

# RISK FACTORS

As Towngas continues to expand across Hong Kong and mainland China, changes in the global economy, environmental events and other considerations require creative thinking, ground-breaking solutions and the will to succeed under difficult circumstances. To ensure growth, Towngas constantly analyses the risks we face every day, allowing us to prepare for whatever we may face while maintaining our dedication to sustainable and environmentally sound practices.

## Economic Environment

The global economy is in a holding pattern with fragile recovery among developed countries. In particular, China's economy has moved from a rapid growth rate to a more moderate pace as a result of contracting exports, weak industrial output and a sluggish property market, which may lower the regional energy demand. However, the rising need to mitigate air pollution through clean energy will continue.

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

To address these economic uncertainties, Towngas maintains prudence in capital expenditure investments whilst enhancing productivity and cost effectiveness in all aspects of our operations.

## Reliability of Town Gas Supply in Hong Kong

To ensure supply reliability, Towngas has secured multiple sources of feedstock for town gas production: natural gas, which is transmitted through dedicated pipelines connecting the liquefied natural gas (LNG) receiving terminal at Shenzhen and 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, possible problems happening in the LNG production plant in Australia as well as unforeseen damage to the twin submarine pipelines. To address these issues and ensure supply integrity, 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.

Other measures by which we diminish supply risk address potential risk factors within our facilities and operations. Measures include conducting regular maintenance, carrying out continuous upgrades to gas-supply facilities, and administering regular enhancements to preventative measures such as the strategic optimisation of our naphtha inventory. We also maintain a network of vendors across various regions as a means of diversifying risk, with supervision through stringent asset management systems.

Safe network operation is achieved through a sophisticated Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls our network and all pressure-regulating stations. Contingency plans, with regular practice drills, prepare us for events impacting customers and the public.

## Health and Safety Risks

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.

## Global Warming Effect

Global warming and rising temperatures may gradually reduce gas demand for the purposes of water and space heating in winter. In some regions, gas production, transmission and distribution systems may be subject to the effects of extreme weather events, including storms and rising sea levels. To stimulate gas consumption, Towngas is continually exploring new applications for gas and seeking opportunities to expand our market. Recent focus has been on gas cooling and gas dehumidification systems.

Severe typhoons, flooding, landslides resulting from torrential rain, storm surges, and other extreme weather events caused by climate change can also generate negative impact or even lead to the physical destruction of our investments, resulting in huge financial losses. In the event that our gas production facilities, underground pipelines and other related infrastructure suffer physical damage, the resulting gas interruption and service disruption can increase our recovery costs as well as the investment needed to adapt to changing weather patterns. To mitigate these risks, we conduct regular reviews of our operating procedures and implement strategies tailored to addressing such risks.

Furthermore, we also maintain insurance cover against property loss and its consequential loss. Therefore, in the event of major damage to our property, financial loss can be mitigated.