

RISK FACTORS

The Group's businesses, financial conditions, results of operations or 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 conditions, 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. In addition, this Annual Report does not constitute a recommendation or advice to invest in the shares or other securities of the Company and investors are advised to make their own judgement or consult their own investment advisors before making any investment in the shares or other securities of the Company.

GLOBAL ECONOMY

Escalating protectionism as reflected in the trade frictions between the United States and certain major nations, Brexit uncertainties, the fluctuation of the US dollar against major currencies around the world, the increasing geopolitical tensions as well as the recent plunge in global oil prices, all have created uncertainties in the world economy and global financial market. A slowdown in global economic growth could lead to economic contractions in certain markets, commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. The Group is a diversified infrastructure investment company with businesses in Hong Kong, Mainland China, the United Kingdom ("UK"), Continental Europe, Australia, New Zealand and Canada. Any adverse economic conditions in those countries and places in which the Group operates may potentially impact on the Group's businesses, financial conditions or results of operations, asset values and liabilities.

OUTBREAK OF HIGHLY CONTAGIOUS DISEASE

The recent outbreak of coronavirus disease (COVID-19) in different parts of the world, including the places of businesses at which the Group operates, have a significant adverse impact on most economies due to the community standstill, disruption of business activities, and weakened sentiment in the consumption and tourism related sectors. As the situation of the highly infectious disease is still evolving, the heightened uncertainties surrounding the pandemic may pose a negative impact on the Group's businesses, financial conditions, results of operations or growth prospects. There can be no assurance that there will not be another significant global outbreak of a severe communicable disease, and if such an outbreak were to occur, it may have an impact on the operations of the Group and its results of operations may suffer.

ECONOMIC CONDITIONS AND INTEREST RATES

The industries in which the Group operates are affected by the economic conditions of the various places where the Group's investments or operations are located, the population growth of these places, mark to market value of securities investments, the currency environment and interest rates cycles. There can be no assurance that the combination of the above factors the Group experiences in the future will not adversely affect its financial conditions or results of operations.

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 financial conditions or results of operations. The volatility in the financial markets may also adversely affect the income to be derived by the Group from its finance and treasury activities.

RISK FACTORS

POTENTIAL RISKS IN RELATION TO WITHDRAWAL OF THE UK FROM EUROPEAN UNION'S MEMBERSHIP ("BREXIT")

The UK voted in 2016 to leave the European Union ("EU"), resulting in financial market volatility and a fall in the value of the British pound. The UK ceased to be a member state of the EU on 31st January, 2020 and entered into a transition period until 31st December, 2020. The negotiation outcome between the UK and the EU concerning the trade agreement governing their relationship after the transition period remains uncertain. In any event, Brexit has created significant uncertainty about the future relationship between the UK and the EU, including with respect to the laws and regulations that will apply as the UK will have to determine which EU-derived laws to replace or replicate.

While the Group's businesses in the UK are either protected by the respective regulated regimes or under long term payment contracts, and are essential services including electricity, water & sewage, gas and transportation, the continuing uncertainties following Brexit could adversely affect the economy of the UK and the strength of the British pound, although the long term implication of Brexit remains to be seen.

A significant and prolonged depreciation of the British pound may affect the Group's reported profit, and its ability to maintain future growth of dividends for shareholders.

CONCENTRATION IN GEOGRAPHICAL MARKETS AND BUSINESS TYPES

The business operation of the Group may be viewed as substantially concentrated in one or more geographical markets or in one particular or more types of business. If and when the Group's operations are exposed to any deterioration in the economic, social and/or political conditions as well as any incidence of social unrest, strike, riot, civil disturbance or disobedience or terrorism, or even outbreaks of epidemics in such geographical markets and/or business segments, the adverse circumstances may materially disrupt the Group's operations and, in turn, impact the revenue, profitability and financial conditions of the Group.

HIGHLY COMPETITIVE MARKETS

The Group's waste management, off-airport car park, rolling stock leasing, cement and household infrastructure businesses 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 conditions, results of operations or growth prospects. Competition risks faced by the Group include (a) possible restrictions on the access by the shuttle buses operated by the Group's off-airport car park businesses as imposed by the airport authorities who operates the on-airport car park businesses; (b) the availability of rail link services from city centre to airport which may reduce the usage of the off-airport car park; and (c) significant competition and pricing pressure from other competitors attempting to capture a higher level of market share. Such risks may adversely affect the financial performance of the Group's operation.

