Group Capital Resources and Liquidity

Treasury Management

The Group's treasury function sets financial risk management policies in accordance with policies and procedures approved by the Executive Directors, which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost-efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. The Group cautiously uses derivatives, principally interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes. It is also the Group's policy not to invest liquidity in financial products, including hedge funds or similar vehicles, with significant underlying leverage or derivative exposure.

Cash Management and Funding

The Group operates a central cash management system for all of its unlisted subsidiaries. Except for listed and certain overseas entities conducting businesses in non-HK or non-US dollar currencies, the Group generally obtains long-term financing at the Group level to on-lend or contribute as equity to its subsidiaries and associates to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings, which change depending upon financial market conditions and projected interest rates. The Group regularly and closely monitors its overall debt position and reviews its funding costs and maturity profile to facilitate refinancing.

Interest Rate Exposure

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses a combination of interest rate swaps and forward rate agreements to manage its long-term interest rate exposure and exposure to short-term interest rate volatility respectively. The Group's main interest rate exposures relate to US dollar, British pound, Euro and HK dollar borrowings.

At 31 December 2007, approximately 56% of the Group's principal amount of borrowings were at floating rates and the remaining 44% were at fixed rates. The Group has entered into various interest rate agreements with major creditworthy financial institutions to swap approximately HK$84,630 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$3,845 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 82% of the Group's principal amount of borrowings were at floating rates and the remaining 18% were at fixed rates at 31 December 2007.

Foreign Currency Exposure

For overseas subsidiaries and associates and other investments, which consist of non-HK dollar or non-US dollar assets, the Group generally endeavours to establish a natural hedge with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in local currency are not attractive, the Group may not borrow in the local currency and instead monitor the development of the businesses' cashflow and the debt markets with a view to refinancing these businesses with local currency borrowings in the future when conditions are appropriate. Exposure to movements in exchange rates for individual transactions directly related to the underlying businesses is minimised by using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist. During the year, the HK dollar weakened against the currencies of most of those countries where the Group has overseas operations. This gave rise to an unrealised gain of HK$6,788 million (2006 – HK$15,416 million) on translation of these operations' net assets to the Group's HK dollar reporting currency, which was reflected as a movement in the Group's reserves.

At 31 December 2007, the Group had currency swap arrangements and foreign exchange forward contracts with banks to swap US dollar principal amount of borrowings equivalent to HK$97 million to non-US dollar principal amount of borrowings to match the currency exposures of the underlying businesses. The Group's borrowings, excluding loans from minority shareholders and after taking into consideration these currency swaps, are denominated as follows: 12% in HK dollars, 30% in US dollars, 11% in British pounds, 35% in Euro and 12% in others currencies. During 2007, HTIL provided intercompany loans to its Thailand operations in US dollar totalling HK$9,327 million to fully repay six outstanding commercial loan facilities with international lenders. In December 2006 the Bank of Thailand imposed unremunerated reserve requirements on the conversion of foreign currency to Thai baht, subsequently removed on 3 March 2008. This affected HTIL's ability to freely convert the US dollar proceeds into

Thai baht. To receive exemption from the unremunerated reserve requirement, HTIL entered into foreign exchange swap contracts with various banks in Thailand. As at 31 December 2007, HTIL had US$1,095 million outstanding under these foreign exchange swap contracts where HTIL has commitments to sell Thai baht and buy US dollar at pre-agreed rates.

Credit Exposure

The Group's holdings of cash, managed funds and other liquid investments expose the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their credit ratings and setting approved counterparty credit limits that are regularly reviewed.

Credit Profile

The Group aims to maintain a capital structure that is appropriate for long-term investment gradings of A3 on the Moody's Investor Service scale, A- on the Standard & Poor's Rating Services scale and A- on the Fitch Ratings scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances. At 31 December 2007, our long-term credit ratings were A3 from Moody's, A- from Standard & Poor's and A- from Fitch and all ratings are with a stable outlook.

