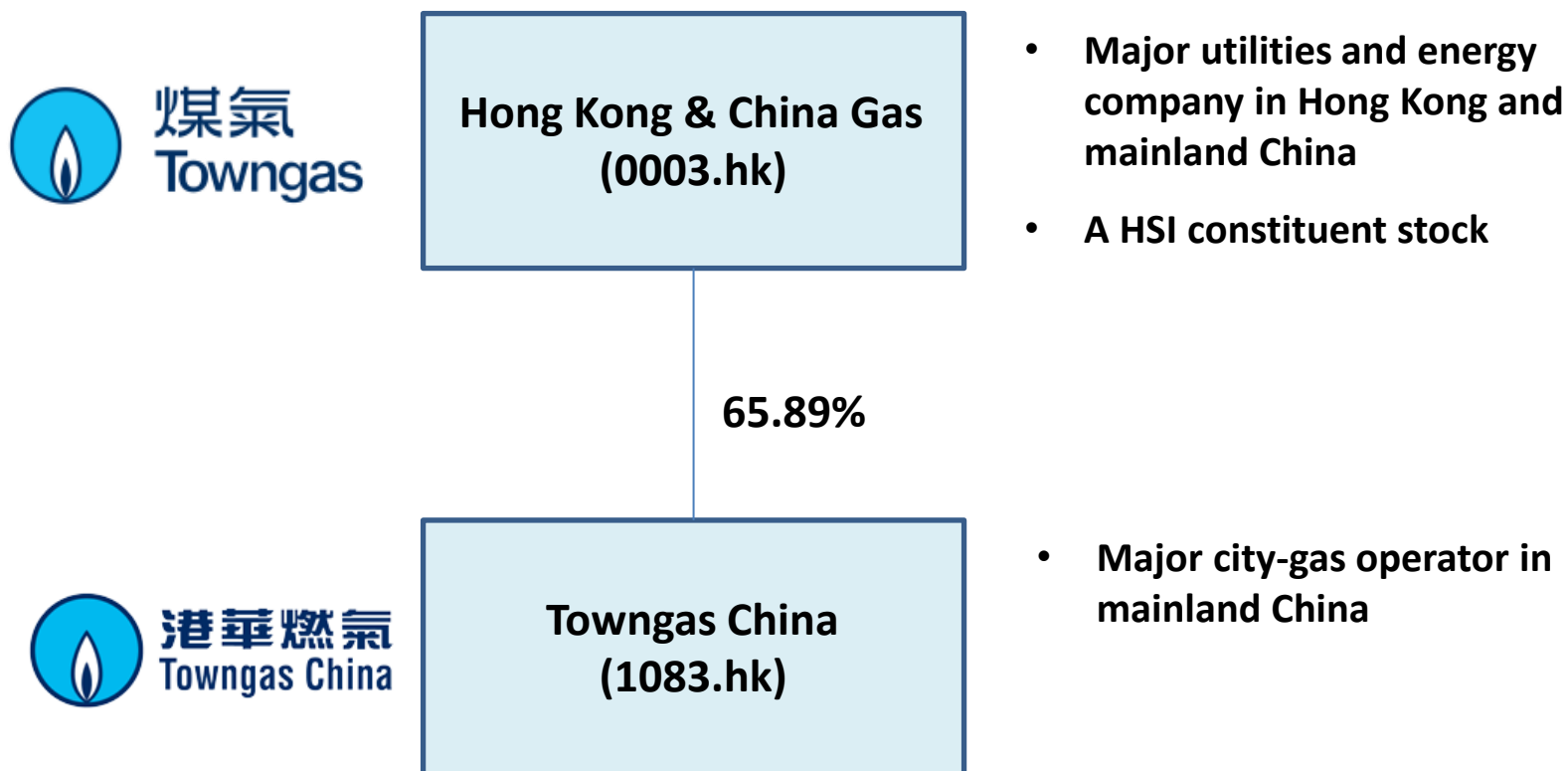


Towngas China (1083.hk) 2017 Interim Results Presentation

Expanding
NEW HORIZONS

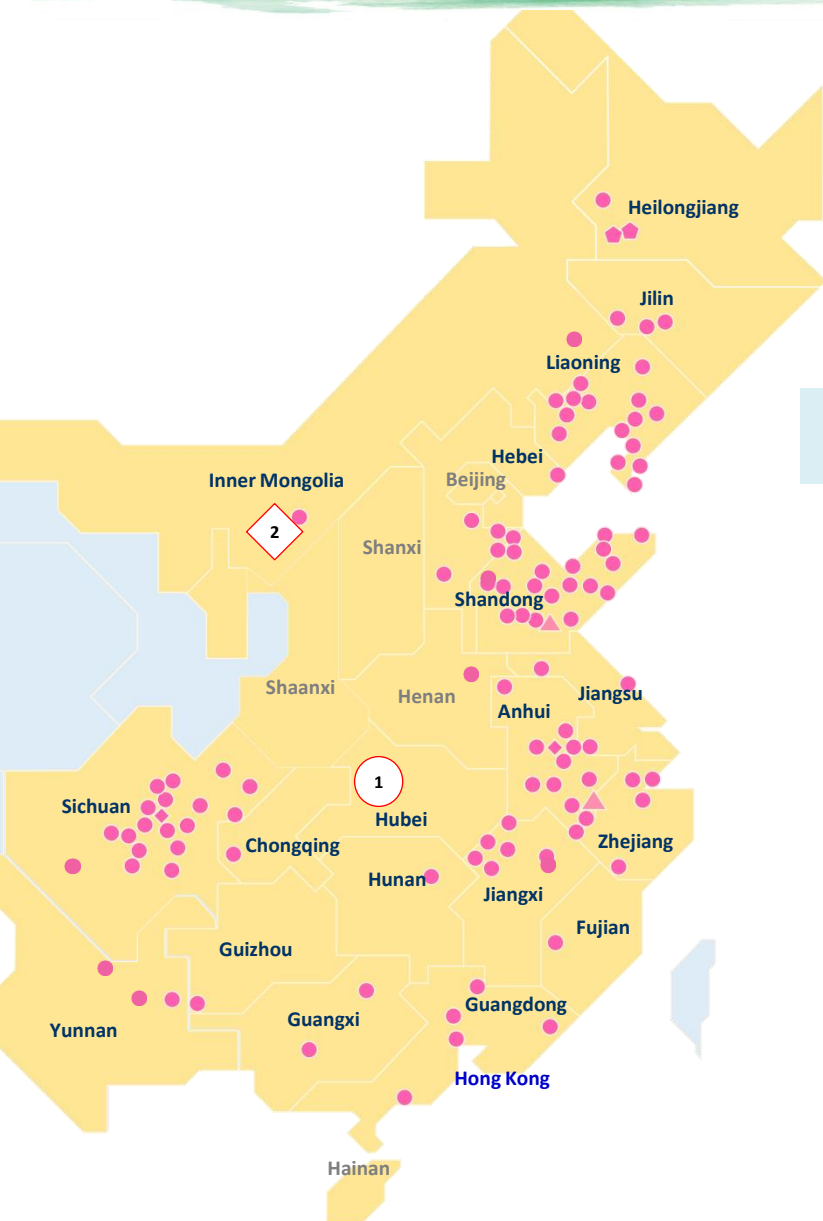


Towngas China as a major city-gas platform in China for Hong Kong & China Gas



Territorial Coverage

As of 31 Jul 2017



2 project added, total **105** projects in **19** provincial regions

	New Projects	Stake	TCCL Investment
①	Zhongxiang Hubei (city-gas) 河北钟祥	100%	Rmb61Mn
②	Guyang Inner Mongolia (midstream) 内蒙古固阳	85%	Rmb68Mn

