

**APPENDIX 20: RISK MANAGEMENT FRAMEWORK (EXTRACT)**

**1. PURPOSE AND SCOPE**

This document sets out The Hong Kong and China Gas Company Limited (the “Company”) and its subsidiaries’ (collectively, the “Group”) approach to risk management and the control framework within which risks are managed and risk-return tradeoffs are made.

This Board approved Risk Management Framework (the “Framework”):

1. establishes common principles and standards for the management and control of all risks and to inform behavior across the organization;
2. provides shared framework and language to improve awareness of risk management processes; and
3. provides clear accountability and responsibility for risk management.

The core components of the Framework include our risk classifications, risk management policy, risk appetite, risk management structure and risk assessment criteria. It also includes standard definitions of key terms to ensure that we use them consistently.

We recognize that having a clear and coherent strategy and the discipline to adhere to it is the most important foundation for the effective management of risk.

**2. DEFINITION OF RISK**

Risk is the potential for an adverse impact on the interests of the Group.

Inherent risks exist in the business function which we participate in while our risk assessment is based on review of the probability and severity of the adverse events.

The risk mitigating controls we have in place reduce the potential for loss. The combined effects of our inherent risk exposures and the corresponding mitigating controls determine our current risk exposure to the adverse events that may arise. Where the current risk is not tolerable, additional risk reduction measures should be introduced to further reduce the risks.

**Risk Management Policy** is the top level statements of principle that inform our overall approach to our risk culture and risk management. They are designed to reflect the Group’s priorities and are consistent with our vision, mission and values.

**Risk Appetite** is the amount of risk which the Group regards as optimal in order to generate returns, by taking current and reasonably foreseeable external market conditions into account.

## **2. DEFINITION OF RISK (cont'd)**

**Risk Owner** is responsible for ensuring that the risks of hazards are properly managed and controlled. Risk owner is also responsible for periodically reviewing and monitoring the development of the risk scenario and keep track on suitability, progress and effectiveness of all current risk control measures.

## **3. RISK MANAGEMENT POLICY**

Rooted in corporate's vision and mission, the Group strives the best to provide our customers with a safe, reliable supply of energy as well as the caring, competent and efficient service they expect. Meanwhile the Group is also working to pursue sustainable development and caring for the environment, people and the community.

To ensure growth and long-term value for our key stakeholders, the Group considers risk governance among our top priorities and is committed to establishing a robust system of risk identification and management which is central to its ongoing success.

This policy is based on the following principles:

- Supporting risk-informed effective decision-making at both strategic and operational levels within the Group;
- Ensuring a proactive and effective risk management process is in place within all of the Group's processes, after aligning with strategic goals and corporate governance;
- Ensuring risks are identified, assessed and managed with regular monitoring and reporting;
- Mitigating risks where possible and striving for continuous improvement;
- Operating and managing the Group's business in compliance with the prevailing laws, regulations and international best practices;
- Fostering and encouraging a risk-aware culture among all the employees within the Group; and
- Reviewing the risk management system regularly to determine whether appropriate control measures are in place and adequate.

