# 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 63 to 66.

## Business Environment

In 2018, the global economy continued to strengthen despite heightened risk in the business environment. Key risks to economic growth include the build-up of trade tensions among major economies, increasing geopolitical tensions, greater uncertainty about the direction in which monetary policy adjustments in the developed economies are headed, and high and rising levels of debt in both developed and developing countries. Any of these factors have the potential to affect recent improvements in the global economy.

In mainland China, the economy grew 6.6 per cent in 2018, lower than the 6.9 per cent in 2017. Driven by the strict environmental regulations and enforcement of the government's coal-to-gas policy, natural gas consumption grew significantly in 2018.

Business challenges faced by the Group include 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 drops in oil prices and changes in government policy (political, legal, regulatory, environmental or competition-related) that 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 a customer default.

In addition, we are constantly exploring new gas applications in mainland China, 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. 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.

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.

## 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 (TQM) 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.

## Ethics and Integrity

Maintaining strong corporate governance standards and operating ethically are among management's top priority of 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.