



香港中華煤氣有限公司
The Hong Kong and China Gas Company Limited

The Hong Kong and China Gas Co., Ltd. (3 HK) Incorporating Towngas China Co., Ltd. (1083 HK)

2015

Interim Results Presentation

13 August 2015



GROWTH = INNOVATION X IMPLEMENTATION

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.

1H 2015

Full of Challenges



Agenda



- ▶ **Corporate & Results Overview**
- ▶ **New Energy**
- ▶ **Utilities**
- ▶ **Group Financials Review**
- ▶ **Conclusions & Outlook**



Corporate Results Overview

Expanding New Horizon

Three Business Drivers



HK Core (HC)



- City-gas



- Bandwidth + Data Centre

Mainland Utilities (MU)



- City-gas (0003.hk + 1083.hk)
- Mid Stream
- Gas Storage
- Clean Transportation Fuels



- Water Supply/Sewage

New Energy (NE)



- Energy Infrastructure
- Renewables/Recycling
- Unconventional Fuels
- Transportation Fuels

Utilities Business – 1H 2015



Hong Kong (HC)

- Warmer weather
- Weaker retail sales
- Lower hotel occupancy rate
- Slower new housing intakes

Utilities Business – 1H 2015



Hong Kong (HC) – Con't

- ì Reduced FCVC
- ì Tariff increase on 1 August (+4.4%)
- ì Town gas remains competitive
- ì Side businesses doing well (appliances & kitchen cabinets)
- ì Penetrated into gas cooling
- ì Expand LFG utilization (SENT)
- ì Cost improvements

Utilities Business – 1H 2015



Mainland (MU)

- Collapsed commodity prices
- Sluggish economy
- Weak energy demand
- Weak export businesses
- Stagnant industrial activities
- Cooled-off property market
- Austerity policy
- Ripple-effect of the 2014 gas price hike
- Cheap LNG imports

Utilities Business – 1H 2015



Mainland (MU) – Con't

- Ë Gas price reductions in 2015
- Ë Smog issue persists
- Ë Cost of capital lowered
- Ë Construction costs have come down
- Ë Property transaction freeze lifted
- Ë Surplus of international LNG supply
- Ë Natural gas supply reform

New Energy Business – 1H 2015



New Energy (NE)

- Depressed oil prices made the major impact
- ì Aviation fuel facility continues to provide steady income: HK\$143Mn (+5%)
- ì Thailand Oil E/P output doubles to 1Mn barrels
- ì R&D achievement
 - Methanol to gasoline
 - Agricultural waste to methane (NG equivalent)
 - More are under final stage of testing

New Energy Business – 1H 2015



New Energy (NE) – Con't

- ì Several new projects in progress
 - Coke-oven-gas to methane
- ì Methanol to gasoline plant in IM commissioned
- ì Continues to expand the NG refilling business
- ì Divestment on coal mine assets achieved

0003.HK Hong Kong & China Gas Co., Ltd.



(HK\$ Bn)	1H15	1H14	Change
Revenue (Excluding FCVC in HK)	14.52	14.83	-2.1%
Operating Profit After Tax	3.69	3.51	+5.1%
Net Financial Income	0.33	-0.04	N.A.
Property Revaluation Gain	0.18	0.26	N.A.
Profit Attributable to Shareholders	4.20	3.73	+12.6%
Earnings Per Share (HK cents)	36.3	32.2	+12.7%
Interim Dividend Per Share (HK cents)	12.0	12.0	

0003.HK Hong Kong & China Gas Co., Ltd.



Operating Profit After Tax By Businesses

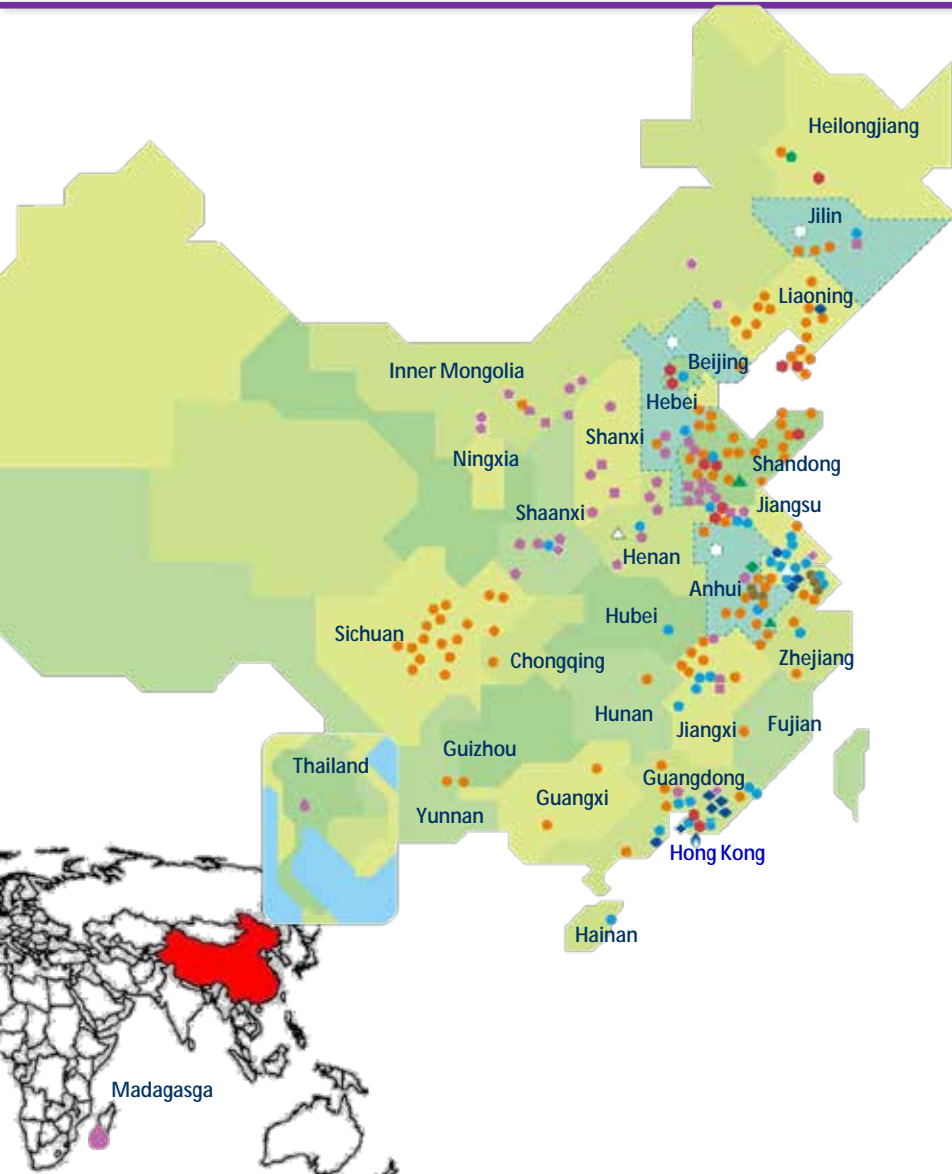
(HK\$ Bn)	1H15	1H14	Change
Hong Kong (HC)	1.50	1.57	-4.2%
Mainland Utilities (MU)	1.98	1.72	+15.0%
New Energy (NE)	0.21	0.22	-5.4%
Total	3.69	3.51	+5.1%

1083.HK Towngas China Co., Ltd.