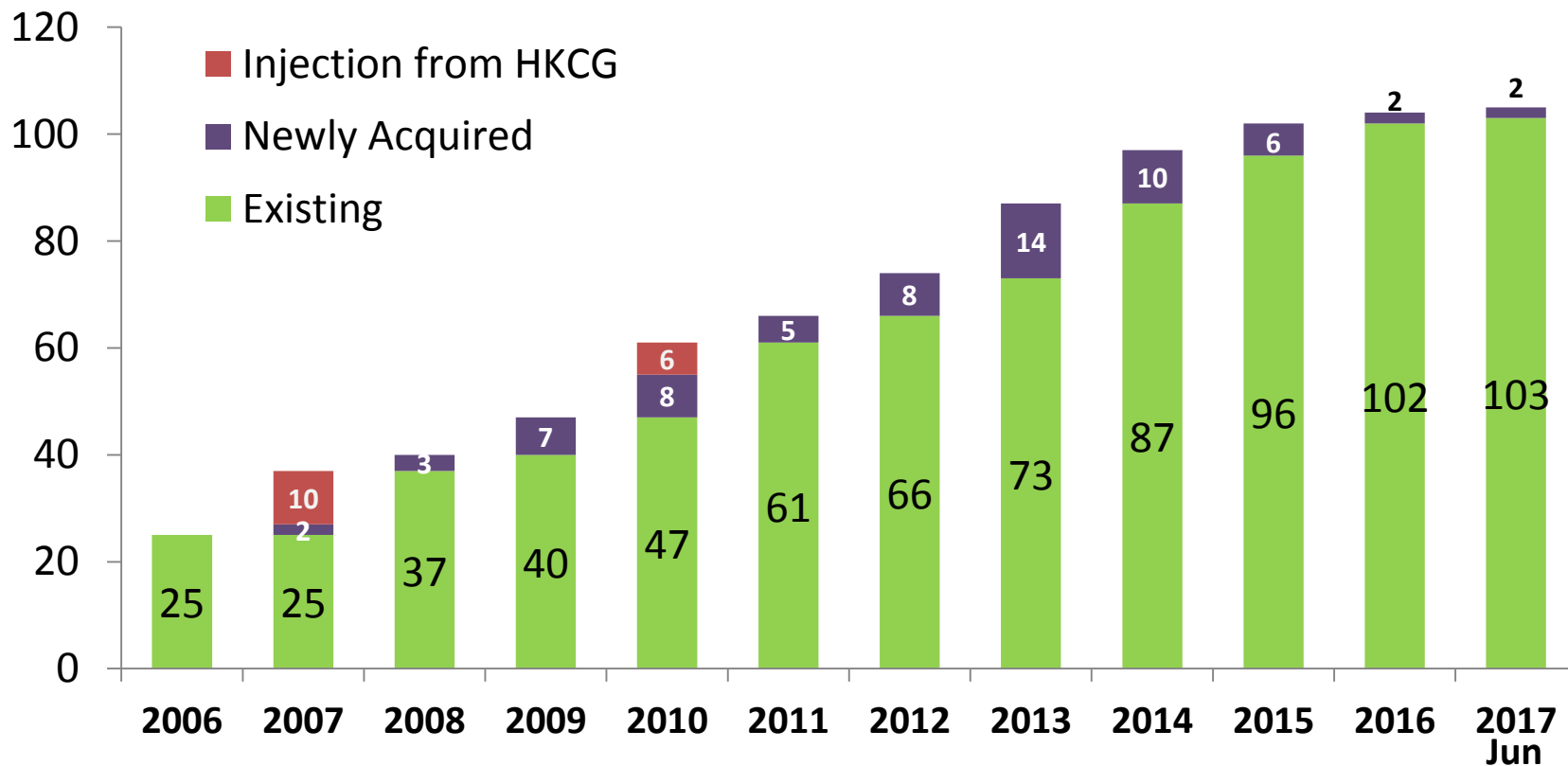
Profile

City-gas	●	97
Midstream	▲	3
Refilling station	◆	2
Other	◇	3

Growing Project Portfolio



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	17Jun
Total	25	37	40	47	61	66	74	87	97	102	104	105
City-gas	25	37	40	47	61	66	73	86	94	97	97	97



Financial and Operational Performance



Results Highlights (Financial)



(HKD Mn)

	1H 2016	1H 2017	Change
Turnover			
Gas Sales	2,693	3,272	21.5%
Connection Fees	743	764	2.8%
	<u>3,436</u>	<u>4,036</u>	+17.4%
Operating Profit before Finance Cost	754	817	+8.4%
Effective Finance Cost	(190)	(215)	+13.2%
Profit attributable to shareholders	564	602	+6.7%
	In Rmb		+12%
Basic EPS (HK cents per share)	21.18	22.21	+4.9%

2017 Interim Results Highlights



Profit attributable to shareholders

HK\$602Mn ↑7%
(Rmb532Mn ↑12%)

