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 fluctuation 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 2008, approximately 49% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 51% were at fixed rates. The Group has entered into various interest rate agreements with major creditworthy financial institutions to swap approximately HK$48,750 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$3,013 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. The agreements have fixed interest payments at rates ranging from 5.3% to 6.8% with expiry in 2010. After taking into consideration these interest rate swaps, approximately 67% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 33% were at fixed rates at 31 December 2008.

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 or are no longer attractive, the Group may not borrow in the local currency or may repay existing borrowings and monitor the development of the businesses' cashflow and the relevant debt markets with a view to refinancing these businesses with local currency borrowings in the future when conditions are more 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 currencies of most of those countries where the Group has overseas operations weakened against the HK dollar. This gave rise to an unrealised loss of HK$38,917 million (2007 – gain of HK$6,788 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 2008, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$62 million to non-US dollar principal amount of borrowings to match the currency exposures of the underlying businesses. The Group's total principal amount of bank and other debts are denominated as follows: 15% in HK dollars, 35% in US dollars, 33% in Euro, 6% in British Pounds and 11% in others currencies. During 2008, HTIL closed out all foreign exchange swap contracts (remaining contracts at 31 December 2007 amounted to US$1,095 million) under which HTIL agreed to sell Thai Baht and buy US dollar at pre-agreed rates. HTIL entered into these contracts solely to fulfill local exchange control requirements when HTIL injected additional funding into Thailand for repayment of its outstanding external debt in 2007. HTIL recognised a loss of HK$20 million in its profit and loss account in respect of these transactions in 2008.

Credit Exposure

The Group's holdings of cash, managed funds and other liquid investments, and interest rate and foreign currency swaps and forward currency contracts with financial institutions expose the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their equity share price movements, credit ratings and setting approved counterparty credit limits that are regularly reviewed.

The Group is also exposed to counterparties credit risk from its operating activities, which is continuously monitored by the local operational management.

Credit Profile

The Group aims to maintain a capital structure that is appropriate for long-term investment grade ratings 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 2008, 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.

Market Price Risk

The Group's main market price risk exposures relate to listed debt and equity securities described in "liquid assets" below and the interest rate swap as described in "interest rate exposure" above. The Group's holding of listed debt and equity securities represented approximately 33% (2007 – approximately 35%) of the liquid assets. The Group controls this risk through monitoring the price movements and changes in market conditions that may have an impact on the value of these financial assets and instruments.

Liquid Assets

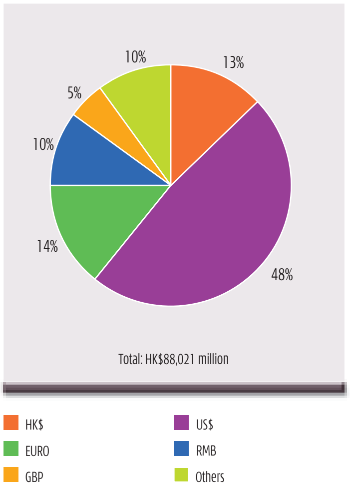
The Group continues to have a healthy financial position benefiting from both the steady cash flow from its established businesses and improving cash flow from the **3** Group businesses. Cash, liquid funds and other listed investments ("liquid assets") amounted to HK$88,021 million at 31 December 2008, 51% lower than the balance as at 31 December 2007 of HK$180,499 million. The lower liquid assets balance at 31 December 2008 is mainly due to the Group's utilisation of cash deposits on hand to repay debts, as they matured and also to repay certain debts maturing in late 2008 and in 2009 totalling HK$83,729 million. Of the liquid assets, 13% were denominated in HK dollars, 48% in US dollars, 14% in Euro, 10% in Renminbi, 5% in British Pounds and 10% in other currencies.

Cash and cash equivalents represented 65% (2007 – 62%) of the liquid assets, US Treasury notes and listed fixed income securities 29% (2007 – 29%), listed equity securities 5% (2007 – 7%) and long-term deposits and others 1% (2007 – 2%).