(HK\$ Bn)	1H15	1H14	Change
Revenue	3.93	3.67	+7%
Operating Profit After Tax	0.64	0.47	+37%
Profit Attributable to Shareholders	0.64	0.47	+37%
Earnings Per Share (HK cents)	24.24	17.90	+35%

Business Profile










10 projects added, total **214** projects

Utilities

City-gas	128	(HKCG: 33 + TCCL: 95)
Midstream	8	   
Water & Sewage	6	
Refilling stations	2	 

New Energy

Gas-based	5	
Coal-based	5	  
Oil E&P	2	 Thailand / Madagasga
Refilling stations	33	
Others	3	

Telecommunications

12



Others

10



as of Jul 2015



Utilities:
Hong Kong &
Mainland China



Vital Momentum

Hong Kong Business Performance



- ▶ Unregulated stable business
- ▶ Fuel cost pass-through, price competitive
- ▶ Residential gas sales dropped by 3.2% due to higher temperature (+1°C)
- ▶ Gas sales volume: -1.7%
- ▶ Raise basic tariff by 1 HK cent per MJ from 1 August 2015

Hong Kong Business Performance



**Profit
After Tax**

HK\$1.5Bn **↗4.2%**

Town Gas Sales

15,765TJ

↗1.7%

Total Customers

1.83Mn

↗17,686

Vs June 2014

**Household
Penetration**

74%

Coverage

86%

Mainland Utilities Performance

(Towngas China inclusive)

Operating Profit After Tax

HKCG Group
HK\$2.0Bn $\tilde{\text{+15\%}}$

TCCL
HK\$0.4Bn $\tilde{\text{+37\%}}$

City-gas

City-water

Midstream-gas

HKCG Group

TCCL

HKCG Group

HKCG Group

Volume:

$\tilde{\text{+3.5\%}}$
7.94Bn m³

$\tilde{\text{+3\%}}$
3.39Bn m³

$\tilde{\text{+3\%}}$
201Mn ton

$\tilde{\text{+5\%}}$
1.6Bn m³

Total Projects:

128 (+1)

95 (+1)

6

8 (+2)

Total Customers:

$\tilde{\text{+0.93Mn}}$
19.9Mn

$\tilde{\text{+0.38Mn}}$
9.6Mn

$\tilde{\text{+44,256}}$
1.1Mn

New Connections:

$\tilde{\text{+13\%}}$
933,000

$\tilde{\text{+12\%}}$
406,742

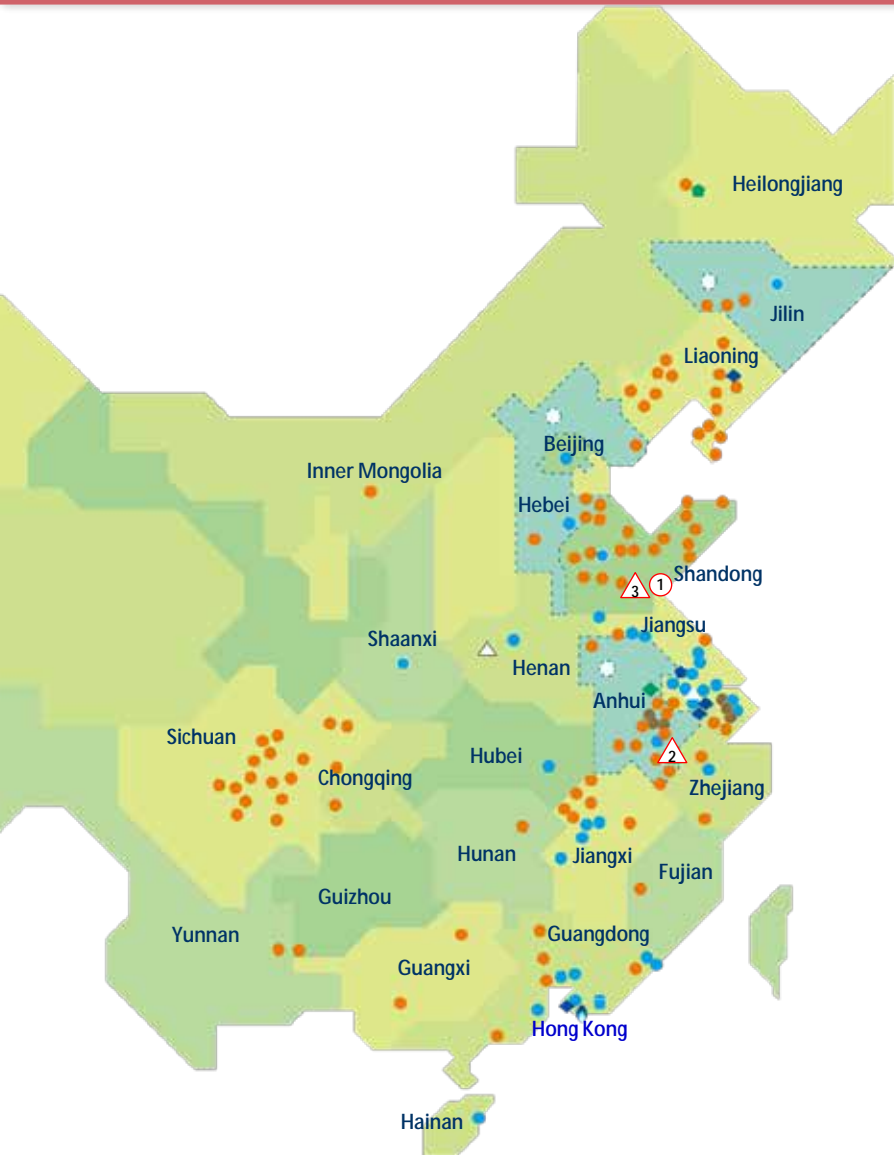
Refilling Station Volume:

$\tilde{\text{+15\%}}$
151Mn m³

$\tilde{\text{+29\%}}$
101Mn m³

















Territorial Coverage



Up to 31 July 2015
3 projects added, total **149** projects
 in **23** provincial regions