INFRASTRUCTURE MARKET

Some of the investments owned by the Group (for example, water, gas and electricity) 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 or guidelines may lead to penalties, or, in extreme circumstances, amendment, suspension or cancellation of the relevant licences by the authorities. The regulated businesses are exposed to lower allowed pricing in the upcoming price resets. Infrastructure projects are capital intensive, and with only a few major players in the market, there can be no assurance of ready buyers 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, outbreaks of epidemics 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 litigations. 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. The capacity factor (load factor) of the Group's wind farms could also be affected by the wind condition, which could result in the fluctuation of revenues. All of these uncertain factors could have a material adverse effect on the businesses, financial conditions, results of operations or growth prospects of the Group.

CRUDE OIL MARKETS

The Group's investment in Husky Midstream Limited Partnership ("HMLP") comprises oil pipelines, storage facilities and ancillary assets in Canada. Its results of operation and financial conditions may be dependent on the prices received for Husky Energy Inc. ("Husky")'s refined products and crude oil. Lower prices over a prolonged period of time for crude oil could adversely affect the value and quantity of Husky's oil reserve. HMLP also has other customers apart from Husky and their demand for HMLP's services may depend on prices received for their refined products and crude oil. Prices for refined products and crude oil are based on local and global supply and demand as well as availability and costs of transportation. Supply and demand may be affected by a number of factors including, but not limited to, actions taken by the Organisation of the Petroleum Exporting Countries (OPEC), non-OPEC crude oil supply, social and political conditions in oil producing countries, the occurrence of natural disasters, general and specific economic conditions, technological developments, prevailing weather patterns and the availability of alternate sources of energy. In 2016, Husky had a pipeline release at a river crossing in Saskatchewan, Canada. Husky took full responsibility for the incident and worked closely with downstream communities, First Nations and regulatory authorities on the response. A full and thorough investigation was undertaken and Husky is committed to using what it learned from the incident to further improve its operations. If the above events occurred or further occurred, it may adversely affect the Group's financial conditions and results of operations.

CAPITAL EXPENDITURE

A significant amount of capital expenditure is required for the Group to acquire new investments and to maintain the assets of its existing businesses. While the relevant asset companies have their own asset management plans, there is a risk that due to unforeseen events, capital expenditure required for the replacement of assets could exceed budgeted amounts and hence affect the businesses, financial conditions, results of operations or growth prospects of the Group.

CURRENCY FLUCTUATIONS

The Group is a diversified infrastructure investment company with businesses in Hong Kong, Mainland China, the UK, Continental Europe, Australia, New Zealand and Canada, and is exposed to potential currency fluctuations in these countries and places in which the Group operates. 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 financial conditions or results of operations, asset values and liabilities. The fluctuations in currencies and in particular, the devaluation of the pound sterling arising from Brexit, impact on all businesses in the market that have exposure in the UK and/or to pound sterling. While the Company is not immune from such impact, there is no material change beyond market expectation.

RISK FACTORS

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with (i) currency swaps and (ii) appropriate level of borrowings denominated in the local currencies. The Group has not entered into any speculative derivative transaction.

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 conditions, results of operations or growth prospects.

CYBERSECURITY

With the fast expanding adoption of internet and networking operational technology, cyberattacks around the world are occurring at a higher frequency and intensity. The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyberworld. Cybersecurity risks could have material adverse effect on the operational and business performance, as well as the business reputation of the Group.

Although the Group has not experienced any major damage to its infrastructure projects, assets or activities from cyberattacks to date, there can be no assurance that future cyberattacks or breaches of the Group's cybersecurity will not occur and result in significant impact on the Group's reputation, businesses, financial conditions, 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 had 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 fulfill their obligations under the joint ventures, which may affect the Group's businesses, financial conditions, results of operations or growth prospects.

