

Risk Factors

Many risks and uncertainties can affect the Group's businesses, financial conditions, results of operations or growth prospects leading to a divergence from expected or historical results. Some of the main risk factors are outlined below. These factors are by no means exhaustive or comprehensive, and 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.

Health and Safety

The nature of the Group's operations in Hong Kong and other countries exposes the Group to a wide range of significant health and safety risks.

A major health and safety incident or outbreak of a severe communicable disease which results in fatalities and injuries to members of the public or to employees could have serious consequences. These may include widespread distress and harm, as well as significant disruption to our operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

The Group has in place a Health and Safety Management System to manage its exposure and protect the health and safety of its employees, customers, contractors and the public by conducting its business in a safe and socially responsible manner.

Global Economy and Economic Conditions

The global economy has remained highly uncertain as the European sovereign debt crisis continues to threaten global financial markets and slow the economic recovery in both mature and emerging markets. This leads to unprecedented volatility in stock and commodity markets, high unemployment rates, and a contraction of economic activities in emerging markets as well as major developed economies.

The Group is a global utility company with businesses in Hong Kong, mainland China, Thailand, the United Kingdom, Australia, New Zealand and Canada. The industries in which the Group operates are affected by the economic conditions, population growth, currency environment and interest rate cycles in these countries. Any combination of these factors or continuing adverse economic conditions in these countries may adversely affect the Group's financial position or potential income, asset values and liabilities.

To address the macro-economic volatility around the world, the Group adopts a strategy of seeking steady earnings growth via carefully selected global investments in stable, well-structured international markets, and has built up a robust, diverse portfolio of assets that deliver predictable income streams.

Currency Markets and Interest Rates

The Group's currency exposure mainly arises from its investments outside Hong Kong and from the import of fuel and capital equipment.

The results of the Group are recorded in Hong Kong dollars, however its various subsidiaries, associates and joint ventures may receive revenue and incur expenses in other currencies. Any currency fluctuations on translation of the accounts of these subsidiaries, associates and joint ventures and on the repatriation of earnings, equity investments and loans may therefore have an impact on the Group's performance.

The Group is also exposed to cash flow interest rate risks on its interest-bearing assets and liabilities. The Group manages this exposure in accordance with its treasury policy. Details of the measures and practices adopted to manage currency risks are described in the Financial Review on pages 72 to 73.

Impact of Local, National and International Regulations

Local business risks in the various countries and cities where the Group operates could have a material impact on the financial conditions, results of operations and growth prospects of the businesses in the relevant markets.

With interests around the world, the Group is, and may increasingly become, exposed to different and changing political, social, legal, tax, regulatory, listing and environmental requirements at the local, national and international level. New policies or measures by governments, whether fiscal, tax, regulatory, environmental or other competitive changes, may lead to an increase in additional or unplanned capital expenditure, pose a risk to the overall investment return of the Group's businesses and may delay or prevent the commercial operation of a business with a resulting loss of revenue and profit.

The Group has taken a proactive approach to monitoring changes in government policies and legislation. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement.

Mergers and Acquisitions

The Group has undertaken mergers and acquisitions activities in the past and may continue to do so if there are appropriate acquisition opportunities in the market.

The Group is exposed to any hidden problems, potential liabilities and unresolved disputes that the target company may have. Valuations and analyses of the target company conducted by the Group and by external professionals are based on numerous assumptions, which may become inappropriate over time due to new facts and circumstances. The inability to successfully integrate a target business into the Group may prevent synergies from the acquisition being achieved, leading to increases in costs, time and resources used.

For merger and acquisitions activities undertaken in overseas countries, the Group may also be exposed to different and changing political, social, legal and regulatory requirements at the local, national and international level as well as cultural issues. Some of these mergers and acquisitions activities are subject to regulatory approval in overseas countries with burdensome conditions.

To manage the risks, the Group undertakes a rigorous due diligence and analysis process on operational, financial, legal and risk parameters before undertaking any merger or acquisition activity. The Group seeks growth in segments of expertise within stable, well-structured international markets that either yield stable revenues under government regulation or are safeguarded by long-term power purchase agreements. Once on board, the Group joins the management of our associates to oversee performance and also shares best practice to ensure synergies and maximum efficiencies.

Infrastructure Market

The operations of the Group's electricity business in Hong Kong are subject to a Scheme of Control Agreement ("SCA") with the Hong Kong Special Administrative Region Government, which provides for a permitted level of earnings based principally on the average net fixed assets for electricity generation, transmission and distribution.

The SCA was renewed for a term of ten years commencing 1st January 2009 with an option for the Government to extend the SCA for a further term of five years. The upcoming SCA interim review in 2013, the extension of SCA beyond 2018, the Government's policies on air quality and fuel mix for the medium to long term are all challenges for the Group. The Group has established a mechanism to perform reviews on a regular basis and has proactively engaged with various stakeholders, including the Government, on electricity market and regulatory issues.

The infrastructure investments of the Group (for example, in gas and electricity) in other countries are subject to regulatory pricing and strict adherence must be made to the licence requirements or provisions of relevant legislation, as well as the codes and guidelines established by the relevant regulatory authorities. The Group closely monitors changes in regulations, government policies and markets, and conducts scenario and sensitivity studies to assess the impact of such changes.

Reliability of Supply

The Group and its utilities investments can be exposed to supply interruptions. A severe earthquake, storm, lightning, flood, landslide, fire, sabotage, terrorist attack, failure of critical information and control systems that support the power system, or any other unplanned event could lead to a prolonged and extensive power outage.

The loss of cash flow resulting from the interruption and the cost of recovery from network damage could be considerable and potentially cause a poor customer perception that may also lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the supply networks, which could have an adverse effect on the businesses, financial conditions and results of operations as well as the reputation of the Group.

The Group undertakes regular maintenance and upgrades of its power supply equipment, conducts reliability reviews, commissions sophisticated information technology control systems and has in place an asset management system and fully tested contingency plans to ensure supply reliability standards are maintained.