

RISK FACTORS

Risks and uncertainties can affect the Group's businesses, financial condition, operating results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

Global Economy and Macro-Economic Conditions

Global economic growth remains moderate. Escalating trade protectionism, heightened uncertainty over economic policy, rising geopolitical tensions and volatility in financial market movements have, however, added uncertainties to the world economy and global financial market.

The Group is a global investor in power and utility-related businesses, with interests in Hong Kong, the United Kingdom, Australia, mainland China, Thailand, Canada, New Zealand, Portugal and the Netherlands. The industries in which the Group invests are affected by the economic conditions, population growth, currency environment and interest rate cycles in these countries. Any combination of these factors or continuing adverse economic conditions in these countries may negatively affect the Group's financial position, potential income, asset value and liabilities.

To address macro-economic volatility, the Group's strategy is to pursue steady earnings growth via carefully selected investments in stable and well-regulated international markets. On this basis, the Group has built up a robust and diverse portfolio of assets that deliver predictable income streams.

Currency Markets and Interest Rates

The Group's currency exposure mainly arises from its investments outside Hong Kong.

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

The Group is also exposed to interest rate risk on its interest-bearing assets and liabilities. The US Federal Reserve has raised interest rates four times in 2018 and has signalled further gradual rate hikes going forward. Volatility in interest rate markets may adversely affect the Group's financial conditions and results of operations.

The Group's treasury policy guides the measures it undertakes to manage the above exposure. Details of the Group's current practices to manage currency and interest rate risks are in the Financial Review on pages 75 to 77.

Cyber Security

The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyber world, where cyber-attacks have become increasingly sophisticated, highly coordinated and targeted. Failure to protect the Group's critical assets from cyber-attacks can result in reputational damage, financial loss and disruptions in operations.

Each of the Group's investments has taken a risk-based and integrated approach to combating cyber security risks. They have established their own cyber security management framework or processes to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on people, processes and various cybersecurity technologies to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

Health and Safety

The Group's investments, and the nature of its operations, expose it to a range of significant health and safety risks.

Major health and safety incidents resulting in fatalities or injuries to members of the public or to employees could have significant consequences. These may include widespread distress and harm or significant disruption to operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

Each of the Group's investments has in place a health and safety management system to manage its exposure and protect its employees, customers, contractors and the public by conducting its business in a safe and socially responsible manner.

Mergers and Acquisitions

The Group has undertaken merger and acquisition activities in the past and may continue to look for appropriate acquisition opportunities in the market.

The Group is exposed to any hidden problems, potential liabilities and unresolved disputes that the target company may have. Valuations and analyses of the target company conducted by the Group and external professionals are based on numerous assumptions, which may become inappropriate over time due to new facts and circumstances that emerge. The inability to successfully integrate a target business into the Group may prevent synergies from the acquisition being achieved, leading to increases in cost, time and resources used.

In undertaking merger and acquisition activities, the Group may also be exposed to different and changing political, social, legal and regulatory requirements at the local, national and international level, as well as cultural issues. Some of these merger and acquisition activities are subject to complex regulatory approval processes in their respective countries.

To manage these risks, the Group undertakes a rigorous due diligence and analysis process covering operational, financial, legal and risk parameters before undertaking any merger or acquisition activity. The Group seeks growth in its areas of expertise within stable, well-structured international markets that either yield stable revenues under government regulation or are safeguarded by long-term power purchase agreements. The Group joins the management of new associate/joint venture companies to guide and oversee performance and shares best practice to ensure synergies and maximum efficiencies.

Infrastructure Market

The infrastructure investments of the Group globally are subject to local government policy, regulatory pricing and need to adhere strictly to the licence requirements or provisions of relevant legislation, as well as the codes and guidelines established by the relevant regulatory authorities. Failure to comply with the aforesaid requirements or rules and regulations may lead to penalties, or, in extreme circumstances, the amendment, suspension or cancellation of the relevant licences by the authorities. The Group closely monitors changes in regulations, government policies and markets, and conducts scenario and sensitivity studies to assess the impact of such changes.

Impact of Local, National and International Regulations

Local business risks specific to individual countries and cities where the Group's investments operate could have a material impact on its financial conditions, operating results and growth prospects. In addition, the Group's investments in different parts of the world are subject to local legal and regulatory requirements, and their activities are regulated through applicable operating licences.

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With interests around the world, the Group is, and may increasingly become, exposed to different and changing political, social, legal, tax, regulatory, listing and environmental requirements at the local, national and international level. New policies or measures by governments, whether fiscal, tax, regulatory, environmental or competition-related, may lead to additional or unplanned increases in operating expenses and capital expenditures, pose a risk to the returns delivered by the Group's investments and may delay or prevent the commercial operation of an individual business, with a resulting loss in revenue and profit.

The Group follows a proactive approach to monitoring changes in government policies and legislation. Each investment maintains high awareness of the need to comply with applicable laws, regulations and licence requirements and does so through a variety of means including engaging external advisors, performing regular audits and complying with regulatory reporting obligations. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement.

Reliability of Supply

The Group's power and utilities-related investments can be exposed to supply interruptions. A severe earthquake, storm, lightning, flood, landslide, fire, sabotage, terrorist attack, cyberattack, failure of critical information and control systems that operate and protect the electricity and gas networks, or any other unplanned event could lead to a prolonged and extensive supply outage.

The loss of cash flow resulting from supply interruption, and the cost of recovery from network damage could be considerable. Such an incident could damage customer goodwill and lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the supply networks, which could have an adverse effect on the business, financial condition and efficiency of operations as well as the reputation of the Group.

The Group's investments conduct regular maintenance and upgrades of the power and gas supply equipment, provide comprehensive training to operational staff, undertake reliability reviews, and operate sophisticated information technology control and asset management systems. They also have fully tested contingency plans to ensure supply reliability standards are maintained.