Risk Factors

The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. 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, Interest Rates and Currency Markets

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 maritime container shipping, decline in the value of securities investments, and also volatility in interest rates and currency markets. There can be no assurance that the combination of industry trends, and currency and interest rates experienced by the Group 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 short-term and long-term bank and debt capital markets to obtain financing. The availability of financing with acceptable terms and conditions may be impacted by many factors including, among others, liquidity in the global and regional banking and debt capital markets and the Group's credit ratings. Although the Group aims to maintain a capital structure that is appropriate for long-term investment grade ratings, the Group's actual credit ratings could be adversely affected by operating or financial conditions, in which case the availability and cost of debt capital could be affected.

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 48 different local currencies. The Group's subsidiaries and associated companies may also incur debt in these local currencies. The Group is thereby exposed to the potentially adverse impact of currency fluctuations on translation of the accounts and debts of these subsidiaries and associated companies and also on the repatriation of earnings, equity investments and loans. Although the Group actively manages its currency exposures, fluctuation of the currencies in which the Group conducts or finances its operations relative to the Hong Kong dollar could adversely affect the Group's financial condition and results of operations.

Crude Oil and Natural Gas Markets

Husky's results of operations and financial condition are dependent on the prices received for its crude oil and natural gas production. Lower prices for crude oil and natural gas could adversely affect the value and quantity of Husky's oil and gas reserves. Prices for crude oil are based on world supply and demand. Supply and demand can be affected by a number of factors including, but not limited to, actions taken by the Organisation of Petroleum Exporting Countries ("OPEC"), non-OPEC crude oil supply, social conditions in oil producing countries, the occurrence of natural disasters, general and specific economic conditions, prevailing weather patterns and the availability of alternate sources of energy. Husky's natural gas production is located entirely in Western Canada and is, therefore, subject to North American market forces. North American natural gas supply and demand is affected by a number of factors including, but not limited to, the amount of natural gas available to specific market areas either from the well head or from storage facilities, prevailing weather patterns, the price of crude oil, the US and Canadian economies, the occurrence of natural disasters and pipeline restrictions. Volatility in crude oil and natural gas prices 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;
- aggressive tariff plans and customer acquisition strategies by telecommunications competitors may impact the Group's pricing plans, customer acquisition and retention costs, rate of customer growth and retention prospects and hence the revenue it receives as a major provider of telecommunications services;
- risk of competition from disruptive alternate telecommunications or energy technologies and potential competition in the future from substitute telecommunications or energy technologies being developed or to be developed;
- increasing competition in property investment and development in the Mainland, which may result in lower returns achieved on the Group's property businesses; and
- expected continuous significant competition and pricing pressure from retail competitors, which may adversely affect the financial performance of the Group's retail operations.

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. These businesses may require significant investment and the commitment of executive management time and other resources. There can be no assurance that a failure to operate the acquired businesses successfully and thereby not achieve the expected financial benefits, may not adversely affect the Group's financial condition and results of operations.

The Group has made substantial investments in acquiring 3G licences and developing its 3G businesses in Europe, Australia, Hong Kong and Macau. In order to grow its customer base, the Group has made significant investments in customer acquisition costs in each of the **3** Group's markets. The Group may need to incur more capital expenditure to expand or improve its 3G networks and incur more customer acquisition and retention costs to build the **3** Group's customer base. 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 Group's financial condition and results of operations.

Future Growth (continued)

As at 31 December 2009, the Group had a total deferred tax asset balance of HK$14,657 million, of which HK$13,054 million was attributable to the Group's 3G operations in the United Kingdom. The ultimate realisation of these deferred tax assets depends principally on the Group's UK businesses achieving profitability and generating sufficient taxable profits to utilise these UK shared unused tax losses. In the United Kingdom, the Group enjoys the availability of group relief in relation to taxation losses generated by its 3G operations to offset taxable profits from its other established businesses in the same period. In addition, in the UK taxation losses can be carried forward indefinitely. If there is a significant adverse change in the projected performance and resulting taxable profits of the Group's UK businesses, some or all of these deferred tax assets may need to be reduced and charged to the income statement, which would have an adverse effect on the Group's financial condition and results of operations.

