Risk Factors

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results. Such 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.

Economic Environment and Conditions

The global economy remains uncertain since the global financial crisis in 2008. The European sovereign debt crisis that followed, the slowdown of the Mainland economy and the timing of US monetary normalisation continue to pose risks to the global recovery. The slowdown in world economic growth could lead to economic contractions in certain markets, commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. The Cheung Kong Group has diversified operations spanning over 50 countries around the world. Any adverse economic conditions in those countries and places in which the Group operates may potentially impact on the Group's businesses, financial condition, results of operations or growth prospects.

Property Developments

There exist general risks inherent in property development and in the ownership of properties, including, among other things, rising construction costs, risks that financing for developments may not be available on favourable terms, that construction may not be completed on schedule or within budget especially due to issues such as aging workforce, labour shortage, skills mismatch and succession gap as well as the escalation of material prices, that long-term financing may not be available on completion of construction, that developed properties may not be sold or leased on profitable terms, that there will be intense competition from other developers or property owners which may lead to vacant properties or an inability to sell or rent properties on favourable terms, that purchasers or tenants may default, that properties held for rental purpose will need to be renovated, repaired and re-let on a periodic basis, that it may not be possible to renew leases or re-let spaces when existing leases expire, and that the property market conditions are subject to changes in environmental laws and regulations and zoning laws and other governmental rules and fiscal policies. Property values and rental values are also affected by factors such as political developments, governmental regulations and changes in planning or tax laws, levels of interest rates and consumer prices, the overall supply of properties, and the imposition of governmental measures to dampen property prices. Taxes, levies, stamp duties and similar taxes or charges payable for the sale or transfer of residential properties may be imposed by the relevant authorities from time to time.

Investment in property is generally illiquid, which may limit the ability of the Group in timely realising property assets into cash.

Supply of land is subject to the development of land policies in different markets. Acquisition of land in Hong Kong, the Mainland and other overseas markets may be subject to various regulatory requirements or restrictions. Future growth prospects of the property development business are therefore affected by the availability and price levels of prime sites in Hong Kong, the Mainland and other overseas markets.

Properties could suffer physical damage by fire or other causes and the Group may be exposed to any potential risks associated with public liability claims, resulting in losses (including loss of rent and value of properties) which may not be fully compensated for by insurance proceeds, and such events may in turn affect the Group's financial condition or results of operations. There is also the possibility of other losses for which the Group may not obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, payment of compensation may be required and this may affect the returns on capital invested in that property. The Group would also remain liable for any debt or other financial obligation, such as committed capital expenditures, related to that property. In addition, insurance policies will have to be renewed every year and acceptable terms for coverage will have to be negotiated, thus exposing the Group to the volatility of the insurance markets, including the possibility of rate increases. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Industry Trends and Interest Rates

The trends in the industries in which the Group operates, including the property market sentiment and conditions, property values in Hong Kong, the commercial airline industry market conditions, the mark to market value of investment securities, the currency environment and interest rates cycles, may pose significant risks to the Group's businesses, financial condition, results of operations or growth prospects. There can be no assurance that the combination of industry trends and interest rates the Group experiences in the future will not adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

In particular, income from finance and treasury operations is dependent upon the capital markets, interest rate and currency environment, and the worldwide economic and market conditions, and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's businesses, financial condition, results of operations or growth prospects. The volatility in the financial markets may also adversely affect the income to be derived by the Group from its finance and treasury activities.

Highly Competitive Markets

The Group's principal business operations face significant competition across the markets in which they operate. New market entrants and intensified price competition among existing market players could adversely affect the Group's businesses, financial condition, results of operations or growth prospects. Competition risks faced by the Group include (a) an increasing number of developers undertaking property investment and development in Hong Kong, the Mainland and in other overseas markets, which may affect the market share and returns of the Group; and (b) significant competition and pricing pressure from other developers which may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Infrastructure Market

Some of the investments owned by the Group (for example, water and gas) are subject to regulatory pricing and strict adherence must be made with the licence requirements, codes and guidelines established by the relevant regulatory authorities from time to time. Failure to comply with these licence requirements, codes or guidelines may lead to penalties, or, in extreme circumstances, amendment, suspension or cancellation of the relevant licences by the authorities. Infrastructure projects are capital intensive, only a few major players emerged in the market and there is no assurance of any ready buyer on disposal.

