

RISK FACTORS

Towngas continues to expand across Hong Kong and mainland China. To ensure growth, Towngas constantly analyses the risks we encounter every day, allowing us to prepare for whatever we may face while maintaining our dedication to sustainable and environmentally sound practices.

Business Environment

Following the decision of Britain's exit from the European Union and the US presidential election, the fluctuating global economic situation is causing associated uncertainties to prevail in the business environment. In addition, mainland China's rapid economic growth has slowed to a more moderate pace as a result of contracting exports, overcapacity and weak industrial output. These, together with the global warming effect, may gradually lower the regional energy demand. However, the need to mitigate air pollution through clean energy and the demand for housing to support urbanisation will continue to rise.

Hong Kong tourism continues to slow down, possibly due to local currency appreciation and reduced popularity amongst travellers from mainland China. This trend may adversely affect the restaurant and hotel industries, thus lessening their gas consumption.

The mainland China market faces competition from direct sales by dominating upstream gas companies, as well as liquefied natural gas (LNG) and alternative energy suppliers. Volatility of energy prices and government policy changes (whether political, legal, regulatory, environmental or competition-related) may further impact our operations. Therefore, our strategy to cope with such business risks is crucial to the prolonged success of the Group.

Measures taken include remaining prudent in capital investments whilst enhancing productivity and cost effectiveness in all aspects of our operations. In addition, close credit monitoring is also reinforced to manage default risks.

Furthermore, Towngas is continually exploring new applications for gas in Hong Kong and mainland China. Close communication is also maintained with operational partners and government for prominent support.

Reliability of Gas Supply

In Hong Kong, Towngas has secured multiple sources of feedstock for town gas production: natural gas, which is transmitted from the LNG receiving terminal at Shenzhen to our Tai Po gas production plant; naphtha, which is imported from Southeast Asian countries, Australia as well as the Middle East; and treated landfill gas, which is harnessed at local landfill sites.

Interruption to the feedstock supply for natural gas may result from inclement weather causing delay to the LNG tankers. Consequently, Towngas has adopted a diversified strategy for production, wherein the Tai Po plant possesses the capability of switching between natural gas and naphtha for feedstock during the course of town gas production.

In mainland China, LNG storage facilities are in place, with the addition of newly-constructed underground salt caverns for gas storage in the Jintan district of Jiangsu province, which will commence operational trials in 2017.

Reliable gas transmission is achieved through a sophisticated Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls our pressure-regulating stations and network. Comprehensive training is provided to operational staff while asset management systems are also deployed. Contingency plans, with regular practice drills, prepare us for events impacting customers and the public.

Production and Network Safety

It is among our top priorities to prevent any major leakages or explosions in our production and storage facilities, pipelines and networks. In the event that our critical facilities or related infrastructure suffer physical harm from, e.g. third party damage, security threats or extreme weather events such as severe typhoons, flooding or landslides, the resulting safety incidents and interruption to service may have a significant legal, financial and/or reputational impact on the Group.

To mitigate these risks, Towngas conducts regular reviews of all operating procedures and implements strategies tailored to addressing such

risks. Our total quality management system covers all critical production, storage, transmission and distribution facilities, and ensures assets are well managed according to international standards with external certifications. Furthermore, Towngas maintains adequate insurance coverage against any property damage and financial loss.

Information Security

Our business operations rely on information technology systems. Any critical system failure, leakage or loss of sensitive information could have unfavourable material consequences for the Group. Towngas adopts different protective measures to manage data loss, monitor suspicious cyber activities and regularly assess security by having third parties to identify any system enhancement areas. While contingency plans with regular drills are in place to counter system failures, group-wide staff awareness programmes on cyber-security and sensitive information handling are implemented to properly safeguard against increasing information security threats.

Health and Safety

Minimising occupational health and safety risks is crucial to the operation of Towngas. Incidents such as serious accidents or the outbreak of a communicable disease could cause injury, loss of life and operational disruption, resulting in huge recovery costs, litigation and reputational damage.

To mitigate and contain those risks that are either directly or indirectly under our control, we actively encourage the reporting and monitoring of hazards and potential problems at all levels.

Comprehensive guidelines and established measures ensure that the safety performance of Towngas conforms to the highest industry standards, whilst our thorough safety management system, certified for compliance with international standards, is reviewed and updated regularly to ensure that the relevant issues are properly managed. Moreover, to maintain a perpetual, comprehensive and effective culture of safety, Towngas provides staff and contractors alike with systematic professional, technical and safety-related training.