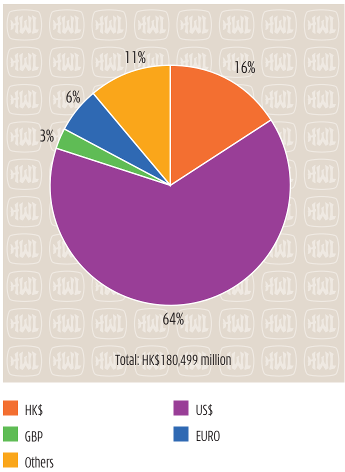
Liquid Assets

The Group continues to have a strong financial position benefiting from both the steady and growing cash flow from its established businesses and improving cash flow from the **3** Group businesses. Cash, liquid funds and other investments ("liquid assets") on hand amounted to HK$180,499 million at 31 December 2007, 38% higher than the balance at 31 December 2006 of HK$130,402 million, mainly attributed to the receipt of a US$2,052 million (HK$16,037 million) dividend from HTIL following the disposal of CGP Investments (Holdings) Limited ("CGP"), which indirectly held HTIL group's entire interest in its mobile business in India and the consolidation of HTIL as a subsidiary effective from 14 June 2007. Of the liquid assets, 16% were denominated in HK dollars, 64% in US dollars, 3% in British pounds, 6% in Euro and 11% in other currencies.

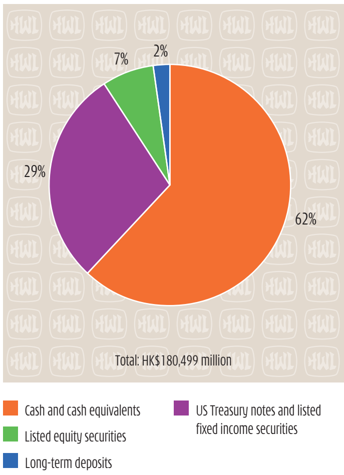
Cash and cash equivalents represented 62% (2006 – 50%) of the liquid assets, US Treasury notes and listed fixed income securities 29% (2006 – 37%), listed equity securities 7% (2006 – 10%) and long-term deposits 2% (2006 – 3%).

The US Treasury notes and listed fixed income securities, including those held under managed funds, comprise US treasury notes (42%), government issued guaranteed notes (24%), supranational notes (19%) and others (15%). Of these US Treasury notes and listed fixed income securities, 81% are rated at Aaa/AAA with an average maturity of approximately 1.2 years on the overall portfolio. The Group currently has no exposure in mortgage backed securities, collateralised debt obligations or similar asset classes.

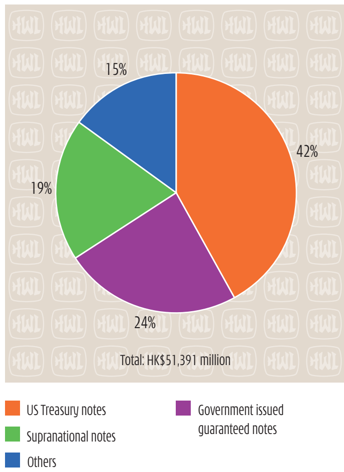
Liquid assets by currency denomination at 31 December 2007



Liquid assets by type at 31 December 2007



Listed fixed income securities by type at 31 December 2007



Cash Flow

Consolidated EBITDA before all CACs amounted to HK$129,305 million (2006 – HK$96,853 million) for 2007, a 34% increase from last year. This included the Group's share of cash profits arising from HTIL's disposal of CGP totalling HK$35,820 million. Excluding the cash profits from disposals of investments and others in both years, EBITDA before all CACs increased 28% to HK$91,451 million (2006 – HK$71,722 million) for the year. Funds from operations ("FFO"), before cash profits from disposals, capital expenditures, investment in all CACs and changes in working capital amounted to HK$65,290 million (2006 – HK$31,096 million), a 110% increase, mainly due to the receipt of a HK$16,037 million dividend from HTIL as mentioned previously and profits on disposal of certain listed equity investments. In addition to the above items, the increases in recurring EBITDA and FFO are attributed to the solid and steady improvement in financial performance of the Group's established businesses and the significantly better results of the **3** Group, which reported a 39% improvement in EBITDA before all CACs. EBITDA and FFO from the Group's established businesses continued to be sound, totalling HK$73,045 million (2006 – HK$58,499 million) and HK$58,894 million (2006 – HK$27,842 million) respectively.

The **3** Group's investment in CACs totalled HK$17,211 million for the year, a 17% reduction from 2006 of HK$20,717 million, mainly due to the lower average cost to acquire a customer as a result of the continuing downward trend in handset costs and benefits from the restructuring of distribution arrangements in the UK and Italy during the year, including the increased number of own-store outlets. Prepaid CACs and other customer acquisition costs which are expensed as incurred, totalled HK$5,732 million, a 4% increase from the 2006 total of HK$5,494 million. **3** Group contract customers' CACs, which are capitalised, totalled HK$11,479 million during the year, a decrease of 25% compared to HK$15,223 million last year.