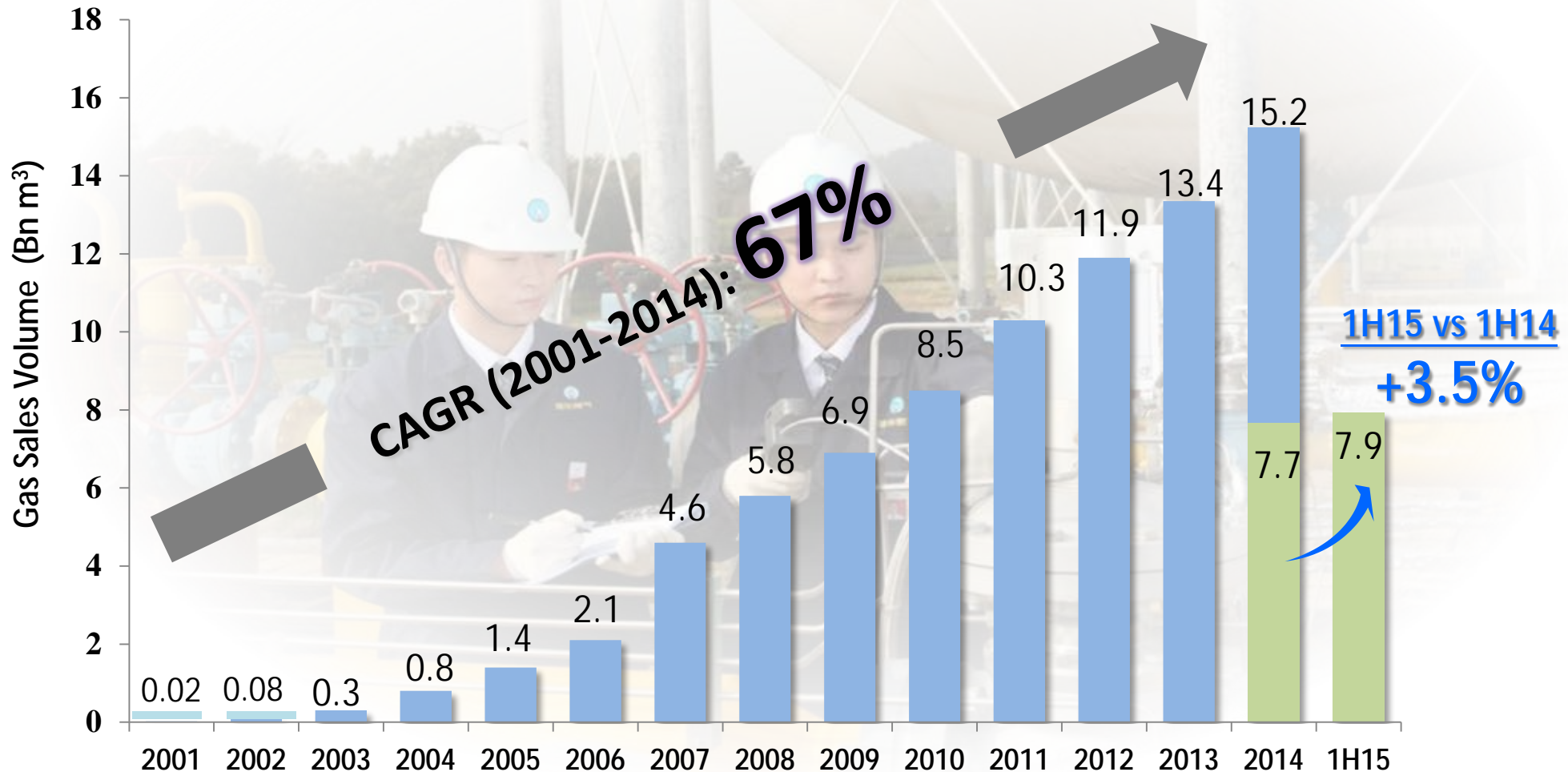
Utilities

- City-gas 128 (HKCG: 33  + TCCL: 95 )
- Midstream 8    
HKCG TCCL
- Water & Sewage 6 
- Refilling stations 2  
HKCG TCCL
- Others 5  
HKCG TCCL

	New Projects	Stack	Investment	Volume in 5 Years
	Wulian	70%	Rmb202Mn	103Mn m ³
	Huangshan Xuncheng	49%	Rmb170Mn	307Mn m ³
	Taian Taigang	49%	Rmb96Mn	504Mn m ³
			<u>Rmb468Mn</u>	<u>914Mn m³</u>

City-gas Business

Growing Gas Sales Volume All JVs (100%)

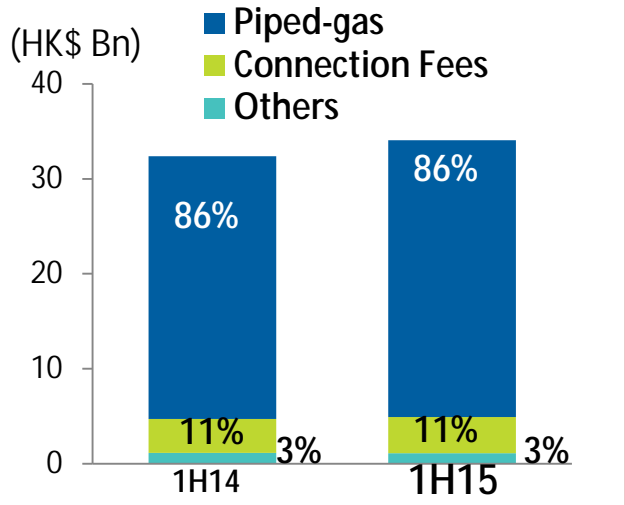


City-gas Business Operational Highlights

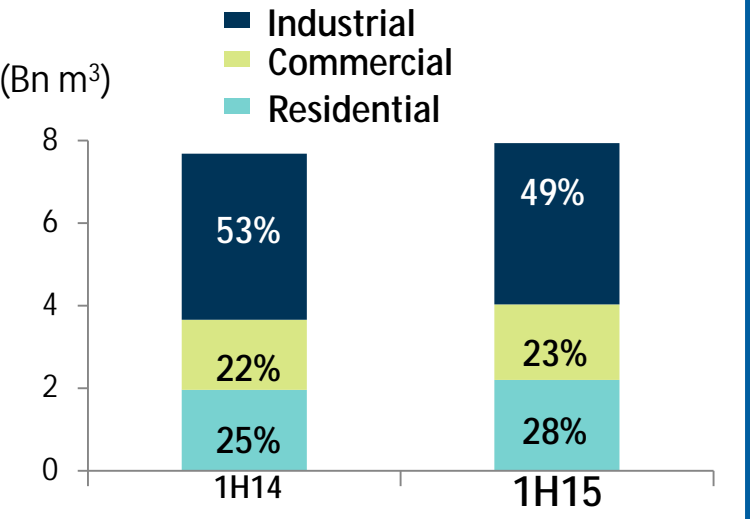


MU

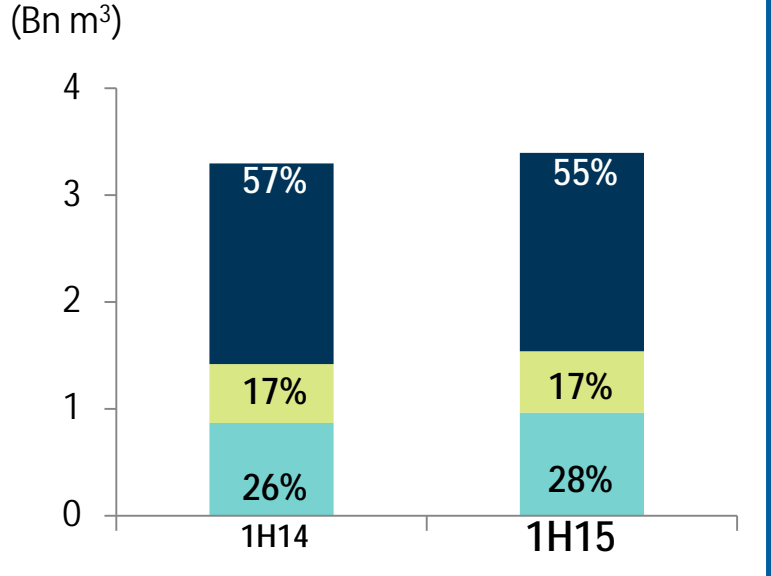
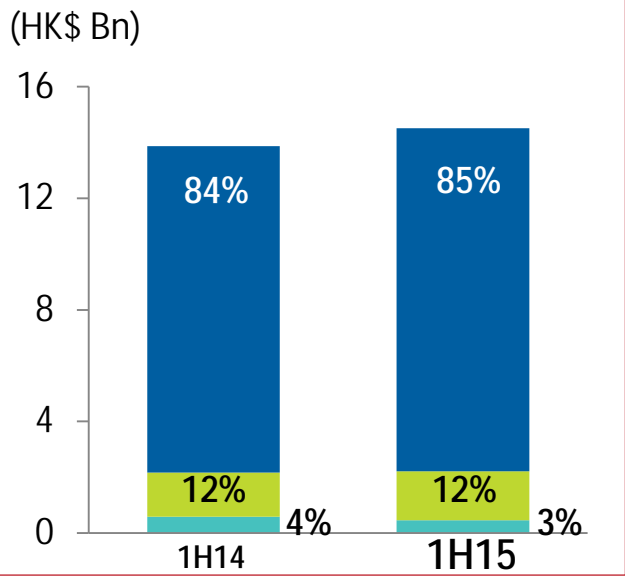
Turnover Mix
(All JVs 100%)



