



Risk Factors

In the risks discussed below, we highlight the factors that could have an adverse material effect on the Group's revenues, cash flows, market competitiveness and operations on the Chinese mainland. For further details on how the Group manages its risks, please refer to the "Risk Management and Internal Control" section of our Corporate Governance Report on pages 96 to 98.

Business Environment

In 2023, global economic recovery remains slow. Countries have adopted stricter interest rate hike to combat inflation. According to the International Monetary Fund's "World Economic Outlook" in January 2024, global growth is expected to decelerate from 3.5 per cent in 2022 to 3.1 per cent in 2023 and to remain at 3.1 per cent in 2024. Global inflation rate is forecast to decline steadily, from 8.7 per cent in 2022 to 6.8 per cent in 2023, and 5.8 per cent in 2024. Factors such as the pandemic, the Russia-Ukraine war, increasing geoeconomic fragmentation, tightening monetary policy to reduce inflation, the withdrawal of fiscal support amid a high-debt environment, and extreme weather events are all hindering economic recovery.

The Federal Open Market Committee of the Federal Reserve ("the Fed") kept interest rates unchanged in January 2024. The Hong Kong Monetary Authority expected that the Fed's future interest rate decisions will be dependent on incoming data, the evolving outlook and the balance of risks. When will the Fed begin to cut rates and the interest rate path thereafter remain uncertain, and the high interest rate environment may last for some time.

Affected by geopolitics and an ongoing sluggish property market, the post-pandemic economic rebound in the Chinese mainland fell short of expectations. China's gross domestic product recorded a year-on-year growth of 5.2 per cent in 2023. The Purchasing Managers' Index for the manufacturing sector was 49.0 per cent in December 2023, a decrease of 0.4 percentage point from the previous month. The issuance of RMB1 trillion treasury bonds in the fourth quarter of 2023, as well as the arrangement outlined in the Central Economic Work Conference in December, will help drive domestic demand and further consolidate the momentum of China's economic recovery.

Business challenges faced by the Group include a slowdown in natural gas demand owing to global warming, competition from direct sales by upstream gas companies, as well as suppliers of liquefied natural gas ("LNG") and alternative energy sources. Other threats to our business include the increased number of extreme weather events, rising commodity prices due to logistics interruptions, information security risk and changes in government policy, all of which could also affect our operations.

Our strategy for dealing with business risks continues to be critical for the sustainable growth and success of the Group. We remain prudent in our capital investments and seek ways to improve the productivity and cost-effectiveness of all our operations. Credit monitoring is also reinforced to minimise the risk of customer default.

In 2023, frequent occurrences of extreme weather events were observed globally, with June to August being the hottest three months ever recorded on Earth. Therefore, sustainability remained an important focus for 2023. It is already being positioned as an opportunity for accelerating business growth in the transition to net-zero carbon emissions, and an opportunity to develop renewable energy. Policies supporting this transition could drive investment in green infrastructure, creating a turning point in the fight against climate change.



Risk Factors

We are constantly exploring new gas applications and new business opportunities to achieve business diversification, while maintaining close communication with our operational partners and governments whose support is essential for our business growth.

Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. We have established a gas supply chain department to strategically coordinate natural gas supply and transmit gas flexibly through the national pipeline network for the Group's gas business. A variety of energy sources have also been obtained, including natural gas from Russia, LNG imported directly from overseas, unconventional piped natural gas in China and gas obtained through the reinforcement of our pipeline network interconnections. In addition, we continue to facilitate more efficient gas inventory management and reduce supply bottlenecks during high-demand periods, we have built LNG storage facilities.

To ensure reliable gas transmission, we have a sophisticated Supervisory Control and Data Acquisition ("SCADA") system to monitor and control our pressure-regulating stations and network. We also have a comprehensive staff training programme, asset management systems, and contingency plans with regular practice drills, in preparation for unforeseen events that might affect our customers and the public. Moreover, changes in regulatory requirements for gas reserves applicable to our gas operations on the Chinese mainland are being closely monitored.

Distribution Network Safety

Preventing gas leakages or explosions in our pipelines, networks and storage facilities is a top priority for Towngas Smart Energy. Risks include the possibility of damage to critical facilities or related infrastructure from a third party, a security threat or extreme weather events such as typhoons, floods or landslides. These and other factors affecting the safety of our infrastructure or causing an interruption to service would have a significant legal, financial and/or reputational impact on the Group.

Therefore, to mitigate these risks, Towngas Smart Energy conducts regular reviews of all operating procedures, implements targeted strategies for addressing them, and proactively enhances on-site safety inspections. For example, our Total Quality Management system covers all critical production, storage, transmission and distribution facilities, as well as renewable energy systems. We have established a centralised platform for our gas operations on the Chinese mainland to optimise operational management on safety. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

Financial Liquidity

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants. The Group relies on bank and other borrowings as a significant source of liquidity.



Information Security

Our business operations are dependent on information technology systems that are vulnerable to critical system failure, leakage or loss of sensitive information, which would adversely affect the Group's business. To safeguard our operations against information security threats, we have protective measures to manage data loss and monitor suspicious cyber activities. We also commission third parties to perform security assessments. There are system contingency plans with regular drills. Furthermore, China regulatory requirements relating to information security is under close scrutiny for proper compliance.

Ethics and Integrity

Maintaining strong corporate governance standards and operating ethically are among management's top concerns. Poor ethical behaviour by employees could damage our corporate reputation as well as adversely affect our long-established business relationships with stakeholders, including our customers and suppliers, which may have financial implications. In order to provide an ethical workplace with integrity, we have policies on the standards of behaviour we expect of our employees and provide them with regular training in these policies. We have also established formal channels for reporting suspected cases of fraud and encourage our business partners to follow the same ethical principles that we promote in our Anti-Fraud Policy.

Health and Safety

We recognise the importance of maintaining high levels of occupational health and safety in all our operations. Serious accidents or the outbreak of a communicable disease, among other risks, could cause injury, loss of life and operational disruption that would result in huge recovery costs, litigation or reputational damage.

To mitigate and contain the risks directly or indirectly under our control, we encourage staff at all levels to monitor and report any hazards or potential threats. We also have comprehensive safety guidelines and measures that ensure our safety performance conforms to the highest industry standards. Our safety management system, certified for compliance with international standards, is reviewed and updated regularly. We also emphasise the importance of maintaining a comprehensive and effective safety culture by providing staff and contractors with systematic professional, technical and safety-related training.