

**Panel on Economic Development
Follow-up to meeting on 29 March 2010**

Tariff adjustment of The Hong Kong & China Gas Co Ltd (Towngas)

Requested information

- (a) Impact of the plan of Towngas to raise basic tariff on the commercial customers, especially the small and medium enterprises**

Based on the average gas consumption in 2009, Towngas estimates that 50% of the commercial and industrial customers, especially the small and medium enterprises, would pay less than \$144 extra for their gas supply each month.

The average increase of the commercial and industrial customers will be about \$411 each month.

- (b) Financial statements for the years 2005-2006, 2007-2008 and 2008-2009, in particular in respect of the items leading to rising operating costs, with detailed breakdown for each of the items**

1. Source of Information

Towngas is a company listed in Hong Kong and in general its financial information is released to the public in the Interim Report, the Annual Report and related preliminary results announcements. The financial statements, notes to the accounts providing further breakdowns and related disclosures are prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants, Hong Kong Companies Ordinance and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). In accordance with the Listing Rules, Towngas being a listed company, is required to ensure the information disclosure should be fair and consistent to parties concerned. In view of good corporate governance practice, it is difficult for the company to release unpublished financial information to any specific party selectively.

The Annual Reports for 2005 and 2008 and Preliminary Announcement of Annual Results for 2009 are posted on Towngas' website. They can be downloaded from the following web links:

2005 Annual Report :

Chairman's Statement

<http://www.towngas.com/Eng/Corp/IR/FinInfo/AR/pdf/2005F106.pdf>

Financial Statements and Notes to the Accounts

<http://www.towngas.com/Eng/Corp/IR/FinInfo/AR/pdf/2005F122.pdf>

2008 Annual Report :

Full Set

http://www.towngas.com/Eng/Corp/IR/FinInfo/AR/pdf/AR2008_Eng_Full.pdf

Chairman's Statement

http://www.towngas.com/Eng/Corp/IR/FinInfo/AR/pdf/AR2008_Eng_05_ChairmanStatement.pdf

Financial Statements and Notes to the Accounts

http://www.towngas.com/Eng/Corp/IR/FinInfo/AR/pdf/AR2008_Eng_17_FinancialStatement.pdf

2009 Preliminary Announcement of Annual Results (*2009 Annual Report is scheduled to be posted in the website of HKEx on 23 April 2010*)

http://www.towngas.com/Eng/Corp/IR/AnnoucementCir/pdf/201003/e_Annoucement_v15_p.pdf

For easy reference, please refer to the attached appendix for relevant schedules in the Annual Report / Preliminary Announcement.

2. Key Data extracted from 2005 Annual Report, 2008 Annual Report and 2009 Preliminary Announcement of Annual Results

Description of Information	Source / Reference	2005 HK\$M	2008 HK\$M	2009 HK\$M
Average Gas Tariff (cents / MJ)		24.8	26.7	22.6
Gas Sales Volume (TJ)	Annual Report Preliminary Announcement	27,261	27,583	27,274
Turnover (Hong Kong businesses)	Annual Report (note 5) Preliminary Announcement (note 2)	8,266.9 (1,140.5)	9,177.4 (1,677.0)	7,871.5 (539.9)
<ul style="list-style-type: none"> • Turnover • Less : FCVC • Net Turnover 		7,126.4	7,500.4	7,331.6
Productivity (customer/employee)	Annual Report Preliminary Announcement (Chairman's Statement)	840	870	890
Operating Expenses Company	Annual Report (Chairman's Statement & 2005: note 16 2008: note 17) Preliminary Announcement (Chairman's Statement)	615.0 396.7	649.0 458.9	656.0 *
# included salaries, allowances and Retirement Benefits				
Group	Annual Report (note 6) Preliminary Announcement (note 3)	3,917.4 759.0 504.1	5,598.6 1,006.2 708.4	4,617.7 1,120.2 836.3
<ul style="list-style-type: none"> • Stores and Materials • Manpower Costs • Depreciation and Amortisation • Cost of Property sold • Others 		n/a 855.6	9.9 1,415.1	139.6 1,776.6
Capital Expenditure - Property, Plant and Equipment :				
Company	Annual Report			
<ul style="list-style-type: none"> • Cost at beginning of year • Additions • Disposal • Accumulated Depreciation • Net book value at year end 	(2005 : note 16) (2008 : note 17)	12,365.3 1,001.5 (37.9) (5,526.9) 7,802.0	14,370.0 942.4 (142.1) (6,497.1) 8,673.2	* * * * *