MERGERS AND ACQUISITIONS

The Group has undertaken merger and acquisition activities in the past and may continue to do so if there are appropriate acquisition opportunities in the market. In pursuit of new business opportunities, the Group is experiencing more intense competition where competing bidders are more aggressive in the valuation of the assets on the back of abundant market liquidity and lower return requirements. The pressure to deploy capital has been significant. Although due diligence and detailed analysis are conducted before merger and acquisition activities are undertaken, there can be no assurance that these can fully expose all hidden problems, potential liabilities and unresolved disputes that the target company may have. In addition, valuations and analyses on the target company conducted by the Group and by professionals alike are based on numerous assumptions, and there can be no assurance that those assumptions are correct or appropriate or that they will receive universal recognition. Relevant facts and circumstances used in the analyses could have changed over time, and new facts and circumstances may come to light as to render the previous assumptions and the valuations and analyses based thereon obsolete. Some of these merger and acquisition activities are subject to regulatory approvals in overseas countries and there can be no assurance that such approvals will be obtained, and even if granted, that there will be no burdensome conditions attached to such approvals. The Group may not necessarily be able to successfully integrate the target business into the Group and may not be able to derive any synergy from the acquisition, leading to an increase in costs, time and resources. For merger and acquisition activities undertaken overseas, the Group may also be exposed to different and changing political, social, legal and regulatory requirements at the local, national and international level. The Group may also need to face different cultural issues when dealing with local employees, customers, governmental authorities and pressure groups.

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 conditions, 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 guidelines, directives, 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 conditions, results of operations or growth prospects.

Political, regulatory and media attention has increased significantly towards privatised companies in countries in which the Group operates. Regulators in some of these countries have warned of increasingly onerous regulatory resets, and some major political parties are promoting policies to bring energy, water and railways back into public ownership, which could potentially have serious and material consequences for the Group if such regulations and policies are enacted. Group companies are responding to these risks by focusing on their core strategies of delivering and outperforming regulatory outputs such as safety, reliability and customer service, at the lowest cost possible; by conveying the positive benefits to customers of the services they provide; and by engaging collaboratively with regulators and politicians to demonstrate the advantages of private ownership.

COMPLIANCE WITH PERSONAL DATA PROTECTION LEGISLATION

In the ordinary course of its operations, various businesses of the Group collect, store and use data that is protected by personal data protection laws in the different countries in which they operate. As regulatory focus on privacy issue continues to increase and worldwide laws and regulations concerning the handling of personal information expand and become more complex, potential risks related to personal data collection and use within the Group's businesses are expected to intensify.

In the event that any relevant business of the Group is unable to meet its obligations under applicable data protection laws, it may be subject to regulatory action or civil claims. The cost of regulatory or legal action, and any monetary and/or reputational damage suffered as a result of such action, could have a material adverse effect on the Group's financial conditions and results of operations.

IMPACT OF NEW ACCOUNTING STANDARDS

The International Accounting Standards Board has from time to time issued a number of new and revised International Financial Reporting Standards ("IFRS"). The International Accounting Standards Board may in the future issue new and revised standards and interpretations. In addition, interpretations on the application of the IFRS will continue to develop. These factors may require the Group to adopt new accounting policies. The adoption of new accounting policies or new IFRS might or could have a significant impact on the Group's financial position or results of operations.

RISK FACTORS

CONNECTED TRANSACTIONS

CK Hutchison Holdings Limited (“CK Hutchison”) is also listed on The Stock Exchange of Hong Kong Limited. Although the Group believes that its relationship with CK Hutchison provides it with significant business advantages, the relationship results in various connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and accordingly any transactions entered into between the Group and CK 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 financial statements. Independent shareholders’ approval requirements may also lead to unpredictable outcomes causing disruptions to as well as an increase in the risks of the Group’s business activities. Independent shareholders may also take actions that are in conflict with the interests of the Group.

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, drought, fire, frost and similar disasters and the occurrence of any of these disasters could disrupt the Group’s business and materially and adversely affect the Group’s businesses, financial conditions, results of operations or growth prospects.

There can be no assurance that earthquakes, floods, drought or other natural disasters will not occur and result in major damage to the Group’s infrastructure projects, assets or facilities or on the general supporting infrastructure facilities in the vicinity, which could adversely affect the Group’s businesses, financial conditions, results of operations or growth prospects.

SOCIAL INCIDENTS AND TERRORIST THREAT

The Group is a diversified infrastructure investment company with businesses in Hong Kong, Mainland China, the UK, Continental Europe, Australia, New Zealand and Canada. In recent years, a series of terrorist activities occurred across the globe that resulted in multiple deaths and casualties. There can be no assurance that countries in which the Group operates will not have any social incidents or they will be immune from terrorist threat, and if these events occur, it may have an adverse impact on the Group’s businesses, financial conditions, results of operations or growth prospects.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The past performance and the results of operations of the Group 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.