



## News flash: The Hong Kong and China Gas - Update on Recent Policies and Company Development

Dear Investors & Analysts,

(19 July 2019) I am pleased in providing you an update on the recent policies and company development on the city-gas business in Mainland China.

### (1) Lifting restriction on Foreign ownership on city-gas enterprises

- The Chinese government announced that the restriction on majority ownership by foreign investors in city-gas enterprises in cities with population more than 500,000 will be lifted starting 31 July.
- The effect of such policy change is twofold, both are positive. Firstly, this removes the risk of taking away our major shareholding status when the city grows. Secondly, from a macro perspective, China would like to attract more foreign investments. The investment environment would be tuned into one which is more open and market-oriented. All such developments are conducive to a more healthy and growing natural gas industry.

### (2) Connection Fees

- Connection business and connection fees are important and integral parts of the city-gas industry. The issue has frequently been reviewed and on the agenda of the policy makers. The recent consultations starting September 2018 have culminated into a policy from NDRC at the end of June 2019.
- The policy establishes a framework for connection business and connection fees. It clears the overhangs of the issue in the past. The policy implicitly confirms that connection fees stay and continue. The policy setting is delegated to individual provinces and cities. There would, therefore, be a lot of flexibility in setting the fees level which would reflect the local business environment of individual provinces and cities. It is believed that the fees level set would be close to the current situation with some refinement and rationalization of excessively high fees in some cities.

### (3) 7% Return on Assets

- After the framework policy on 7% return on assets for gas distribution business released by NDRC in mid-2018, individual cities gradually work with the city-gas companies and draw up its own detailed implementation policy. The great majority of our city-gas companies are basically business as usual as they are now still some way from the capped 7% return. On a macro basis, the return on assets policy would pave the way for more automatic and transparent gas tariff pass-through adjustment.

### (4) Coal-to-Gas Conversion

- In the last several years, the Chinese government endeavored to improve carbon emission and air quality. They strive for a blue sky. Clean energy is promoted. Different corresponding policies have been rolled out. Coal-to-gas conversion policy has been actively pursued in the last 3 to 4 years for converting the polluting coal boilers into clean gas boilers. The conversion starts with the smaller size coal boilers and gradually going after the larger one. It is envisaged that coal-to-gas conversion is still one of the major drivers for gas sales volume growth at least in next several years.
- The city government is now offering subsidies for equipment upgrade to the factories and enterprises to give them incentive for earlier conversion into natural gas.

### (5) Fast Gas Volume Growth Continues

- Thanks to the conducive governmental policies and the corresponding strategies of our Company, the gas sales volume grows continuously. On the back of very fast growth of 18% in volume for the year 2018, the gas volume is forecast to grow at mid-teen percentage per annum in 2019 and the next 2 years. This is in line with the government's target of growing natural gas to 10% of total primary energy in 2020 and further into 15% by 2030, from the current around 8% level.



All in all, we see the city-gas industry welcomes foreign investments leading to a more market-oriented business environment. The macro government policies are conducive to its healthy long-term development. The growth pace will continue to be on a fast track.

Regards,

**W K Lo**

General Manager - Corporate Treasury & Investor Relations

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## **About The Hong Kong and China Gas Company Limited (HKCG)**

HKCG was founded in 1862 – the first public utility to begin operations in Hong Kong. Initially established to light up the streets of Hong Kong, our business in the territory today consists of the production and distribution of town gas, its marketing and sale, the provision of a full range of gas appliances, as well as comprehensive after-sales services.

Expanding into the mainland in 1994, our businesses in China include upstream, midstream and downstream gas projects, ranging from city-gas to natural gas storage, distributed energy system, gas transportation and vehicular gas refilling station projects. We have also diversified into telecommunications, building services, water supply, wastewater and food waste treatment, among others. In the past few years, in line with our vision to become a major energy supplier with an environmentally friendly focus, we have seen investment into new and unconventional energies, with projects ranging from the utilization of landfill gas to conversion of low value feedstock or wastes into high value clean energy and materials, emphasizing on self-developed green technologies.

HKCG has invested in 258 projects across 26 provincial regions in mainland China.