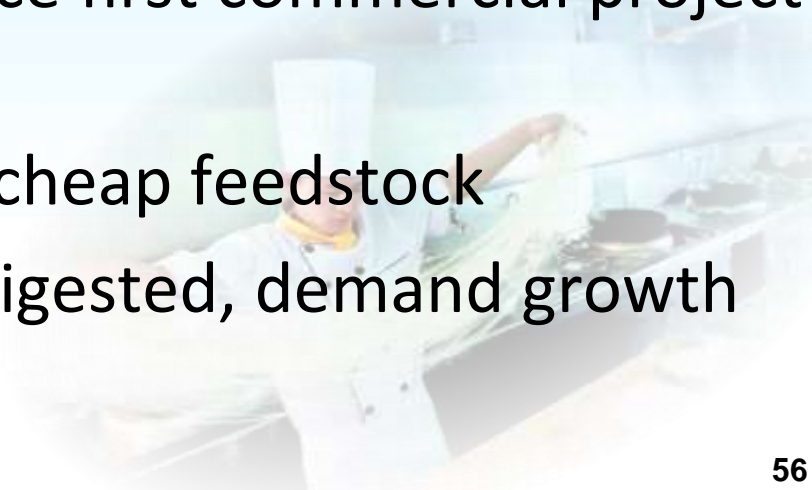
Short-term 2014 – Challenging

- Upstream gas supply increasing, but still behind market needs
- Pipeline storage not sufficient to cater for peak load
- Export industry improving, but slowly
- Housing demand remains strong—urbanization
- Commodities market remains weak, but oil prices stay stable
- Price reform will push up natural gas price, momentarily affecting demands
- Passing thru gas price increases to consumers has been proven
- >10 new city-gas project opportunities a year
- Several new energy projects under construction. Some more undergoing R&D



Middle-Long Term – Promising

- Smog need to be addressed; natural gas → natural choice
- Natural gas infrastructure is being perfected; supply bottle neck will be gradually removed
- Urbanization continuous to drive housing demands
- Reliance on oil/gas importation to be partially relieved thru indigenous production of substitutions
- New energy projects are scalable once first commercial project is proven
- Coal will become one of the chosen cheap feedstock
- Natural gas price hikes will be fully digested, demand growth will continue



Investment Portfolio Mix – Mainland China Projects

PIRR :

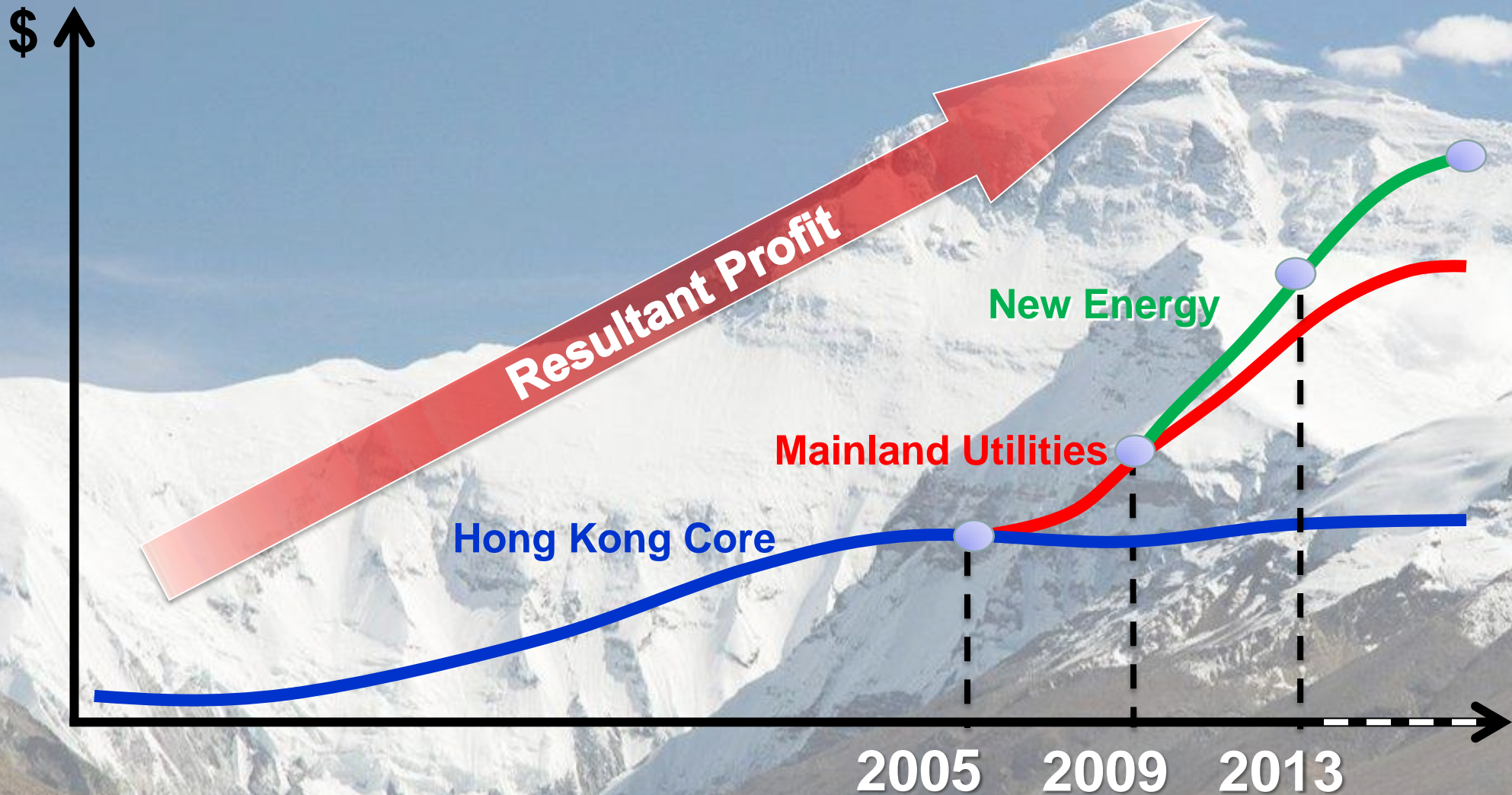
City Water : ~10%

City Gas : ~15%

New energy : >25%



Operating Profit



- ✓ *We are in the Right* **Trades**
- ✓ *We are at the Right* **Time**
- ✓ *We are in the Right* **Region**

Thank You