Sales Volume
Mix (%)



TCCL



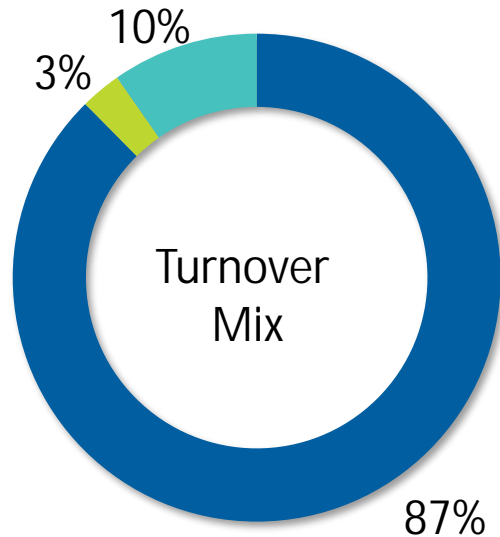
Mainland Utilities Segment Results



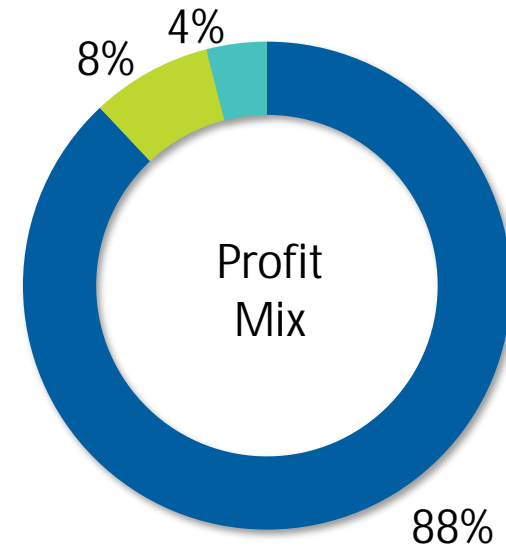
1H15

Total Turnover **↑4.8%**
HK\$ 38.9Bn

Shared Profit **↑15%**
HK\$ 2.0Bn



- City-gas
- Water
- Midstream



* Turnover: All JVs (100%)

Water Business



- **6 projects**
 - all projects in cities with city-gas business
- **Fresh water supply & waste water treatment**
- **201Mn tons (≈3%) of water sales in 1H15**
- **A strategic business**
- **Synergy with city-gas business**
- **Policy support from government for clean water resources**

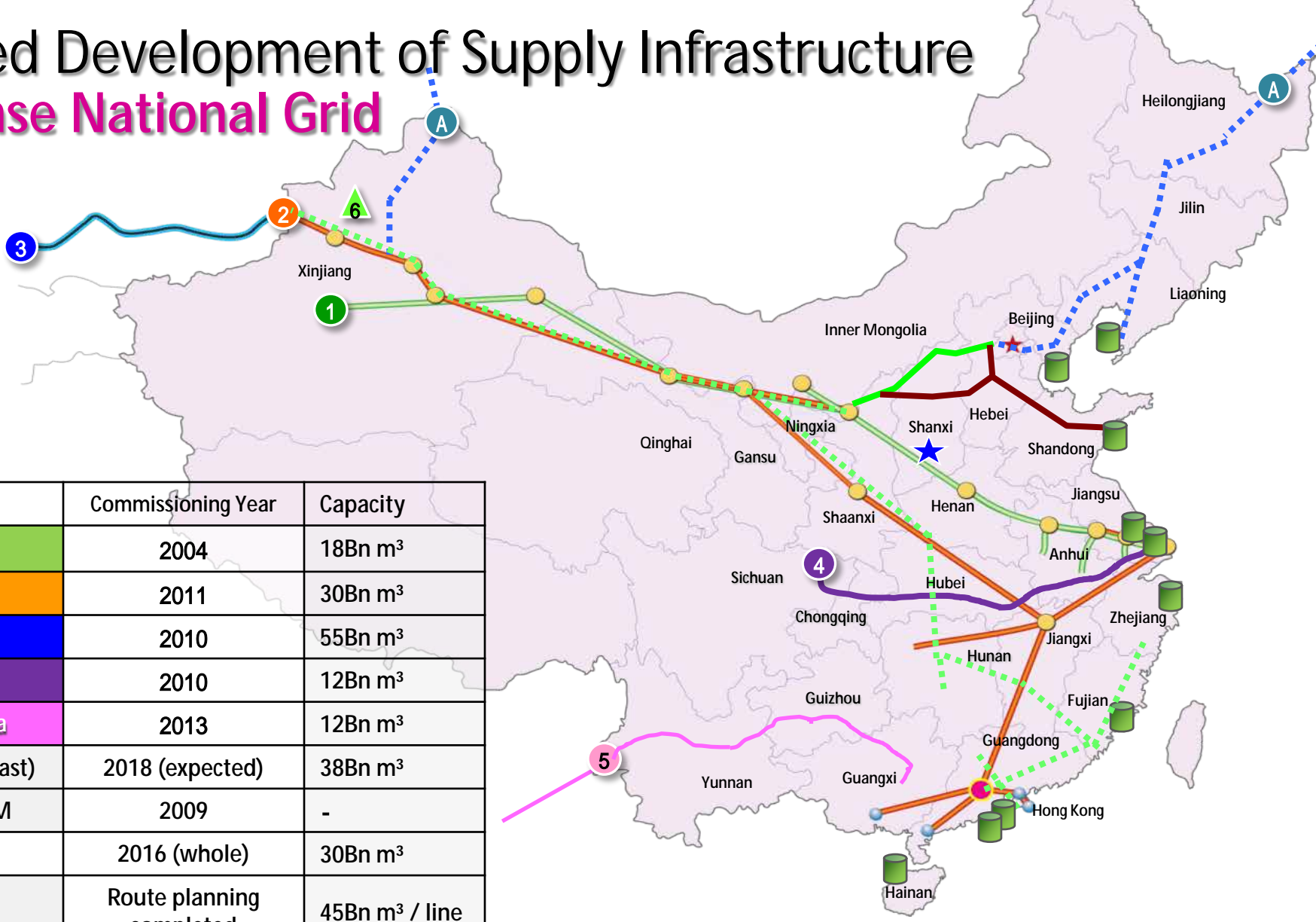
3rd NG Gate-Price Adjustment and Unification