In 2007, the Group's capital expenditures increased 15% to total HK$29,614 million (2006 – HK$25,771 million), of which HK$14,591 million (2006 – HK$13,137 million) related to the **3** Group. The increase in the Group's total capital expenditures reflects the consolidation of the capital expenditures of HTIL as a subsidiary effective from 14 June 2007. Capital expenditures for the ports and related services division amounted to HK$9,404 million (2006 – HK$9,279 million); for the property and hotels division HK$89 million (2006 – HK$221 million); for the retail division HK$1,843 million (2006 – HK$2,668 million) and for the energy, infrastructure, finance & investments and others division HK$335 million (2006 – HK$466 million) as well as HTIL's expenditures of HK$3,352 million (2006 – nil).

The capital expenditures of the Group are primarily funded by cash generated from operations, cash on hand and to the extent appropriate, by external borrowings.

Debt Maturity and Currency Profile

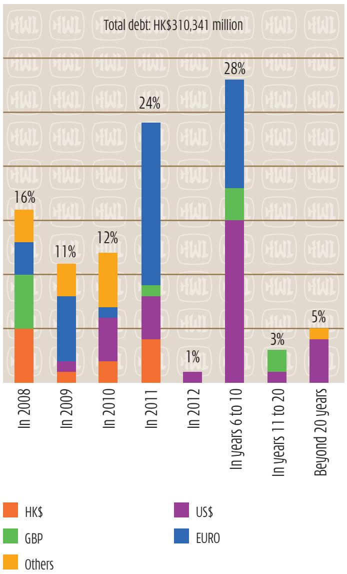
The Group's total borrowings, excluding loans from minority shareholders, at 31 December 2007 amounted to HK$310,341 million (2006 - HK$283,040 million). The net increase in borrowings was mainly due to: the effect of the translation of foreign currency denominated loans to HK dollars of HK$12,242 million; the consolidation of HTIL's borrowings of approximately HK$9,820 million; increased borrowings totalling HK$24,537 million, including £550 million to partially refinance intercompany loans to **3** UK, **3** Italia's increased borrowings of €536 million and increased borrowings of €400 million to partially refinance the intercompany loans to **3** Italia; net of the repayment of loans totalling approximately HK$23,364 million. Loans from minority shareholders, which are viewed as quasi-equity, totalled HK$12,508 million at 31 December 2007 (2006 – HK$12,030 million). The Group's weighted average cost of debt during the year to 31 December 2007 was 5.9% (2006 – 5.7%).

The maturity profile of the Group's total borrowings, excluding loans from minority shareholders and after taking into consideration the related foreign currency swaps, at 31 December 2007 is set out below:

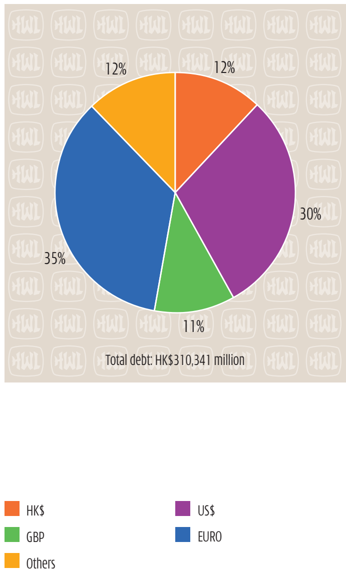
	HK$	US$	GBP	Euro	Others	Total
In 2008	5%	-	5%	3%	3%	16%
In 2009	1%	1%	-	6%	3%	11%
In 2010	2%	4%	-	1%	5%	12%
In 2011	4%	4%	1%	15%	-	24%
In 2012	-	1%	-	-	-	1%
In years 6 to 10	-	15%	3%	10%	-	28%
In years 11 to 20	-	1%	2%	-	-	3%
Beyond 20 years	-	4%	-	-	1%	5%
Total	12%	30%	11%	35%	12%	100%

The non-HK dollar and non-US dollar denominated loans are either directly related to the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. None of the Group's consolidated borrowings, as a matter of policy, have credit rating triggers that would accelerate the maturity dates of the debt outstanding.

