

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.

Global Economy

As a global business, the Group is exposed to the development of the global economy as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the global economy or the general state of a specific market or economy. Any significant decrease in the level of economic growth in the global or regional or a specific economy could adversely affect the Group's financial condition or results of operations.

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, retail, infrastructure, 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, lower oil and gas prices, cyclical downturn in the business of shipping lines, declines in retail consumer spending, 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, the 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 which include, 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 may depart from these levels due to economic circumstances. If the liquidity in the capital markets declines and/or credit ratings of the Group decline, the availability and cost of borrowings could be affected and thereby impact the Group's financial condition and results of operations.

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 46 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, depreciation or fluctuation of the currencies in which the Group conducts 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 Energy's results of operations and financial condition are dependent on the prices received for its refined products, crude oil, natural gas liquids ("NGL") and natural gas production. Lower prices for crude oil, NGL and natural gas could adversely affect the value and quantity of Husky Energy's oil and gas reserves. Prices for refined products and crude oil are based on world supply and demand. The imbalance in the supply and demand can be affected by a number of factors including, but not limited to, the growth in U.S. unconventional and the Organisation of the Petroleum Exporting Countries (OPEC) production, lower economic growth forecasts from emerging markets and corresponding growth in global crude oil inventories, which resulted in the prolonged low crude oil benchmarks in 2015. Husky Energy's natural gas production is currently located in Western Canada and the Asia Pacific Region. Western Canada is subject to North American fundamentals since virtually all natural gas production in North America is consumed by North American customers, predominantly in the United States. In the Asia Pacific Region, natural gas is sold to a specific buyer with long-term contracts. For the Liwan 3-1 gas field, a price profile has been fixed for five years and will then be linked to local benchmark pricing for the years following subject to a fixed floor and ceiling. For Liuhua 34-2, the price is fixed with a single escalation step during the contract delivery period. Volatility in refined products, 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:

- The 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;
- The expected continuous significant competition and pricing pressure from retail competitors, which may adversely affect the financial performance of the Group's retail operations;
- The new market entrants and intensified price competition among existing market players of the Group's waste management and off-airport car park businesses, which could adversely affect the financial performance of the Group's waste management and off-airport car park operations;
- The introduction of new aircraft models brought about by technological innovation and cyclical downturn in the airline industry could adversely affect the demand for and value of aircraft in the Group's aircraft leasing business;
- The risk of competition with respect to gaining access to the resources required to increase oil and gas reserves and production and gain access to markets. The Group's ability to successfully complete development projects could be adversely affected if it is unable to acquire economic supplies and services due to competition;
- The 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; and
- The 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 or if the Group fails to develop, or obtain timely access to new technologies and equipment.

Retail Product Liability

The Group's retail operations may be subject to product liability claims if people are harmed by the products our retail operations sell. Our customers count on us to provide them with safe products. Concerns regarding the safety of food and non-food products that we source from our wide variety of suppliers could cause shoppers to avoid purchasing certain products from us, even if the basis for the concern is outside of our control. Claims, recalls or actions could be based on allegations that, among other things, the products sold by our retail operations are misbranded, contain contaminants or impermissible ingredients, provide inadequate instructions regarding their use or misuse, include inadequate warnings concerning flammability or interactions with other substances or in the case of any handset and other electrical devices that we sell, are not fit for purpose or pose a safety hazard. While we have maintained product liability insurance coverage in amounts and with deductibles that we believe are prudent, there can be no assurance that the coverage will be applicable and adequate to cover all possible adverse outcomes of claims and legal proceedings against us. Any material shortfall in coverage may have an adverse impact on our retail operations' results of operations. Further, any lost confidence on the part of our customers would be difficult and costly to re-establish. As such, any material issue regarding the safety of any food and non-food items we sell, regardless of the cause, could adversely affect our retail operations' results of operations.

Strategic Partners

The Group conducts some of its businesses through non-wholly-owned subsidiaries, associated companies and joint ventures 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 joint ventures and the markets in which they operate. Furthermore, other investors in the Group's non-wholly-owned subsidiaries, associated companies and joint ventures may undergo a change of control or financial difficulties which may affect the Group's financial condition and results of operations.

Risk Factors

Future Growth

The Group continues to cautiously expand the scale and geographical spread of its businesses through investment in organic growth, as well as undertaking selective mergers, acquisitions and disposal activities if appropriate opportunities in the market arise. Success of the Group's mergers and 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 merged or 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 merged or acquired businesses successfully or a longer than projected period to realise the expected synergies, will not adversely affect the Group's financial condition and results of operations.