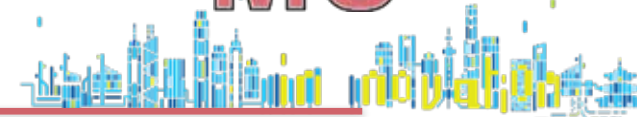
- ▶ Effective 1 April 2015
- ▶ Affect non-residential customers
- ▶ Unified 'Additional' and 'Existing' gas volume prices
- ▶ Additional gas volume: -Rmb0.44/m³
- ▶ Existing gas volume: +Rmb0.04/m³
- ▶ Expecting Group's average incoming price decrease Rmb0.1/m³
- ▶ More conducive to conversion to natural gas
- ▶ Reference to oil product prices in 2H2014

High Speed Development of Supply Infrastructure

An Immense National Grid



NG Source	Commissioning Year	Capacity
① West to East 1	2004	18Bn m ³
② West to East 2	2011	30Bn m ³
③ Central Asia	2010	55Bn m ³
④ Sichuan to East	2010	12Bn m ³
⑤ Myanmar to China	2013	12Bn m ³
Ⓐ Russia to China (East)	2018 (expected)	38Bn m ³
★ HKCG Shanxi LCBM	2009	-
▲ West to East 3	2016 (whole)	30Bn m ³
West to East 4, 5	Route planning completed	45Bn m ³ / line
Existing LNG Terminal		58M tonnes



Outlook: Utilities

- ▶ Gas sales volume with mid growth in the medium term
- ▶ Development focus
 - § Water heating and space heating potential, in particular in Northern China
 - § Boilers & kilns in industrial application
 - § Restaurants
 - § Gas refilling stations
- ▶ Price reforms help NG remain competitive
- ▶ Environmental pressure helps NG replace dirty fuels
- ▶ Increasing urbanization strengthen steady connection fees and customer gains
- ▶ Capitalize 20 million plus households customers with business opportunities

Corporate Financial Overview



Sustainable Growth

0003.HK Hong Kong & China Gas Co., Ltd.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30TH JUNE



(HK\$ Mn)	2015	2014	Changes
Revenue	15,083.1	15,808.0	-4.6%
Total operating expenses	(11,283.4)	(11,851.9)	-4.8%
	3,799.7	3,956.1	-4.0%
Other gains/(losses), net	598.3	(30.5)	n/a
Interest expense	(490.6)	(497.6)	-1.4%
Share of results of associates	831.4	948.1	-12.3%
Share of results of joint ventures	938.7	783.3	19.8%
Profit before taxation	5,677.5	5,159.4	10.0%
Taxation	(952.9)	(963.2)	-1.1%
Profit for the period	4,724.6	4,196.2	12.6%
Attributable to:			
Shareholders of the Company	4,197.1	3,726.6	12.6%
Holders of perpetual capital securities	55.2	47.3	16.7%
Non-controlling interests	472.3	422.3	11.8%
	4,724.6	4,196.2	12.6%
Dividends	1,387.6	1,261.9	10.0%
Earnings per share – basic and diluted, HK cents	[36.3]	32.2 *	12.7%

*Adjusted for the bonus issue in 2015

1083.HK Towngas China Co., Ltd.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30TH JUNE



(HK\$ '000)	2015	2014	Changes
Turnover	<u>(11,283.4)</u>	<u>(11,851.9)</u>	7.0%
Operating profit before returns on investments	521,518	495,996	5.1%
Other gains (losses), net	106,195	(42,407)	n/a
Share of results of associates	174,994	183,477	-4.6%
Share of results of joint ventures	152,591	138,361	10.3%
Finance costs	<u>(82,903)</u>	<u>(82,289)</u>	0.7%
Profit before taxation	872,395	693,138	25.9%
Taxation	<u>(178,957)</u>	<u>(171,485)</u>	4.4%
Profit for the period	693,438	521,653	32.9%
Profit for the period attributable to:			
Shareholders of the Company	639,166	467,968	36.6%
Non-controlling interests	<u>54,272</u>	<u>53,685</u>	1.1%
	693,438	521,653	32.9%
Earnings per share			
– Basic, HK cents	<u>24.24</u>	<u>17.90</u>	35.4%
– Diluted, HK cents	<u>24.21</u>	<u>17.85</u>	35.6%

EBITDA Return on Revenue



	Hong Kong Core		Mainland Utilities		New Energy	
	1H15	1H14	1H15	1H14	1H15	1H14
Revenue (HK\$Bn)	4.8	5.2	8.9	8.8	1.1	1.6
EBITDA (HK\$Bn)	2.4	2.4	2.2	2.2	0.4	0.5
$\frac{\text{EBITDA}}{\text{Revenue}}$ (%)	49.1%	46.7%	25.1%	24.1%	38.7%	34.5%