The distribution and transmission networks of the Group's utilities investments are also exposed to supply interruptions. If a severe earthquake, storm, flood, fire, sabotage, terrorist attack or other unplanned event interrupts service, the loss of cash flow resulting from the interruption and the cost of recovery from network damage could be considerable and potentially cause poor customer perception and may also lead to claims and litigation. Moreover, some losses from events such as terrorist attacks may not be recoverable. Increases in the number or duration of supply interruptions could result in material increases in the costs associated with the operation of the distribution and transmission networks, which could have a material adverse effect on the Group's businesses, financial condition, results of operations or growth prospects.

The Aviation Industry

Deterioration in the Financial Condition of the Commercial Airline Industry

The financial condition of the commercial airline industry is of particular importance to the return prospect of the Group's investment in this sector because customers of the Group's aircraft investment are all commercial airline operators. The risk factors that affect the financial condition of the commercial airline industry generally may have an impact on the Group's businesses, financial condition, results of operations or growth prospects. The Group may experience (a) downward pressure on demand for the aircraft in the Group's fleet and reduced market lease rates and effective lease margins, as well as reduced aircraft values; (b) a higher incidence of lessee defaults, lease restructurings, repossessions and airline bankruptcies and restructurings, resulting in lower lease rates and effective margins and/or increased costs due to maintenance, insurance, storage and legal costs associated with the repossession, as well as lost revenue for the time the aircraft are off lease, increased aircraft transition costs to new lessees (including refurbishment and modification of aircraft to fit the specifications of new lessees) and possibly lower lease rates from the new lessees; and (c) an inability to lease aircraft on commercially acceptable terms, resulting in lower lease margins due to aircraft not earning revenue and resulting in storage, insurance and maintenance costs. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Cyclicality of Supply and Demand for Aircraft

The commercial jet aircraft leasing and sales industry has periodically experienced cycles of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft in the market is likely to depress aircraft lease rates and values of that type of aircraft.

The supply and demand of aircraft is affected by various cyclical factors that are not under the Group's control, including (a) passenger air travel demand; (b) fuel costs and general economic condition; (c) geopolitical events; (d) outbreaks of communicable, pandemic diseases and natural disasters; (e) governmental regulation, including new Airworthiness Directives and environmental and safety regulations; (f) interest rates; (g) airline restructurings and bankruptcies; (h) cancellation or deferral of orders for aircraft; (i) delays in delivery by manufacturers; (j) the cost and availability of credit; (k) manufacturer production levels and technological innovation, including introduction of new generation aircraft; (l) aircraft types; (m) retirement and obsolescence of aircraft models; (n) manufacturers merging or exiting the industry or ceasing to produce aircraft or engine types; (o) accuracy of estimates relating to future supply and demand made by manufacturers and airlines; (p) re-introduction into service of aircraft previously in storage; and (q) airport and air traffic control infrastructure constraints.

These factors may produce sharp decreases or increases in aircraft values and lease rates, and may result in lease defaults and may prevent the aircraft from being re-leased or, where applicable, sold on satisfactory terms. This would have an adverse effect on the Group's aircraft leasing's operations and cash flow and could adversely affect its businesses, financial condition, results of operations or growth prospects.

Airline Reorganisations or Liquidations

Any bankruptcies, liquidations, consolidations or reorganisations of airlines may result in large numbers of aircraft becoming available for lease or purchase at reduced lease values or acquisition prices and reduce the number of potential lessees and operators of particular models of aircraft, any of which could result in inflated supply levels and consequently decreased aircraft values for such models and lease rates in general. Bankruptcies and reorganisations may lead to the grounding of significant numbers of aircraft, rejection or other termination of leases and negotiated reductions in aircraft lease rentals, with the effect of depressing aircraft market values. In addition, requests for labor concessions may result in significant labor disputes which could lead to strikes, slowdowns or may otherwise adversely affect labor relations, thereby worsening the financial condition of the airline industry and further reducing aircraft values and lease rates.