* 2009 figures will be available in 2009 Annual Report scheduled to be posted to the website of HKEx on 23 April 2010)

3. Supplementary Information

3.A Rising costs - higher pipe and rental expenses

Cost comparison for pipe and rental expenses (index : year 2005=100) are as follows :

Year	2005	2008	2009	09 Vs 05
Polyethylene Pipes	100	145	156	56%
Rental Expenses	100	148	152	52%

3.B Increasing capital expenditure - from HK\$4.4 Billion (2005-2009) to HK\$4.9 Billion (2010-2014)

In order to support the development of Hong Kong and to maintain gas supply reliability, capital expenditure amounted to HK\$4.9 Billion will be spent in the next five years (2010-2014). Major projects are highlighted below :

(a) Transmission Projects

To cope with the government's Tolo Highway Widening Project, the existing high pressure pipeline is affected and about 2.5km long pipeline will be constructed from 2009 to 2013 for the necessary diversion work.

(b) Distribution Projects

- **Natural Gas Pipeline Project**

A Natural Gas pipeline from Tai Po to Ma Tau Kok Gas Production Plant will be constructed to provide natural gas as feedstock for gas production in the Plant.

- **Medium Pressure Pipelines**

To reinforce the town gas supply security in the New Territories, the Tuen Mun Loop Project will be undertaken to construct a 9km steel pipeline linking the current Tuen Mun and Tai Lam off-take stations.

In addition, to cope with the government's massive Kai Tak Development and Cruise Terminal project and also Highways Department's Central Kowloon Route project, relocation of existing submarine pipelines from Ma Tau Kok to North Point is required and will be completed in 2014.

Furthermore, there are also other medium pressure pipeline diversion projects to cope with the infrastructure development/enhancement projects.

- **Normal Pipeline Maintenance Program**

Regular replacement of aging distribution pipelines to enhance safety and reliability of the town gas supply network is required.

Appendix - Reference Schedules in the Annual Report/Preliminary Announcement

	Page Reference
<u>2005 Annual Report</u> <ul style="list-style-type: none"> • Consolidated Income Statement • Consolidated Balance Sheet • Company Balance Sheet • Consolidated Cash Flow Statement 	<p>P.62</p> <p>P.63</p> <p>P.64</p> <p>P.65</p>
<u>2008 Annual Report</u> <ul style="list-style-type: none"> • Consolidated Income Statement • Consolidated Balance Sheet • Company Balance Sheet • Consolidated Cash Flow Statement 	<p>P.62</p> <p>P.63</p> <p>P.64</p> <p>P.65</p>
<u>2009 Preliminary Announcement</u> <ul style="list-style-type: none"> • Consolidated Income Statement • Consolidated Balance Sheet • Company Balance Sheet • Consolidated Cash Flow Statement <p><i>*will be available in 2009 Annual Report</i></p>	<p>P.8</p> <p>P.9</p> <p>*</p> <p>*</p>

In addition, information related to Gas and Related Business in Hong Kong can be referred to the notes to the accounts as follows :

Particulars	Notes to the Accounts	Schedule
<u>2005 Annual Report</u> <ul style="list-style-type: none"> • Geographical and business segment results • Depreciation Charge and Capital Expenditure • Manpower Costs 	<p style="text-align: center;">5</p> <p style="text-align: center;">16</p> <p style="text-align: center;">n/a</p>	<p>Segment Information</p> <p>- revenue and segment results</p> <p>Property, Plant and Equipment</p> <p>- Group and Company</p> <p>Chairman's Statement -</p> <p>Employees and Productivity</p>
<u>2008 Annual Report</u> <ul style="list-style-type: none"> • Geographical and business segment results • Depreciation Charge and Capital Expenditure • Manpower Costs 	<p style="text-align: center;">5</p> <p style="text-align: center;">17</p> <p style="text-align: center;">n/a</p>	<p>Segment Information</p> <p>- revenue and segment results</p> <p>Property, Plant and Equipment</p> <p>- Group and Company</p> <p>Chairman's Statement -</p> <p>Employees and Productivity</p>
<u>2009 Preliminary Announcement</u> <ul style="list-style-type: none"> • Geographical and business segment results • Depreciation Charge and Capital Expenditure • Manpower Costs 	<p style="text-align: center;">2</p> <p style="text-align: center;">*</p> <p style="text-align: center;">n/a</p>	<p>Segment Information</p> <p>- revenue and segment Results</p> <p>* will be available in 2009</p> <p>Annual Report</p> <p>Chairman's Statement -</p> <p>Employees and Productivity</p>