Debt maturity profile by year and currency denomination at 31 December 2007



Debt profile by currency denomination at 31 December 2007



Changes in Financing

The significant financing activities in 2007 were as follows:

- In January, drawdown of £200 million (approximately HK$3,070 million) of a short term, floating rate bank loan facility;
- In January, a five-year, floating rate, €3,000 million (approximately HK$31,230 million) bank loan facility which was arranged in December 2006, was fully drawn mainly to refinance **3** Italia's existing loans of €2,464 million (approximately HK$25,649 million);
- In April, repaid at maturity, a floating rate bank loan of JPY19,257 million (approximately HK$1,273 million);
- In May, repaid at maturity, a floating rate bank loan of HK$1,500 million;
- In June, a listed subsidiary HTAL, prepaid floating rate bank loans totalling A$950 million (approximately HK$6,394 million);
- In August, repaid at maturity, fixed rate notes of US$750 million (approximately HK$5,850 million);
- In September, a listed subsidiary CKI, repaid at maturity, a floating rate bank loan of HK$3,800 million;
- In the second half of the year, a listed subsidiary HTIL prepaid floating rate bank loans equivalent to HK$9,768 million of its Thailand operations;
- In December, obtained a short term 6-month, floating rate, £350 million (approximately HK$5,429 million) bank loan to refinance a portion of the intercompany loan investment in **3** UK;
- In December, obtained a short term 6-month, floating rate, €300 million (approximately HK$3,363 million) bank loan to refinance a portion of the intercompany loan investment in **3** Italia;

- In December, obtained a one-year floating rate, €100 million (approximately HK$1,121 million) bank loan to refinance a portion of the intercompany loan investment in **3** Italia; and
- Subsequent to the year end, in March this year, repaid at maturity, fixed rate notes of A$800 million (approximately HK$5,384 million).

Capital, Net Debt and Interest Coverage Ratios

The Group's total shareholders' funds increased 13% to HK$310,014 million at 31 December 2007 compared to HK$273,794 million at 31 December 2006. The increase in shareholders' funds mainly reflects the profit for the year ended 31 December 2007 and the favourable impact of exchange translation differences arising on translation of the net assets of overseas businesses to HK dollars recorded in reserves as mentioned previously. At 31 December 2007, the consolidated net debt of the Group, excluding loans from minority shareholders which are viewed as quasi-equity, was HK$129,842 million (2006 – HK$152,638 million), a 15% reduction from the beginning of the year, and on this basis, the Group's net debt to net total capital ratio decreased from 33% at 31 December 2006 to 26% at 31 December 2007.

As additional information, the following table shows the net debt to net total capital ratio calculated on the basis of including loans from minority shareholders and also with the Group's investments in its listed subsidiaries and associated companies marked to market value at 31 December 2007.

Net debt/Net total capital ratios at 31 December 2007:

A1 – excluding loans from minority shareholders from debt	26%
A2 – as in A1 above and investments in listed subsidiaries and associated companies marked to market value	21%
B1 – including loans from minority shareholders as debt	28%
B2 – as in B1 above and investments in listed subsidiaries and associated companies marked to market value	23%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, for 2007 increased to total HK$19,550 million, compared to HK$17,036 million last year, mainly due to higher effective market interest rates in 2007 and also a higher average total loan balance reflecting British pound borrowings arranged in the latter part of 2006, increased borrowings by the Group's ports division for HK$2,102 million, as well as increased borrowings in British pounds and Euro by £655 million and €882 million respectively.

Consolidated EBITDA and FFO before all CACs covered consolidated net interest expense and other finance costs 9.8 times and 6.2 times respectively (2006 – 7.9 times and 3.6 times).

Secured Financing

At 31 December 2007, assets of the Group totalling HK$30,700 million (2006 – HK$91,788 million) were pledged as security for bank and other loans and certain performance guarantees of the Group. At 31 December 2006, the shares of H3G S.p.A. owned by the Group, were pledged as security for its project financing facilities and the assets of H3G S.p.A. amounted to approximately HK$81,007 million at that date. Subsequently, in January 2007, the project financing facilities of H3G S.p.A. were refinanced and the shares are no longer pledged as security under a new replacement syndicated bank loan.

Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2007 amounted to the equivalent of HK$14,300 million (2006 - HK$12,946 million).

Contingent Liabilities

At 31 December 2007, the Group provided guarantees for banking and other borrowing facilities granted to associated companies and jointly controlled entities of HK$6,690 million (2006 – HK$13,322 million), and provided performance and other guarantees of HK$9,390 million (2006 – HK$5,681 million).