The Group has made substantial investments in acquiring 3G and 4G (LTE) licences, developing its mobile telecommunications networks and growing its customer bases in Europe, Australia, Hong Kong and Macau. The Group may need to incur more capital expenditure to expand, improve or upgrade its mobile telecommunications networks, acquire additional licence spectrum, and incur more customer acquisition and retention costs to expand its mobile telecommunications businesses. There can be no assurance that any additional investments will further increase customer levels and operating margins, and consequently, additional investments may adversely impact the Group's financial condition and results of operations.

As at 31 December 2015, the Group had a total deferred tax asset balance of HK\$20,986 million, of which HK\$19,001 million were attributable to the Group's mobile telecommunications operations in the UK, Ireland, Austria, Sweden and Denmark. The ultimate realisation of these deferred tax assets depends principally on these businesses maintaining profitability and generating sufficient taxable profits to utilise the underlying unused tax losses. In the UK, Ireland, Austria, Sweden and Denmark, taxation losses can be carried forward indefinitely. In addition, in the UK, the Group enjoys the availability of group relief in relation to taxation losses generated by its mobile telecommunications operations to offset taxable profits from its other businesses in the same period. If there is a significant adverse change in the projected performance and resulting cashflow projections of these businesses, some or all of these deferred tax assets may need to be reduced and charged to the income statement, which could 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 has continued to expand outside its traditional market of 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;
- telecommunications (including but not limited to spectrum auction) 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 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.

Certain infrastructure investments of the Group are subject to regulatory pricing and strict adherence must be made to the licence requirements, codes and guidelines established by the relevant regulatory authorities from time to time. Failure to comply with these licence requirements, codes of guidelines may lead to penalties, or, in extreme circumstances, amendment, suspension or cancellation of the relevant licences by the authorities.

Impact of National and International Regulations *(continued)*

Husky Energy's business is subject to environmental regulations similar to other companies in the oil and gas industry. Compliance with such legislation can require significant capital expenditures and operating costs, and failure to comply may result in imposition of fines and penalties and liability for clean-up costs and damages. There can be no assurance that changes to such regulations (including but not limited to environmental legislation requiring reductions in emissions) will not adversely affect Husky Energy'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 regulatory authorities in individual countries. All of these licences have historically been issued for fixed terms and subsequently renewed; however, further renewals may not be guaranteed, or the terms and conditions of these licences may be changed upon renewal. Due to changes in legislation, the Group's mobile telecommunications licences in the UK 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.

Accounting

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is continuing its policy of issuing Hong Kong Financial Reporting Standards ("HKFRS") and interpretations that fully converge with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). HKICPA has issued and may in the future issue more new and revised standards and interpretations, including those required to conform to standards, amendments 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 condition and results of operations.

Impact of Regulatory Reviews

The Group 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 Avian Influenza among birds, poultry and in some cases, transmission of Avian Influenza virus from animals to human beings. More recently, since December 2013, an epidemic of the Ebola virus disease has impacted parts of the West Africa and since 2015, the Zika virus has been linked to abnormal brain development in fetuses and miscarriages. These diseases have led to travel warnings by health organisations for people to certain locations. There is no assurance that there will not be another significant global outbreak of a severe communicable disease, and if the Ebola virus, Zika virus or other highly contagious diseases spread to the countries in which we operate, or are not satisfactorily contained, it may have an adverse impact on the Group's financial condition and results of operations.

Risk Factors

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, typhoons and other major natural disasters and the occurrence of any of these events could disrupt the Group's business materially and adversely affect the Group's financial condition and results of operations.

Although the Group has not experienced any major structural damage to infrastructure 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 infrastructure projects, ports or other facilities, or on the general supporting infrastructure facilities in the vicinity, which could adversely affect the Group's financial condition and results of operations.

Political Unrest and Terrorist Attacks

The Group has presence in over 50 countries around the world. There can be no assurance that all of these countries will remain stable politically or immune to terrorist attacks. Between 2010 and 2012, a number of Middle Eastern and North African countries were swept by a wave of demonstrations and protests known as Arab Spring and many of the ruling parties were forced from power. The violent demonstrations resulted in political and economic upheaval in the countries that were affected. In 2015, a series of terrorist attacks occurred in Paris, France that resulted in the deaths of 130 people and led to the country declaring a state of emergency and some nearby countries declaring lockdowns. There is no assurance that there will not be any political unrest or immunity from terrorist attacks in the countries in which we operate, and if these events occur, it may have an adverse impact on the Group's financial condition and results of operations.

Past Performance and Forward Looking Statements

The performance and the results of operations of the Group contained within this Annual Report are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained within this Annual Report are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.