Additionally reorganisations or liquidations by airlines under applicable bankruptcy or reorganisation laws or further rejection or abandonment of aircraft and aircraft leases by airlines in bankruptcy proceedings may depress aircraft values and aircraft lease rates. A significant number of grounded aircraft and lower market values would adversely affect the Group's ability to re-lease the aircraft at favourable rates or sell the aircraft at favorable prices. Further, if a significant number of the Group's leases are rejected by an airline customer in a reorganisation, the Group may be unable to re-lease such aircraft in a timely manner on commercially reasonable terms. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Effects of Fuel Costs

Fuel costs represent a major expense to companies operating within the airline industry. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events, natural disasters, regulatory changes and currency exchange rates. The current low oil prices may or may not continue and, should oil prices increase, fuel costs will increase. As a result, fuel prices are not within the control of the lessees and significant changes in fuel prices could materially and adversely affect their operating results. For instance, the ongoing unrest in North Africa and the Middle East has generated uncertainty regarding the predictability of the world's future oil supply, which initially led to significant increases in fuel costs. If this unrest continues, fuel costs may rise significantly. Other events can also significantly affect fuel availability and prices, including natural disasters, decisions by the Organisation of the Petroleum Exporting Countries regarding its members' oil output, and the increase in global demand for fuel from countries such as the Mainland.

Higher fuel costs may have a material adverse impact on airline profitability (including the profitability of the initial lessees). Due to the competitive nature of the airline industry, airlines may not be able to pass on increases in fuel prices to their customers by increasing fares or may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. If fuel prices increase due to adverse supply and demand conditions, future terrorist attacks, acts of war, armed hostilities or natural disasters or for any other reason, the initial lessees may incur higher costs and generate lower net revenues, which would adversely impact their financial positions. Consequently, these conditions may (a) affect the initial lessees' ability to make rental and other lease payments, (b) result in lease restructurings and aircraft repossessions, (c) increase the Group's costs of servicing and marketing the aircraft, (d) impair the Group's ability to re-lease the aircraft or re-lease or otherwise dispose of the aircraft on a timely basis and/or at favorable rates and (e) reduce the value receivable for the aircraft upon any disposition. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Dependence on Aircraft and Engine Manufacturers

The supply of large passenger jet aircraft is dominated by a small number of airframe manufacturers, and a limited number of engine manufacturers. The Group therefore depends on these manufacturers' success in remaining financially stable, producing aircraft and related components that meet technical and regulatory requirements and airlines' demands and providing ongoing and reliable customer support. Disruptions in the capital markets may impair the ability of manufacturers to finance their operations or increase the costs of such financing, which could adversely affect their ability to meet airlines' demands or provide customer support. Further, competition between the manufacturers for market share is escalating and may result in deep discounting for certain aircraft types, which may have a negative impact on the Group's ability to compete effectively. Should the manufacturers fail to respond appropriately to market changes, or to fulfill their contractual obligations or to produce aircraft or components that meet technical or regulatory requirements, the Group may experience (a) an inability to acquire aircraft components on terms that will allow the Group to properly maintain and lease aircraft to customers at its anticipated profit levels, resulting in lower growth rates or a contraction of the Group's fleet; (b) poor customer support from the manufacturers of aircraft and components resulting in reduced demand for a particular manufacturer's product, creating downward pressure on demand for those aircraft and components of those types in the Group's fleet and reduced market lease rates for aircraft of those types; (c) a reduction in the Group's competitiveness due to deep discounting by the manufacturers, which may lead to reduced market lease rates and may adversely affect the value of the Group's portfolio and the Group's ability to remarket or sell some of the aircraft; and (d) poor customer support from the manufacturers of associated components resulting in disruption to the lessees' operations and consequent loss of revenue for the lessees. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Effects of Environmental Regulation