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 an 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 ("EU") or the World Trade Organisation.
These include:

- changes in tariffs and trade barriers;
- changes in taxation regulations and interpretations;
- competition (anti-trust) law applicable to all of the Group's activities, including the regulation of monopolies and conduct of dominant firms, the prohibition of anti-competitive agreements and practices, and law requiring the approval of certain mergers, acquisitions and joint ventures which could restrict the Group's ability to own or operate subsidiaries or acquire new businesses in certain jurisdictions;
- delays in the process of obtaining or maintaining licences, permits and governmental approvals necessary to operate certain businesses, particularly in certain of the Group's infrastructure businesses and certain of its property development joint ventures in the Mainland;
- telecommunications and broadcasting regulations; and
- environmental laws and regulations.

There can be no assurance that the European institutions and/or the regulatory authorities of the EU member states in which the **3** Group operates will not make decisions or interpret and implement the EU or national regulations in a manner that does not adversely affect the Group's financial condition and results of operations in the future.

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 property 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 governmental and economic policies may affect, among others, the level of investment and funding requirements from the Group in these joint venture property development projects and henceforth the overall return attributable to the Group.

Husky's business is subject to environmental laws and regulations similar to other companies in the oil and gas industry. In meeting its regulatory obligations, Husky incurs costs for preventative and corrective actions. There can be no assurance that changes to such regulations (including but not limited to the utilisation of greenhouse gas emissions) will not adversely affect Husky's, and therefore the Group'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 revenue and profit.

The Group is only permitted to provide telecommunications services and operate networks under licences granted by competent authorities in individual countries. Certain of these licences have historically been issued for a set duration and renewed, however renewal may not be guaranteed, or, if the licences are renewed, their terms and conditions may be changed. Going forward the Group's 3G licences in the United Kingdom and Italy effectively provide for perpetual renewal rights. All of these licences contain regulatory requirements and carrier obligations 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 (including spectrum allocation to other parties or relaxation of constraints with respect to the technology or specific service that may be deployed in the given spectrum band), could result in the Group facing unforeseen competition, and 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.

Impact of New Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is continuing its policy of issuing Hong Kong Financial Reporting Standards ("HKFRS") and interpretations which fully converge with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Commission of the European Communities has issued a report confirming that Hong Kong is identified as a region which has fully adopted or implemented IFRS. HKICPA has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new HKFRS will not have a significant impact on the Group's financial position and results of operations.

Impact of regulatory reviews

HWL and some of its subsidiaries and associated companies are listed on various stock exchanges around the world and all are subject to regulatory reviews of their various filings by the respective stock exchange's regulatory bodies. While all listed companies endeavour to comply with all regulatory requirements of the various stock exchanges and other authorities in the countries in which they operate, and obtain independent professional advice as appropriate, there can be no assurance that the regulatory bodies' review will not result in a disagreement with the companies' interpretations and judgements and that any required actions mandated by the authorities will not have a significant impact on the Group's reported 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. Since then, 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, and also since May 2009 the spread of H1N1 virus or "Swine Flu" among humans. 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 an adverse impact on the Group's financial position and results of operations.

Natural Disasters

Some of the Group's assets and projects, and many of the Group's customers and suppliers are located in areas at risk of damage from earthquakes, floods and similar events and the occurrence of any of these events could disrupt the Group's business and materially and adversely affect the Group's financial condition and results of operations. For example, the Mainland experienced a severe earthquake that caused significant property damage and loss of life in 2008.

Although the Group has not experienced any major structural damage to property development projects or ports or other facilities from earthquakes to date, there can be no assurance that future earthquakes or other natural disasters will not occur and result in major damage to the Group's property development projects or ports or other facilities or on the general supporting infrastructure facilities in the vicinity, which could adversely effect the Group's financial condition and results of operations.