Group Financial Overview



Note 5

Other Gains / (Losses) Net

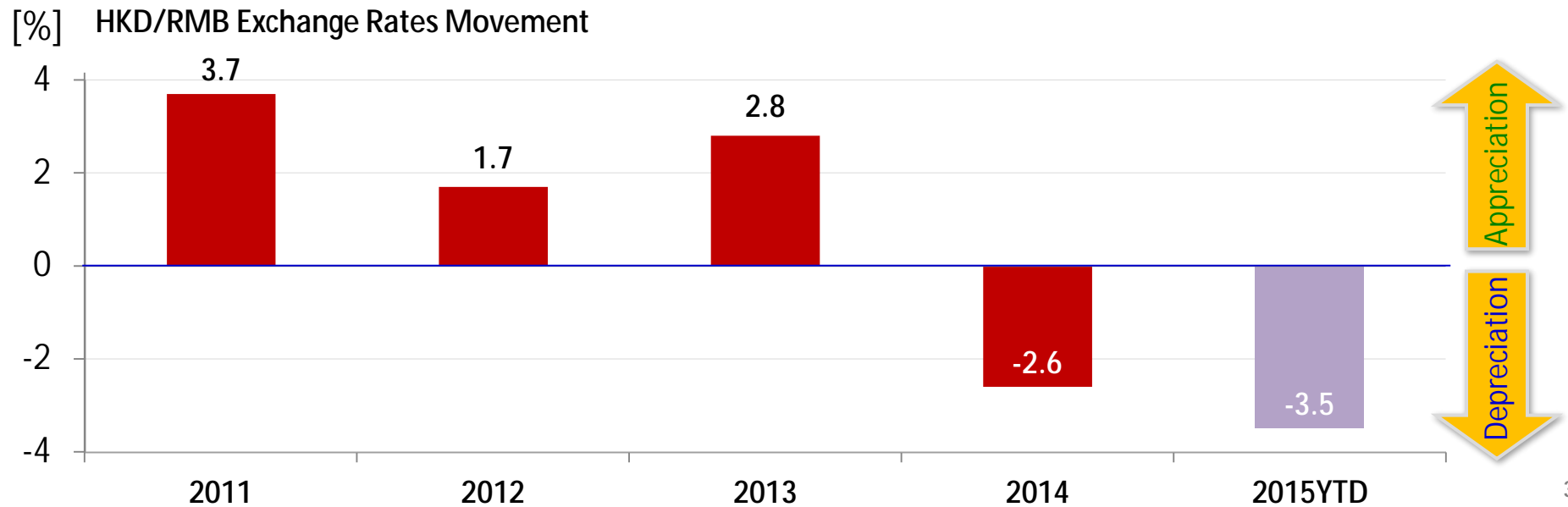
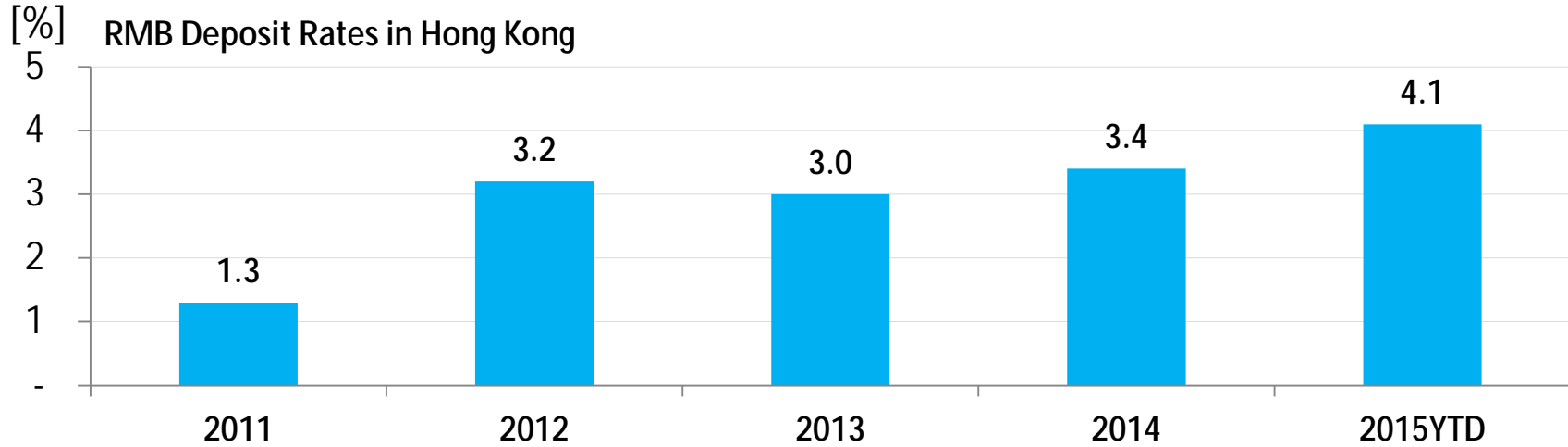
Note 11

**Major Non-cash Transaction /
Disposal of Subsidiaries**

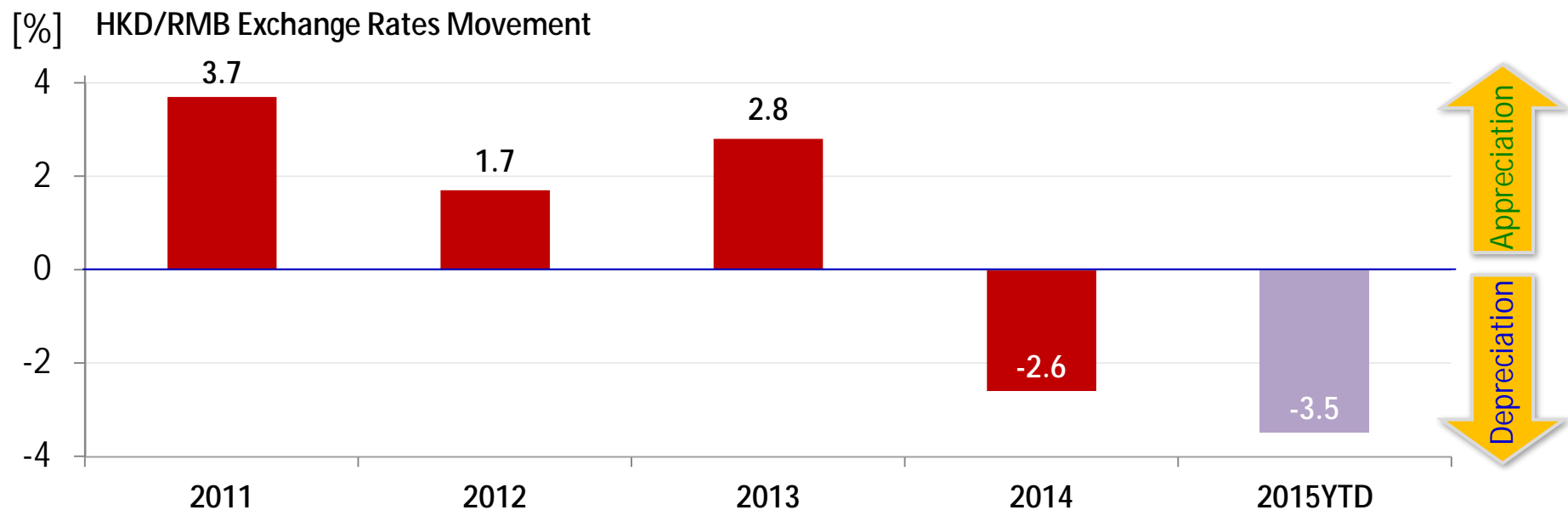
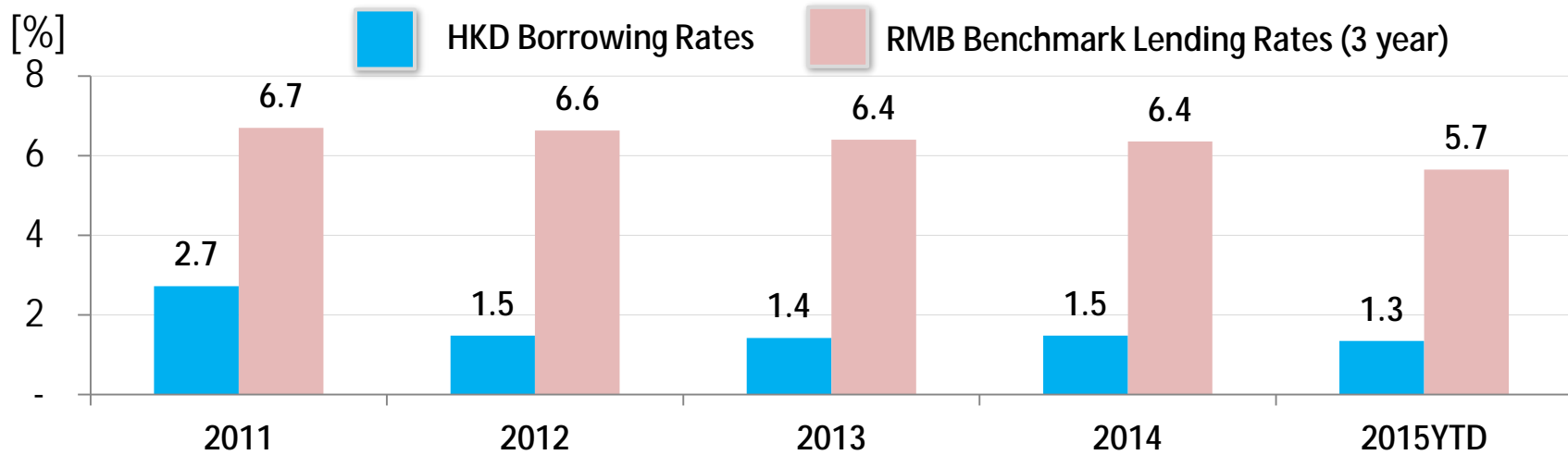
CNY 5 Years Trend