**Gas Sales
Volume**

↑18%

4.2Bn m³

Total Projects

+2

Total 105

Total Customers

+392,000

11.3Mn

**New
Connections**

+227

435,489

Financial Position as at 30 Jun 2017



TCCL (1083 HK)

1H 2017

1H 2017



HK\$ Bn

HK\$ Bn

Total assets	29.8	P/B	1.0x
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Net asset value	15.3	P/E	14.3x
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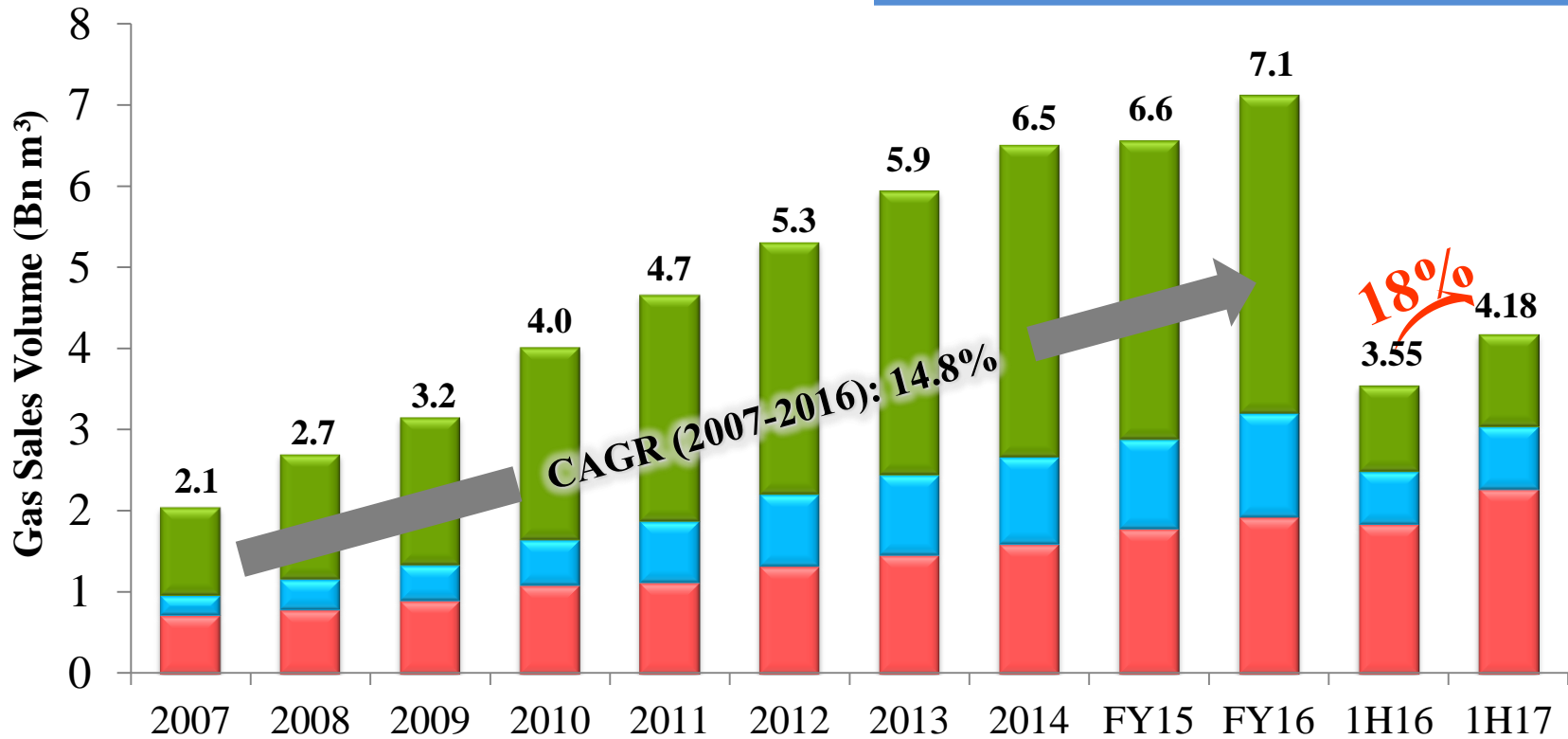
Market cap	13.8	Gearing (net)	32.2%
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Cash & bank	1.7	Credit Ratings	 	BBB+
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Total borrowings	8.4			Baa1
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Growing Gas Sales Volume

