

Risk Factors

The Group's business, financial condition and results of operations may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Industry Trends and Interest Rates

The Group's results are affected by trends in the industries in which it operates, including the ports and related services, property and hotels, retail, infrastructure and energy, and telecommunications industries. While the Group believes that its diverse operations, geographical spread and extensive customer base reduce its exposure to particular industry cycles, its results have in the past been adversely affected by industry trends, for example, declining property values in Hong Kong, lower oil and gas prices, cyclical downturn in the business of shipping lines, decline in the value of securities investments and volatility in interest rates. There can be no assurance that the combination of industry trends and interest rates the Group experiences in the future will not adversely affect its financial condition and results of operations.

In particular, income from the Group's finance and treasury operations is dependent upon the interest rate and currency environment and market conditions, and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial condition and results of operations.

Cashflow and Liquidity

From time to time, the Group accesses the short-term and long-term capital markets to obtain financing. The availability of financing with acceptable terms and conditions are impacted by many factors which, among others, include the Group's credit ratings. Although the Group aims to maintain a capital structure that is appropriate for long-term investment gradings, the actual credit ratings may depart from these levels due to economic circumstances. If the credit ratings of the Group decline, the availability and cost of borrowings could be affected and thereby impact the financial condition and results of operations of the Group.

Currency Fluctuations

The Group reports its results in Hong Kong dollars but its subsidiaries and associated companies in various countries around the world receive revenue and incur expenses in approximately 50 different local currencies. The Group is thereby exposed to the potentially adverse impact of currency fluctuations on translation of the accounts of these subsidiaries and associates and also on the repatriation of earnings, equity investments and loans. Although the Group actively manages its currency exposures, a depreciation or fluctuation of the currencies in which the Group conducts operations relative to the Hong Kong dollar could adversely affect the Group's financial condition and results of operations.

Highly Competitive Markets

The Group's principal business operations face significant competition across the diverse markets in which they operate. New market entrants, the intensification of price competition by existing competitors, product innovation or technological advancement could adversely affect the Group's financial condition and results of operations. Competitive risks faced by the Group include:

- vertical integration of international shipping lines, who are major clients of the Group's port operations. Shipping lines are increasingly investing in seaports and in their own dedicated terminal facilities and, going forward, may not require the use of the Group's terminal facilities;
- an increasing number of developers undertaking property investment and development in the Mainland, which may result in lower returns achieved on the Group's property developments;

- significant competition and pricing pressure from retail competitors in Asia and Europe is expected to continue and may adversely affect the financial performance of the Group's retail operations;
- aggressive tariff plans and customer acquisition strategies by telecommunications competitors may impact the Group's pricing plans, rate of customer growth and retention prospects and hence the revenues it receives as a major provider of telecommunications services; and
- risk of competition from entities providing alternate telecommunications technologies and potential competition in the future from substitute technologies being developed or to be developed.

Strategic Partners

The Group conducts some of its businesses through non-wholly-owned subsidiaries, associated companies and jointly controlled entities in which it shares control (in whole or in part) and has formed strategic alliances with certain leading international companies, government authorities and other strategic partners. There can be no assurance that any of these strategic or business partners will wish to continue their relationships with the Group in the future or that the Group will be able to pursue its stated strategies with respect to its non-wholly-owned subsidiaries, associated companies and jointly controlled entities and the markets in which they operate. Furthermore, other investors in the Group's non-wholly-owned subsidiaries, associated companies and jointly controlled entities may undergo a change of control or financial difficulties which may affect the Group's financial condition and results of operations.

Future Growth

The Group continues to expand the scale and geographical spread of its established businesses through investment in organic growth and selective acquisitions. Success of the Group's acquisitions will depend, among other things, on the ability of the Group to realise the expected synergies, cost savings and growth opportunities upon integration of the acquired businesses. The process of coordination and integration of these new businesses with the existing operations may require significant investment of executive management time and other resources. If the integration process disrupts the existing operations or the Group fails to operate the acquired businesses successfully and thereby not achieve the expected financial benefits, the financial condition and results of operations of the Group could be adversely affected.

The Group has made substantial investments in acquiring 3G licences and developing its 3G networks in Europe, Australia, Israel and Hong Kong. To achieve profitability and the expected return on the Group's investment, the 3G businesses need to continue to increase customer levels and operating margins in order to cover running operating costs, customer acquisition costs and capital expenditure requirements. If the Group is unable to significantly increase customer levels and operating margins, the cost of operating its 3G businesses could increase the total investment and funding requirement for these businesses and impact the financial condition and results of operations of the Group.

As at 31 December 2006, the Group had a total deferred tax asset balance of HK\$17,159 million, of which HK\$16,680 million was attributable to the Group's 3G operations in the UK where, among other things, tax losses can be carried forward indefinitely. The ultimate realisation of these deferred tax assets depends principally on the Group's businesses achieving profitability and generating sufficient taxable profits to utilise these unused tax losses. If there is a significant adverse change in the projected performance and resulting taxable profits of the businesses, some or all of these deferred tax assets may need to be reduced and charged to the profit and loss account, which would have an adverse effect on the Group's financial condition and results of operations. In the UK, the Group can enjoy group relief for tax purposes to utilise the tax losses generated by its 3G operation to offset taxable profits generated by the Group's other operations in the same period.