RMB: Deposit Rate & Exchange Rates



Towngas China: Borrowing Rates & Exchange Rates



Group Financial Position Remains Strong



As at 30 June 2015,

Cash On Hand

HK\$14.2Bn

(+\$1.0Bn)

Current Ratio

109%

Net Asset Value

HK\$63.6 Bn

(+\$1.4Bn)

Return on Equity

7.9%

(for half-year)

Leverage



HKCG(0003.HK)



TCCL(1083.HK)

**Interest
Coverage**

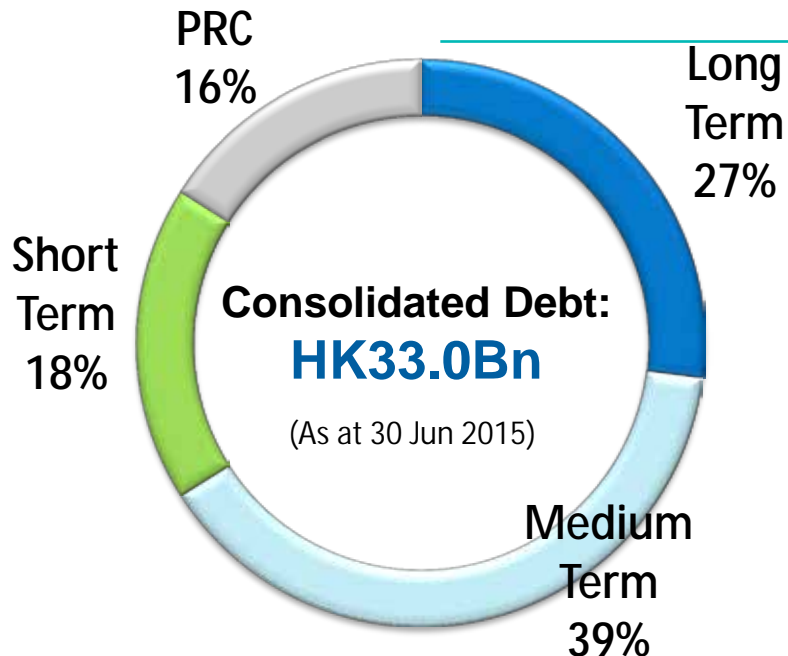
11.3x

13.7x

Gearing

25.0%

27.5%



Avg. Maturity






5.2 years

Avg. Interest

3.6% p.a.

Strong Credit Standing

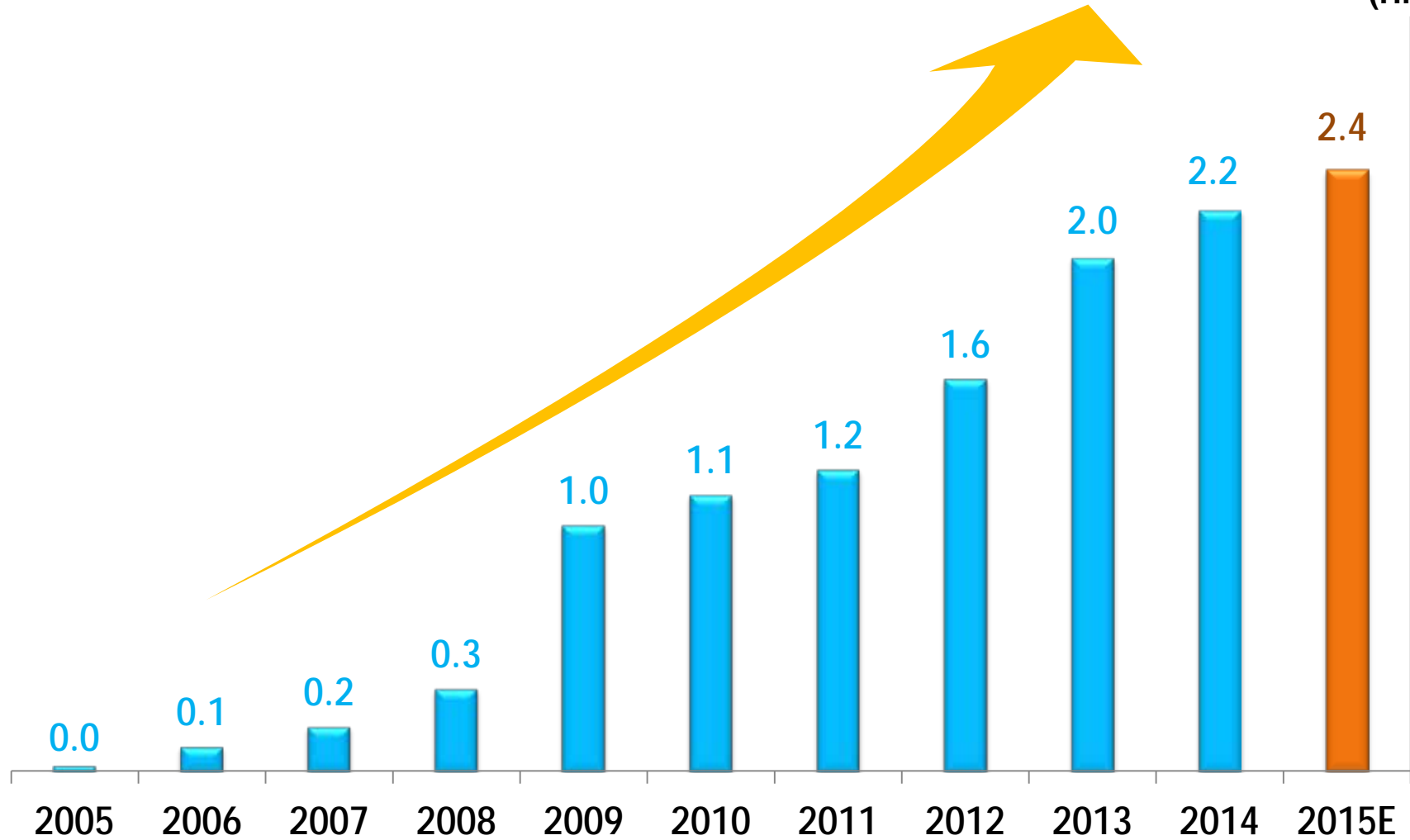


		 <p>煤氣 Towngas</p> <p>HKCG(0003.HK)</p>	 <p>港華燃氣 Towngas China</p> <p>TCCL(1083.HK)</p>	 <p>Upgraded ↗</p>
Credit Ratings	 <p>STANDARD & POOR'S RATINGS SERVICES</p>	A+	BBB+	
	<p>Stable Outlook</p>	Stable Outlook	Stable Outlook	
	 <p>MOODY'S</p>	A1	Baa1	

Strong Dividend from Offshore Projects





(HK\$ Bn)



Rolling 3-Year Cashflow Projection

Healthy Cashflow



		(HKD Bn)
 Inflow	Group Operation	13
	PRC Dividends Distribution	7
		20
 Outflow	Dividend	12
		8
	Cash on Hand	14
Fund Available for Investment		22