Many aspects of commercial airlines' operations are subject to increasingly stringent federal, state, local and foreign laws protecting the environment, including the imposition of additional taxes on airlines or their passengers. Regulatory actions that may be taken in the future by the United States government, other foreign governments or the International Civil Aviation Organisation to address concerns about climate change, noise and emissions from the aviation sector are unknown at this time. Such factors may have a materially adverse impact on the airline industry, particularly if regulators were to conclude that emissions from commercial aircraft cause significant harm to the upper atmosphere or have a greater impact on climate change. Potential actions may include the imposition of requirements to purchase emission offsets or credits, which could require participation in emission trading, substantial taxes on emissions and growth restrictions on airline operations, among other potential regulatory actions. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Effects of Terrorist Attacks, War or Armed Hostilities and Other Geopolitical Conditions

As a result of the 11th September, 2001 terrorist attacks in the United States and subsequent terrorist attacks elsewhere, airlines have increased security restrictions and increased airline costs for aircraft insurance and enhanced security measures. In addition, airlines continue to face increased difficulties in acquiring war risk and other insurance at reasonable costs.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry and concerns about geopolitical conditions, war or armed hostilities and further terrorist attacks could continue to negatively affect airlines (including the initial lessees) for the foreseeable future depending upon various factors including (a) higher costs to airlines due to the increased security measures; (b) losses in passenger revenue due to a decrease in travel; (c) the price and availability of jet fuel and the ability to obtain fuel hedges under current market conditions; (d) higher financing costs and difficulty in raising financing; (e) significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available or may exclude events such as radioactive dirty bombs, bio-hazardous materials and electromagnetic pulsing, which may damage or destroy aircraft; (f) the ability of airlines to reduce their operating costs and conserve financial resources; and (g) special charges recognised by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the grounding of aircraft as a result of terrorist attacks. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Currency Fluctuations

The results of the Group are recorded in Hong Kong dollars but 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 also on the repatriation of earnings, equity investments and loans may therefore impact on the Group's businesses, financial condition, results of operations or growth prospects. Although currency exposures have been managed by the Group, 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 businesses, financial condition, results of operations or growth prospects.

Strategic Partners

Some of the businesses of the Group are conducted through non wholly-owned subsidiaries, associates and joint ventures in which the Group shares control (in whole or in part) and strategic alliances have been formed by the Group with other strategic or business partners. There can be no assurance that any of these strategic or business partners will 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, associates and joint ventures and the markets in which they operate. Furthermore, the joint venture partners may (a) have economic or business interests or goals that are inconsistent with those of the Group; (b) take actions contrary to the Group's policies or objectives; (c) undergo a change of control; (d) experience financial and other difficulties; or (e) be unable or unwilling to fulfil their obligations under the joint ventures, which may affect the Group's businesses, financial condition, results of operations or growth prospects.

Impact of Local, National and International Regulations

The local business risks in different countries and cities in which the Group operates could have a material impact on the businesses, financial condition, results of operations or growth prospects. The Group has investments in different countries and cities around the world and the Group is, and may increasingly become, exposed to different and changing political, social, legal, tax, regulatory and environmental requirements at the local, national or international level. Also, new policies or measures by governments, whether fiscal, tax, regulatory, environmental or other competitive changes, may lead to an increase in additional or unplanned operating expenses and capital expenditures, increase in market capacity, reduction in government subsidies, 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 resulting loss of revenue and profit, which may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Impact of New Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has from time to time issued new and revised Hong Kong Financial Reporting Standards ("HKFRS"). As accounting standards continue to develop, the HKICPA may in the future issue more new and revised HKFRS and the Group may be required to adopt new accounting policies which might or could have a significant impact on the Group's businesses, financial condition, results of operations or growth prospects.