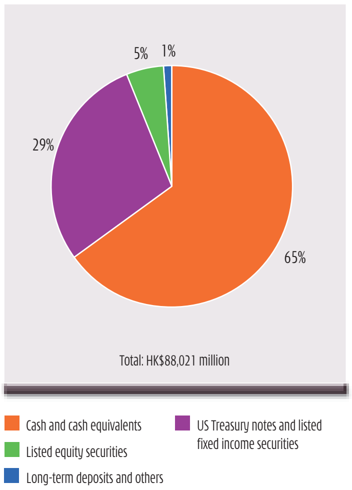
Group Capital Resources and Liquidity

The US Treasury notes and listed fixed income securities, including those held under managed funds, consisted of supranational notes (27%), government guaranteed notes (25%), financial institutions issued notes (21%), government related entities issued notes (17%) and US Treasury notes (10%). Of these US Treasury notes and listed fixed income securities, 73% are rated at Aaa/AAA with an average maturity of less than one year on the overall portfolio. The Group has no exposure in mortgage backed securities, collateralised debt obligations or similar asset classes.

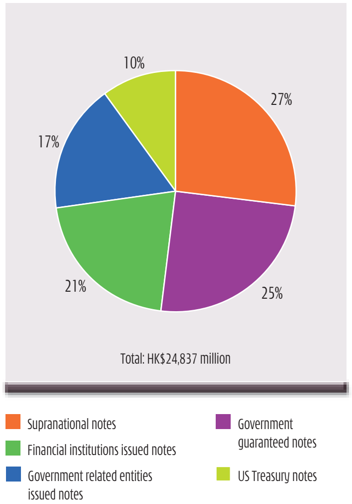
Liquid assets by currency denomination
at 31 December 2008



Liquid assets by type
at 31 December 2008



US Treasury notes and
listed fixed income securities by type
at 31 December 2008



Cash Flow

Consolidated EBITDA before all CACs amounted to HK$96,392 million (2007 – HK$129,305 million) for 2008, a 25% decrease from last year, mainly due to the Group's share of one-time cash profits arising from the then associated company HTIL's disposal of its indirect interests in its mobile telecommunications operations in India totalling HK$35,820 million in 2007. Excluding the cash profits from disposal of investments and others in both years, EBITDA before all CACs increased 4% to HK$94,971 million (2007 – HK$91,451 million) for the year. Consolidated funds from operations ("FFO"), before cash profits from disposals, capital expenditures, investment in all CACs and changes in working capital amounted to HK$42,500 million (2007 – HK$65,290 million), a 35% decrease from last year, mainly due to the receipt of a HK$16,037 million special dividend from the then associated company HTIL in 2007. Excluding this special dividend, FFO before cash profits from disposals, capital expenditures, investment in all CACs and changes in working capital decreased 14% from HK$49,253 million in 2007 to HK$42,500 million in 2008, mainly due to higher profits on the disposal of certain listed equity investments recognised in 2007 of HK$9,754 million, compared to HK$2,084 million in 2008. FFO from the Group's established businesses, excluding the aforementioned special dividend from HTIL and profits on disposal of certain listed equity investments, increased 3% from HK$33,103 million in 2007 to HK$34,198 million in 2008.

The **3** Group's investment in CACs totalled HK$20,392 million for the year, an 18% increase from 2007 of HK$17,211 million, mainly due to the increased number of customers acquired and retained during the year, and in particular, the acquisition and retention of contract customers, partially offset by lower cost per customer. Prepaid CACs and other customer acquisition costs which are expensed as incurred, totalled HK$3,457 million, a 40% decrease compared to HK$5,732 million last year. **3** Group's cost of contract customers acquired and retained, which are capitalised, totalled HK$16,935 million during the year, an increase of 48% compared to HK$11,479 million last year.

In 2008, the Group's capital expenditures decreased 3% to total HK$28,712 million (2007 – HK$29,614 million). The decrease in the Group's total capital expenditures is primarily due to reduced expenditures by the **3** Group, partially offset by the full year consolidation of the capital expenditures of HTIL in 2008 as HTIL became subsidiary of the Group on 14 June 2007. Capital expenditures for the ports and related services division amounted to HK$9,502 million (2007 – HK$9,404 million); for the property and hotels division HK$89 million (2007 – HK$89 million); for the retail division HK$1,686 million (2007 – HK$1,843 million); for the energy and infrastructure division HK$92 million (2007 – HK$183 million); for the finance and investments division HK$14 million (2007 – HK$50 million); for HTIL HK$4,519 million (2007 – HK$3,352 million); for the others HK$84 million (2007 – HK$102 million) and for the **3** Group HK$12,726 million (2007 – HK$14,591 million).