(Bn m ³)	1H16	1H17	Change
Industrial	1.83	2.26	+23%
Commercial	0.66	0.78	+19%
Residential	1.06	1.14	+8%
Total	3.55	4.18	+18%



*All JVs (100%)

Gas Sales Volume of JVs



Volume (Mn m ³)	1H 2016	1H 2017	Change
Subsidiaries	924	1,156	+25%
JCEs & Associates	1,883	2,230	+18%
Chengdu JV	744	800	+8%
Total	3,551	4,186	+18%

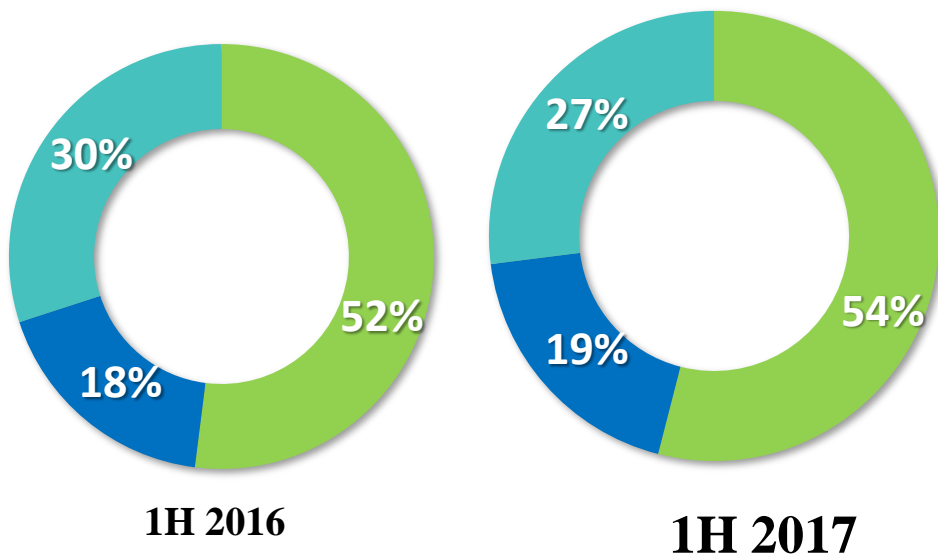
Note: Chengdu JV with 13% shareholding is classified as financial investment according to accounting standard

Operational Highlights



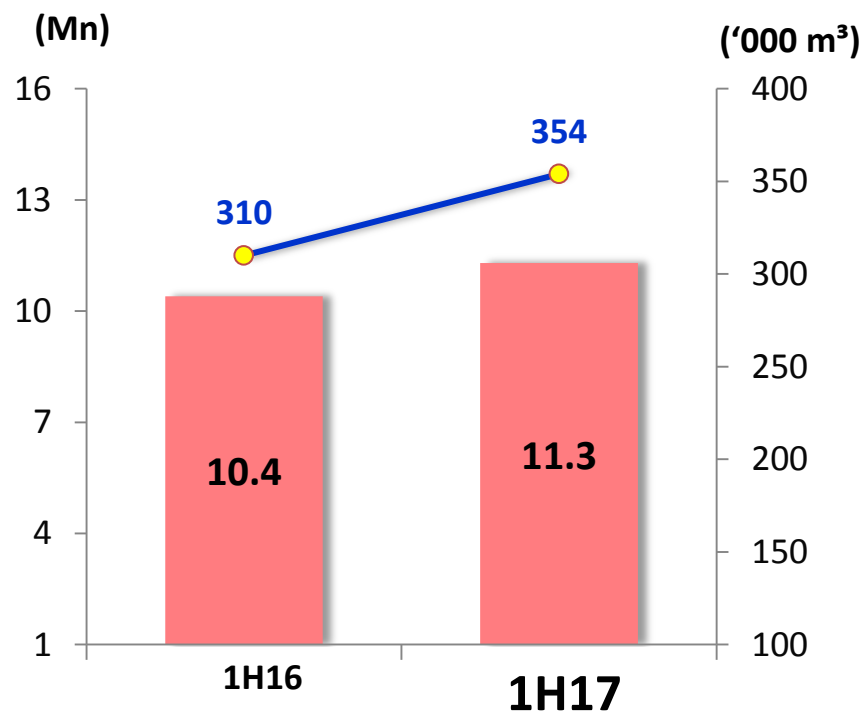
Gas Sales Volume Mix (%)