Outbreak of Highly Contagious Disease

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong, the Mainland and other places. The SARS outbreak had a significant adverse impact on the economies of the affected areas. The spread of Influenza and other communicable diseases from time to time have also affected many areas of the world. The latest outbreak of the Ebola virus disease also poses a significant threat to global industries, particularly the aviation industry as it may lead to a possible sharp reduction in passenger bookings, cancellation of flights and employee layoffs under critical circumstances, which may in turn adversely affect the financial performance of the Group's aircraft investment. Additional outbreaks of other epidemic diseases could negatively affect passenger demand for air travel, the aviation industry and ultimately the operations, results of operation and financial performance of the Group. Any such factors may adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Connected Transactions

Hutchison Whampoa Limited ("Hutchison") is also listed on the Stock Exchange. Although the Group believes that its relationship with Hutchison provides it with significant business advantages, the relationship results in various connected transactions under the Listing Rules and accordingly any transactions entered into between the Group and Hutchison, its subsidiaries or associates are connected transactions, which, unless one of the exemptions is available, will be subject to compliance with the applicable requirements of the Listing Rules, including the issuance of announcements, the obtaining of independent shareholders' approval at general meetings and disclosure in annual reports and accounts. Independent shareholders' approval requirements may also lead to unpredictable outcomes causing disruptions to as well as increase the risks of the Group's business activities. Independent shareholders may also take actions that are in conflict with the interests of the Group.

The Group's Financial Condition or Results of Operations are Affected by Those of the Hutchison Whampoa Group

The Group owns approximately 49.97% of the Hutchison Whampoa Group which operates in over 50 countries around the world and hence its financial condition and results of operations may be affected by the local market conditions and the economies of the places where business operations are located as well as any litigation against them. The Group's financial condition and results of operations are materially affected by the financial condition and results of operations of the Hutchison Whampoa Group. In addition, the core businesses of the Hutchison Whampoa Group are different from those of the Group, and as a result, the Group is indirectly exposed to the risks the Hutchison Whampoa Group is facing.

Natural Disasters

Some of the Group's assets and businesses, 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 businesses, financial condition, results of operations or growth prospects. For example, in recent years, a number of countries including the Mainland, New Zealand and Japan experienced severe earthquakes that caused significant property damage and loss of life. Parts of Australia have also experienced drought conditions.

Although the Group has not experienced any major structural damage to its property development projects or assets or 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 assets or facilities or on the general supporting infrastructure facilities in the vicinity, which could adversely affect the Group's businesses, financial condition, results of operations or growth prospects.

Past Performance and Forward-Looking Statements

The performance and the results of operations of the Group during the past years as contained in this Annual Report are historical in nature and past performance can be no guarantee of future results of the Group. This Annual Report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) any liability in the event that any of the forward-looking statements or opinions does not materialise or turns out to be incorrect.


CHEUNG KONG (HOLDINGS)


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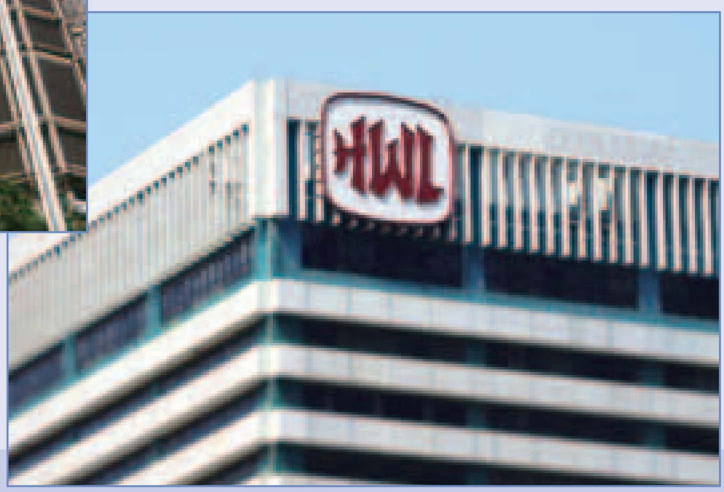
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