Outlook



Expanding New Horizon

Looking Forward



- ✓ 2015 will be a challenging year, characterized by Mainland China's
 - Sluggish economy
 - Weak export
 - Depressed oil price
 - Feeble industrial activities
 - Stagnant domestic spending

Looking Forward (con't)



- ✓ Mid-Long term is promising
 - China's commitment to carbon emission reduction target 2020 and capping in 2030 is real
 - NG shall remain the key player in energy growth
 - Abundant NG supply
 - Strengthening transportation/storage infrastructure
 - Lower NG supply prices effective 2Q15 shall encourage consumption
 - Further cuts in NG supply prices now in planning
 - Urbanization & urban renewal policies shall continue

Looking Forward (con't)



✓ Mid-Long term is promising

- NG reforms should benefit downstream players
 - t Integrated pipelines infrastructure
 - t 3rd party access
 - t NG trading platform
- NG refilling (automobile/marine) business shall have a prosperous growth
- China's plan is to double NG consumption to 360Bcm by 2020

Looking Forward (con't)



✓ Mid-Long term is promising

- Thailand Oil field is producing 6,000 barrels/day (4x original output)
- Major coal asset (XiaoYuGuo, IM) has been successfully divested
- Expanding investment in NG refilling stations
 - t Operating + under construction > 140 stations
- R&D in number of world class technologies
 - t Methanol to gasoline
 - t Coke-oven-gas to NG
 - t Biomass to NG
 - t Biomass to chemicals
 - t Etc.
- Technologies developed have a cash-flow break-even at around USD40/barrel Brent

Brent Crude Oil Price Prediction



(USD/bbl)	Energy Information Administration (EIA)	International Monetary Fund (IMF)	Economist Intelligence Unit (EIU)	Organization for Economic Co-operation and Development (OECD)
2015	60.2	56.2	54.4	62.0
2016	67.0	59.6	71.4	65.0
2017	-	63.3	86.1	-

Looking Forward (con't)



✓ In short:

- Our plans, actions and investments are overall in line with China's environmental objectives:
 - t Reduce
 - PM2.5 (Smog)
 - CO₂ (Carbon emission)
 - SO_x, NO_x (Health)
 - t Develop alternatives of crude
- Renewable/Recycling/Carbon Footprint shall remain our going concern
- Lower construction costs benefit our investments
- Be more conservative in economic evaluation of projects

Some Side Businesses



- ✓ Telecom (Data centres + Bandwidth)
 - Hong Kong
 - t 2x data centres + 500km U/G fibre
 - t Interlink between HK & Mainland
 - Mainland
 - t 4x data centres
 - Co-location, cloud computing, IT solutions
- ✓ Smart Meters
 - New generation of metering and payment systems
- ✓ Gas & Water pipes and fitting
 - A quality supplier

Some Side Businesses (Con't)



✓ Kitchen cabinets

- Medium to high end markets
- For housing projects and retails

✓ Capitalizing on 20Mn households

- Bottled water
- Insurance policies
- Household products
- Home safety products/services

Looking Forward (con't)



Our Views and Objectives

HK Gas Business:

Remains as a stable, low growth cash generating operation

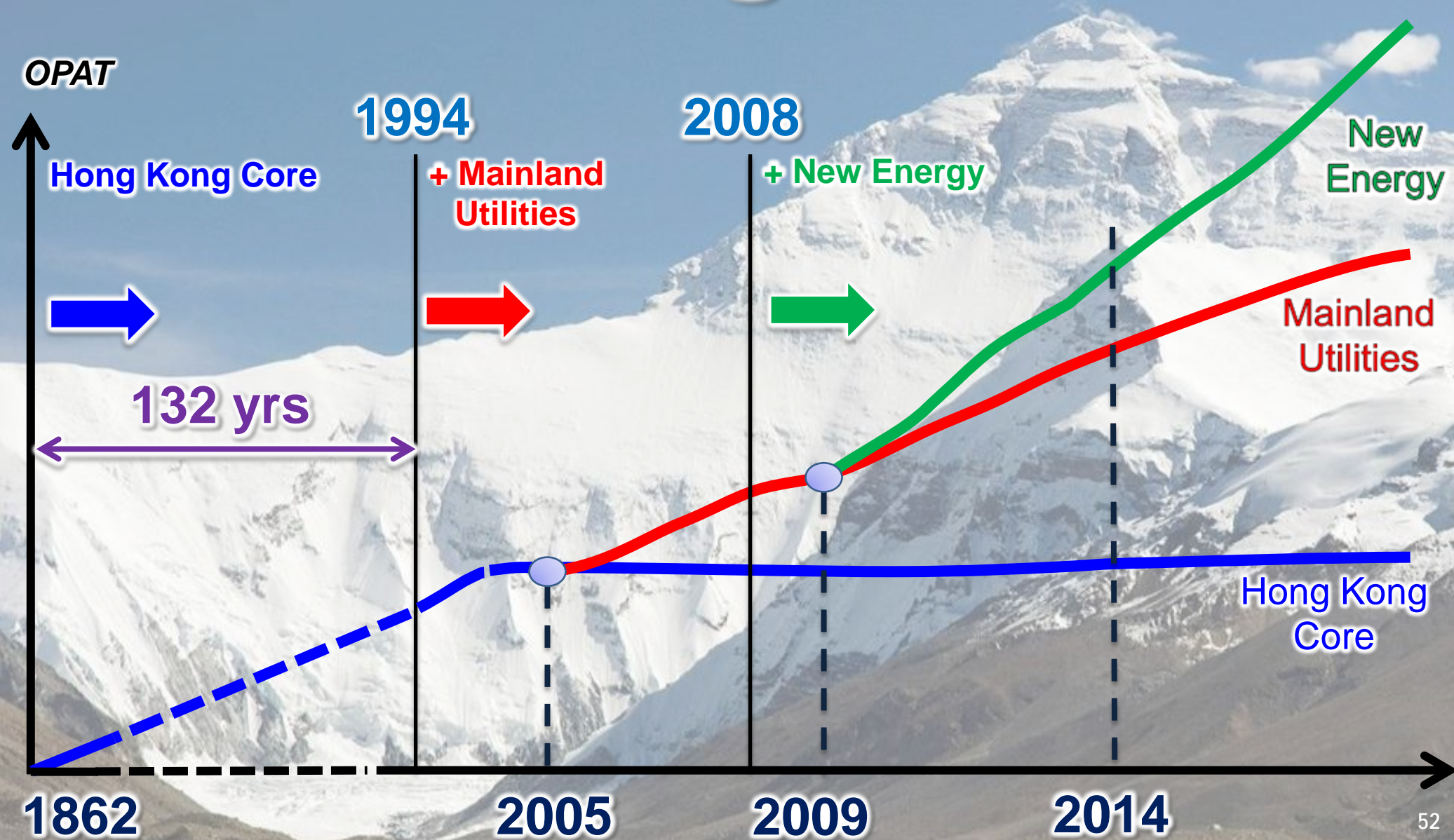
Mainland Utilities Business:

Continue to be a mid-growth locomotive having market share and organic volume expansion while capturing the environment and urbanization opportunities

New Energy Business:

Position to be a high-growth driver focusing on renewable/recycling & clean fuels, while developing proprietary technologies, at the same time establishing long-term energy infrastructures

Sustaining Growth





GROWTH = INNOVATION X IMPLEMENTATION

Expanding New Horizon