



# 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 in mainland China.

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 65 to 68.

## Business Environment

In order to contain the rapid spread of the novel coronavirus (COVID-19) in 2020, widespread global lockdowns were imposed. In many countries, many businesses ranging from factories to restaurants closed, which dealt a heavy blow to the economy. Nearly all types of businesses were seriously affected, but the retail, travel and catering sectors were particularly hard hit.

COVID-19 triggered the deepest global economic recession in decades. While the ultimate outcome of the recession is still uncertain, the pandemic will result in contractions across the vast majority of emerging markets and developing economies. It will also affect labour productivity and industrial output.

Mainland China experienced a very difficult beginning in 2020 but delivered satisfactory results by the end of 2020, after bringing the pandemic under control. The country was the only major economy in the world to register growth for the year, with a GDP growth of 2.3%. Despite continuing Sino-US trade tensions, Mainland China's total export value increased 3.6%, beating the 0.5% increase in 2019. The Brent crude oil price dropped 35% from an average of USD64 per barrel in 2019 to USD42 per barrel in 2020.

Business challenges faced by the Group included a slowdown in gas demand as a result of the global economic downturn, 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 included drops in oil prices and changes in government policy (political, legal, regulatory, environmental or competition related), 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. In line with this strategy, 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.

Furthermore, 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.

In response to the potential impact of COVID-19, a variety of counter measures has been put in place to alleviate the impact on our operations and relieve the operating pressure of our customers. In addition, special measures have been taken to minimise the impact of the pandemic on our workforce, as mentioned later in this section.

## Reliability of Gas Supply

We continue to pursue new sources of piped gas supply. In addition, to increase the diversity of gas suppliers and broaden our access to LNG, we are continuing to evaluate the feasibility of developing LNG receiving and regasification terminal in the coastal regions which will enable us to have access to a range of competitive LNG supplies directly from the international market and help minimise supply risks. Besides, LNG storage facilities are in place to facilitate more efficient gas inventory management and reduce supply bottlenecks during high demand periods. A variety of energy sources have also been obtained, including natural gas supplied to northern and northeastern China from Russia as well as through the reinforcement of pipeline network interconnections.

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, the development of regulatory requirements for gas reserves applicable to our gas operations in mainland China 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 China. 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, flooding 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.

Towngas China conducts regular reviews of all operating procedures to mitigate these risks and implements targeted strategies for addressing them. Our Total Quality Management system, for example, covers all critical transmission, distribution and storage facilities. We also manage our assets according to international standards and external certifications, and maintain insurance coverage against any property damage or financial loss.

## Information Security

Our business operations are dependent on information technology systems that are vulnerable to a critical system failure, leakage or loss of sensitive information, all of which would adversely affect the Group's business. Accordingly, we have put in place protective measures to manage data loss and monitor suspicious cyber activities. We also commission third parties to assess our security standards and identify areas for enhancement. Other security measures include contingency plans with regular drills to counter system failures as well as staff awareness programmes on cybersecurity and sensitive information handling to fully safeguard our operations against growing information security threats. Furthermore, the development of new regulatory requirements in mainland China relating to information security is also 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 potential 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.

In 2020, we put additional measures in place to protect our workforce during the outbreak of COVID-19. These included, but were not limited to, the adoption of a variety of special work arrangements to maintain social distancing and the provision of necessary personal protective equipment to our employees.