Risk Factors

Risks and uncertainties can affect the Group's businesses, financial conditions, operational results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these risk factors, the Group remains in touch with our stakeholders with an aim to understand and address their concerns.

These factors are not 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 become material in the future.

Global economy and macro-economic conditions

Worldwide, macro-economic conditions remain uncertain due to the slow recovery from the financial downturn in developed markets despite the expansionary monetary measures taken by their governments; combined with sluggish growth in major emerging markets. This has led to volatility in financial markets, weakened consumer confidence and a contraction of economic activities internationally.

The Group is a global utility company with businesses in Hong Kong, the United Kingdom, Australia, mainland China, Thailand, Canada, New Zealand and the Netherlands. 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, potential income, asset value and liabilities.

To address macro-economic volatility, the Group's strategy is to pursue steady earnings growth via carefully selected investments in stable and well-regulated international markets. On this basis, the Group has built up a robust and 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, the import of fuel and capital equipment, and from its debt issuances in capital markets.

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

The Group is also exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. The Group's treasury policy guides the measures it undertakes to manage this exposure. Details of the Group's current practices to manage currency and interest rate risks are in the Financial Review on pages 60 to 61.

Impact of local, national and international regulations

Local business risks specific to individual countries and cities where the Group operates could have a material impact on its financial conditions, operating results and growth prospects.

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 competition-related, may lead to additional or unplanned increases in capital expenditure, pose a risk to the returns delivered by the Group's businesses and may delay or prevent the commercial operation of an individual business, with a resulting loss in 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 merger and acquisition activities in the past and may continue to do so in future.

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 that emerge. The inability to successfully integrate a target business into the Group may prevent synergies from the acquisition being achieved, leading to increases in cost, time and resources used.

For merger and acquisition activities undertaken outside Hong Kong, 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 merger and acquisition activities are subject to complex regulatory approval processes in their respective countries.

To manage these risks, the Group undertakes a rigorous due diligence and analysis process covering operational, financial, legal and risk parameters before undertaking any merger or acquisition activity. The Group seeks growth in its areas 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. The Group joins the management of new associate companies to guide and oversee performance and 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 Government of the Hong Kong Special Administrative Region, 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 in 2008 for a term of ten years commencing 1st January 2009 with an option for the Government to extend it for a further term of five years. The SCA interim review in 2013, the implementation of the 2014-2018 Development Plan, the extension of SCA beyond 2018, the structure and regulation of the power industry in Hong Kong, the Government's policies on air quality and fuel mix for the medium to long term (including possible direct import of electricity from southern China) are all factors affecting the Group's results and growth. The Group has established a mechanism to review these factors on a regular basis and proactively engages 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 need to adhere strictly 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.

Health and safety

The nature of the Group's operations exposes it to a range of significant health and safety risks.

An accident or the outbreak of a communicable disease resulting in fatalities or injuries to members of the public or to employees could have significant consequences. These may include widespread distress and harm or significant disruption to the Group's operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

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

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. Such an incident could damage customer goodwill and 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 Group's 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 conducts regular maintenance and upgrades of its power supply equipment, undertakes reliability reviews, and operates with sophisticated information technology control and asset management systems. It also has fully tested contingency plans to ensure supply reliability standards are maintained.