Impact of National and International Regulations

As a global business, the Group is exposed to local business risks in several different countries which could have a material adverse effect on its financial condition or results of operations. The Group operates in many countries around the world, and one of its strategies is to expand outside its traditional market in Hong Kong. The Group is, and may increasingly become, exposed to different and changing political, social, legal and regulatory requirements at the national or international level, such as those required by the European Union or the World Trade Organisation. These include:

- changes in tariffs and trade barriers;
- competition law requirements, such as restrictions on the Group's ability to own or operate subsidiaries or acquire new businesses in certain jurisdictions;
- delays in the process of obtaining or maintaining licenses, permits and governmental approvals necessary to operate certain businesses, particularly certain of the Group's infrastructure businesses and certain of its property development joint ventures in the Mainland;
- telecommunications regulations; and
- environmental laws and regulations.

Ports are often viewed by governments as critical national assets and in many countries are subject to government control and regulations. Regime changes or sentiment changes in less politically stable countries may affect port concessions granted to foreign international port operations, including the Group's port operations.

The Group's joint venture development projects in the Mainland are dependent on obtaining the approval of various governmental authorities at different levels, receipt of which cannot be assured. Changes in the government policies may affect, among others, the level of investment and funding requirements from the Group in these joint venture development projects and henceforth the overall return attributable to the Group.

Husky Energy's business is subject to environmental laws and regulations common with other companies in the oil and gas industry. In meeting its regulatory obligations, Husky Energy incurs costs for preventative and corrective actions. Changes in these regulations could have an adverse effect on Husky Energy's financial condition and results of operations.

New policies or measures by governments, whether fiscal, regulatory or other competitive changes, may pose a risk to the overall investment return of the Group's infrastructure and energy businesses and may delay or prevent the commercial operation of a business with a resulting loss of revenues and profit.

The operations of the Hongkong Electric Co., Ltd ("Hongkong Electric") are subject to a scheme of control agreement with the Hong Kong Government (the "Scheme of Control"). The original Scheme of Control expired in 1993 and was extended for another 15 years to 31 December 2008. Under the Scheme of Control, shareholders of Hongkong Electric are entitled to a net return of 15% on net fixed assets financed by shareholders' funds and a minimum net return of 5.5% (13.5% permitted return minus a maximum of 8% interest costs) on net fixed assets financed by borrowings. The Scheme of Control is designed to ensure a balance of benefits for both consumers and Hongkong Electric's shareholders. Hongkong Electric has started negotiations with the Hong Kong Government on the post-2008 regulatory regime. There can be no assurance that changes to the Scheme of Control or the terms of a new Scheme of Control or there ceasing to be a Scheme of Control in the future will not adversely affect the Group's financial condition and results of operations.

The Group is only permitted to provide telecommunications services and operate networks under licences granted by competent authorities in individual countries. All of these licences are issued for a limited period of time and may not be renewed, or, if they are renewed, their terms may be changed. These licences contain a number of requirements regarding the way the Group must conduct its businesses, as well as regarding network quality and coverage. Failure to meet these requirements could result in damage awards, fines, penalties, suspensions or other sanctions including, ultimately, revocation of the licences. Decisions by regulators regarding the granting, amendment or renewal of licences to the Group or other parties, and changes in legislation, regulation or government policy affecting the Group's business activities, as well as decisions by regulatory authorities or courts, could adversely affect the Group's financial condition and results of operations.

The Group's overall success as a global business depends, in part, upon its ability to succeed in different economic, social and political conditions. There can be no assurance that the Group will continue to succeed in developing and implementing policies and strategies that are effective in each location where it conducts business.

Hong Kong and the Mainland

A significant portion of the Group's operations are conducted in Hong Kong. As a result, the Group's financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy and the economies in the surrounding region, particularly in the Mainland. There can be no assurance that the Group's financial condition and results of operations will not be adversely affected as a consequence of the exercise of Chinese sovereignty over Hong Kong. In addition, political, social and economic developments in the Mainland and the Mainland's trading relationships with other countries could, from time to time, adversely affect the Hong Kong economy and property market.

The Group currently has investments in many joint venture companies in the Mainland, and could decide to invest considerable capital resources to enter various markets in the Mainland. The value of the Group's investments in the Mainland may be adversely affected by significant political, social or legal uncertainties in the Mainland. The Chinese government has been reforming its economic and political systems since the late 1970s. The continued implementation of reforms may be influenced by internal political, social and economic factors. Changes in economic policy or legal requirements may have adverse effects on the Chinese economy and could discourage foreign investments.

Impact of New Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is pursuing its policy objective of full convergence with the standards and interpretations established by the International Accounting Standards Board. To this end, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") that are effective or available for early adoption for the financial year beginning 1 January 2005. The Group has adopted retrospectively, where required, all the new and revised HKFRS and reflected the effects of these changes in its 2005 audited consolidated financial statements. HKICPA may in the future issue new and revised standards and interpretations. In addition, interpretations on the application of the HKFRS will continue to develop. These factors may require the Group to adopt new accounting policies. The adoption of new accounting policies or new HKFRS could have a significant impact on the Group's financial position and results of operations.

Outbreak of Highly Contagious Disease

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS") in the Mainland, Singapore, Hong Kong, other Asian countries and Canada. The SARS outbreak had a significant adverse impact on the economies of the affected countries. Recently, there have been media reports regarding the spread of the H5N1 virus or "Avian Influenza A" among birds, poultry and in some isolated cases, transmission of Avian Influenza A virus from animals to human beings. There can be no assurance that there will not be another significant global outbreak of a severe communicable disease. If such an outbreak were to occur, it may have a material adverse impact on the operations of the Group and its results of operations may suffer.