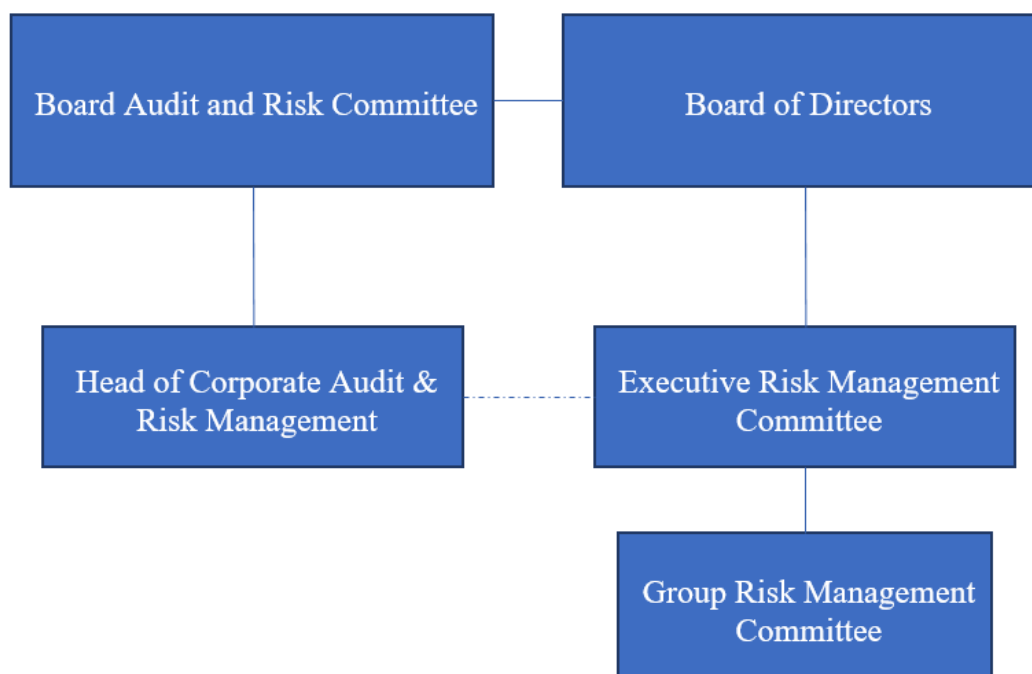
## **4. RISK APPETITE**

To pursue the Group's mission and keep in line with the expectations of our stakeholders, the Group is willing to take reasonable and manageable risks that are consistent with our strategic business drivers and necessary to promote innovation and continued growth but would not expose the Group to the following:

- Major incidents affecting safety and health of our staff, contractors and the general public;
- Loss or failure of infrastructures and operations materially affecting production and supply;
- Material financial loss impacting ability of the Group to carry out our business drivers;
- Incidents leading to profound negative impact on corporate image or reputation;
- Legal actions that are liable for major loss or suspension of operations; and
- Incidents leading to severe impacts on the environment.

## 5. RISK MANAGEMENT STRUCTURE

The risk management structure sets out the mechanism by which authority is exercised, decisions are taken and organization is effectively supervised.



### a. Board Audit and Risk Committee (“BARC”)

- Supports the Board of Directors (the “Board”) for setting the Group’s risk management policy and appetite;
- Supports the Board to oversee key risks and makes recommendations on the Group’s overall risk management and internal controls;
- Provides assurance to the Board that the overall risk management framework is operating effectively; and
- Executive responsibility for risk management is delegated to the Executive Risk Management Committee.

### b. Executive Risk Management Committee (“ERMC”)

- Composes of all Group’s Executive Committee Members;
- Defines the Group’s overall risk management framework and its effective application through its authority delegated by the BARC;
- Oversees the effective implementation of the Framework, including clear assignment of roles and responsibilities to the respective risk owners;
- Responsible for management and control of all risks to ensure the risk exposures remain within the overall risk appetite; and
- Responsible to the Board for running an effective risk management system.

## **5. RISK MANAGEMENT STRUCTURE (cont'd)**

### *c. Group Risk Management Committee (“GRMC”)*

- Composes of risk owners who are key business management;
- Reviews and updates the major risk exposure from the Group’s perspective;
- Monitors the implementation of risk-mitigating controls and other risk management requirements as stated by the regulatory authorities; and
- Reports regularly to ERMC on risk management review results.

### *d. Head of Corporate Audit & Risk Management*

- Supports ERMC on risk management and reports to BARC.

## **6. RISK IDENTIFICATION, RISK MANAGEMENT AND REPORTING PROCESS**

The risk management process is embedded into our day-to-day operation and is an ongoing process carried out by everyone in the organization across all business units.

The GRMC would summarize key risks (taking also emerging risks into account) across all locomotives. The summarized key risks would be reviewed continuously and reassessed adopting the risk assessment criteria as set out in the Framework. Priorities would be given to high and medium risks on implementation of risk mitigating measures. A risk management update that highlights the summarized key risks and action plans would be submitted to and discussed at ERMC at least annually for monitoring purpose while top risks and measures would finally be selected for review by BARC and the Board.

## **7. RISK ASSESSMENT CRITERIA**

The Group assessed each risk by their risk ranking which is the product of its severity (the extent of the damage, loss or harm should it actually occur) and its probability (the chance of a hazard occurring). The combined result of the severity and probability will provide a risk ranking which is to assist recognition of management priorities.

## **8. REVISIONS OF RISK MANAGEMENT FRAMEWORK**

The BARC shall be vested by the Board with the full power to implement, monitor, review, update and revise this policy.

21 August 2018

Remark: Risk Management Framework is prepared in English language. In case of any discrepancies between the Chinese and English versions, the English version shall prevail.