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

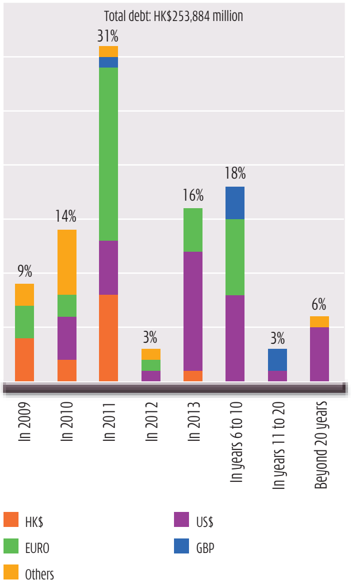
The Group's total principal amount of bank and other debts at 31 December 2008 decreased 18% to total HK$253,884 million (2007 – HK$311,279 million). The net decrease in principal amount of bank and other debts was mainly due to the repayment of debts as they matured and also prepayment of certain debts maturing in late 2008 and in 2009 totalling HK$83,729 million net of increased borrowings of HK$41,267 million, as well as the favourable effect of the translation of foreign currency denominated loans to HK dollars of HK$15,288 million. The Group's weighted average cost of debt for the year to 31 December 2008 reduced 0.7% to 5.2% (year ended 31 December 2007 – 5.9%). Interest bearing loans from minority shareholders, which are viewed as quasi-equity, totalled HK$13,348 million at 31 December 2008 (2007 – HK$12,508 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2008 is set out below:

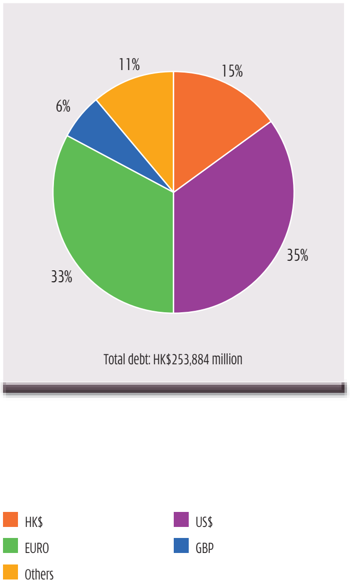
	HK$	US$	Euro	GBP	Others	Total
In 2009	4%	–	3%	–	2%	9%
In 2010	2%	4%	2%	–	6%	14%
In 2011	8%	5%	16%	1%	1%	31%
In 2012	–	1%	1%	–	1%	3%
In 2013	1%	11%	4%	–	–	16%
In years 6 to 10	–	8%	7%	3%	–	18%
In years 11 to 20	–	1%	–	2%	–	3%
Beyond 20 years	–	5%	–	–	1%	6%
Total	15%	35%	33%	6%	11%	100%

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 2008



Debt profile by currency denomination at 31 December 2008



Group Capital Resources and Liquidity

Changes in Financing

The significant financing activities in 2008 were as follows:

- In March, repaid at maturity, fixed rate notes of A$800 million (approximately HK$5,968 million);
- In March, repaid at maturity, fixed rate notes of €99.8 million (approximately HK$1,157 million);
- In April, obtained a two-year, floating rate bank loan facility of €100 million (approximately HK$1,214 million), primarily to refinance existing indebtedness.
- In May, listed subsidiary HTIL obtained a 364-day, floating rate HK$9,000 million loan facility from a group of ten banks, to refinance its Hong Kong operations and to finance the development of its Indonesia operations.
- In May, listed subsidiary HTIL fully repaid a floating rate HK$4,000 million syndicated bank loan at its maturity date;
- In May, obtained a five-year, floating rate term loan facility of HK$1,400 million, to refinance existing indebtedness due in 2008;
- In June, obtained a short term six-month, floating rate term loan facility of £350 million (approximately HK$5,373 million), to refinance existing indebtedness;
- In June, obtained an 18-month, floating rate term loan facility of €450 million (approximately HK$5,458 million), to refinance existing indebtedness;
- In June, obtained three short term six-month, floating rate term loan facilities totalling €388 million (approximately HK$4,712 million), and these facilities were fully repaid in October and December;
- In July, obtained a three-year, floating rate syndicated term loan facility of HK$3,800 million, to refinance existing indebtedness due in 2008;
- In August, listed subsidiary CKI obtained two 35-month, floating rate term loan facilities totalling £100 million (approximately HK$1,498 million), to refinance existing indebtedness due in 2008;
- In September, prepaid floating rate term loan facilities totalling £1,200 million (approximately HK$16,451 million);
- In October, obtained a three-year, floating rate syndicated term loan facility of HK$5,500 million, to refinance existing indebtedness due in 2008;
- In October, prepaid €180 million (approximately HK$1,910 million) of a debt due in April 2009;
- In November, repaid at maturity, a floating rate syndicated term loan of HK$3,000 million;
- In December, listed subsidiary CKI obtained an 18-month, floating rate term loan facility of A$210 million (approximately HK$1,085 million), to refinance existing indebtedness due in 2008;
- In December, listed subsidiary HTAL prepaid various floating rate term loans totalling A$1,100 million (approximately HK$5,627 million);
- In December, repaid at maturity, a floating rate term loan of €100 million (approximately HK$1,038 million); and
- In December, prepaid a floating rate syndicated term loan of €1,280 million (approximately HK$13,645 million).

Capital, Net Debt and Interest Coverage Ratios

The Group's total shareholders' funds decreased 12% to HK$271,576 million at 31 December 2008 compared to HK$310,014 million at 31 December 2007. The decrease in shareholders' funds is mainly due to the non-cash unfavourable effect of HK$38,917 million arising from the translation of overseas subsidiaries net assets at 31 December 2008 exchange rates, which in the case of Euro and British Pounds, were at substantially lower rates to the HK dollar than the prior year end's rates. This decrease was partially offset by the profit for the year ended 31 December 2008 net of dividends paid and augmented by the unfavourable change in valuation of certain equity investments as recorded in reserves. At 31 December 2008, the consolidated net debt of the Group, excluding interest bearing loans from minority shareholders which are viewed as quasi-equity, unamortised loan facilities fee and premium or discount on issue and fair value changes of interest rate swap contracts, was HK$165,863 million (2007 – HK$130,780 million), a 27% increase from the beginning of the year. The Group's net debt to net total capital ratio was affected each year by foreign currency translation effects on shareholders' funds and also on loans. This ratio, before the effects of foreign currency translation and other non-cash movement, at 31 December 2008 was 32%, and increased to 34% after this effect (2007 – 26%).

As additional information, the following table shows the net debt to net total capital ratio calculated on the basis of including interest bearing 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 2008.

Net debt/Net total capital ratios at 31 December 2008:	**Before the effect of foreign currency translation and other non-cash movements**	**After the effect of foreign currency translation and other non-cash movements**
A1 – excluding interest bearing loans from minority shareholders from debt	32%	34%
A2 – as in A1 above and investments in listed subsidiaries and associated companies marked to market value	30%	33%
B1 – including interest bearing loans from minority shareholders as debt	34%	37%
B2 – as in B1 above and investments in listed subsidiaries and associated companies marked to market value	33%	35%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, decreased 8% to total HK$17,891 million in 2008, compared to HK$19,550 million last year, mainly due to lower effective market interest rate in 2008 and lower interest expenses obligation as a result of the previously mentioned debt repayments in 2008.

Consolidated EBITDA and FFO before all CACs for the year covered consolidated net interest expense and other finance costs 7.5 times and 4.4 times respectively (2007 – 9.8 times and 6.2 times).

Secured Financing

At 31 December 2008, assets of the Group totalling HK$10,857 million (2007 – HK$30,700 million) were pledged as security for bank and other debts.

Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2008 amounted to the equivalent of HK$13,342 million (2007 – HK$14,300 million).

Contingent Liabilities

At 31 December 2008, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities of HK$3,749 million (2007 – HK$6,690 million), and provided performance and other guarantees of HK$7,820 million (2007 – HK$9,390 million).