■ Residential
 ■ Commercial
 ■ Industrial



Productivity

■ Customers No. (LHS)
—● Gas Volume/Employee (RHS)



* All JVs (100%)

Natural Gas Market Environment



- ▶ **Central government promotes natural gas to cut carbon emissions**
- ▶ **Gas industry continues to achieve the fastest growth in the energy sector**
- ▶ **According to 13th Five-Year Plan**

	2016	2020	2030
NG in Energy Mix	6%	10%	15%
Demand (Bn m ³)	206	360	~480
Domestic Production (Bn m ³)	137	~200	~220
Import (Bn m ³)	72	~170	~280

- ▶ **Ample supply, particularly LNG import**
- ▶ **Government policies & price regulations help drive a healthy market reform**

Challenges



► Gas price regulations and policy

- Positive as gas pricing mechanism more transparent, stable and predictable
- Connection fees not included in calculation of return
- To achieve a right balance between affordable gas supplies and city-gate gas price formula

► Connection fees

- Government has more understanding of its importance on gas development
- Connection fees included in property prices reducing sensitivity
- Urbanization of 1% point per year keeps property market momentum and gas consumption

Analysts View on Gas Industry: "Positive"



	▶ Overhang removed; sector re-rating opportunity
	▶ Return risk eased, growth intact, re-rating kicks-off
	▶ Regulatory Overhang Mitigated; Upgrade to Buy
	▶ A more favorable version of downstream return regulation issued
	▶ China's new distribution tariff mechanism for city gas distributors is credit positive
	▶ Overhang of policy risk is removed in near term
	▶ Policy dust settled
	▶ Sigh of relief. Regulated return set at 7%
	▶ Policy cap bark worse than its bite
	▶ Official policy confirms our positive stance
	▶ Raising Return Cap; Positive Outlook

Challenges



- ▶ **Loss making JVs**
 - Economy recovery, market development plus cost control
 - 18 JVs to turn black by end 2017, expecting all JVs profitable by end 2018

- ▶ **Regional price control e.g. Shandong's margin cap on C&I**
 - Liaise with local price bureaus to adjust pricing structure to minimize impact
 - Leading to a revisit by local governments on current low residential tariff

- ▶ **Market competition from small scale LNG & direct supply**
 - Seek government support to strengthen their control based on safety reasons and concession rights
 - Low cost LNG as a supplementary source at reduced price

- ▶ **Manage to keep gas margin stable**

Business Opportunities



▶ Distributed Energy System (DES)

- Established Towngas China Energy Investment Ltd to invest in and operate DES projects
- Favorable government policies and lower NG price boost DES business
- Over 40 key projects are being followed

▶ Coal-to-Gas Conversion

- National policy on replacing coal with natural gas in particular in Northern China
- Successful cases in Shandong and Hebei

▶ Space Heating

- Booming needs of space heating in non-central heating regions including Jiangsu and Zhejiang
- Space heating generates 2,000m³ per household per winter period

► Optimistic for double digit volume growth

	Projected Volume in 5 th Year
• Distributed Energy System	1.7Bn m ³
• Coal-to-Gas Conversion	1.0Bn m ³
• Space Heating	0.3Bn m ³

3 Bn m³

New Projects

- ▶ Most new projects are greenfield industrial parks, which take long time to nurture and subject to economic volatility
- ▶ Acquire new projects with close scrutiny
- ▶ Focus on faster and more sustainable organic growth on existing city-gas projects

Extended Services Businesses



- ▶ **Leverage on growing customer base and capitalize HK's successful experience**
- ▶ **40K units of Bauhinia gas appliances sold every year with gas clothes dryers launched in 2016, market share 15% and growing**
- ▶ **Mia Cucina kitchen cabinets and appliances targeting at furnished property development**
 - **2,000 units committed for cabinets**
 - **500 units considering cabinets and appliances**
- ▶ **Expand gas applications installation and services**
- ▶ **Gas insurance, household and kitchenware, virtual customer centre ...**

THANK YOU

Expanding
NEW HORIZONS



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.