Group Capital Resources and Liquidity

Treasury Management

The Group's treasury function sets financial risk management policies in accordance with policies and procedures that are approved by the Executive Directors, and 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 derivatives such as interest rate swaps and forward rate agreements to manage its interest rate exposure. The Group's main interest rate exposure relates to US dollar, British pound, Euro and HK dollar borrowings.

At 31 December 2009, approximately 38% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 62% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$97,813 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$3,806 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 74% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 26% were at fixed rates at 31 December 2009.

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 for debt financing 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 (such as major procurement contracts) 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. The Group generally does not enter into foreign currency hedges in respect of its long-term equity investments in overseas subsidiaries and associates. During the year, the currencies of most of those countries where the Group has overseas operations strengthened against the Hong Kong dollar. This gave rise to an unrealised gain of HK$15,875 million (2008, as restated – loss of HK$37,046 million) on translation of these operations' net assets to the Group's Hong Kong dollar reporting currency, which was reflected as a movement in the "Consolidated Statement of Changes in Equity" under the heading of exchange reserve.

At 31 December 2009, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$28,593 million to Hong Kong 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, after the above swap, are denominated as follows: 30% in HK dollars, 31% in US dollars, 28% in Euro, 5% in British pounds and 6% in other currencies.

Group Capital Resources and Liquidity

Treasury Management (continued)

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 2009, our long-term credit ratings were A3 from Moody's, A- from Standard & Poor's and A- from Fitch.

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 swaps as described in "Interest Rate Exposure" above. The Group's holding of listed debt and equity securities represented approximately 19% (2008 – approximately 33%) 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.

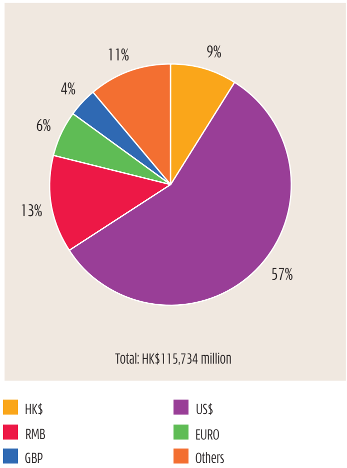
Liquid Assets

The Group continues to have a healthy financial position. Cash, liquid funds and other listed investments ("liquid assets") amounted to HK$115,734 million at 31 December 2009, 31% higher than the balance as at 31 December 2008 of HK$88,021 million, mainly due to cash flow from its established businesses and cash proceeds received on disposal of the Group's interests in its telecommunications operations in Israel and certain power plants, as well as new borrowings of HK$111,452 million, partially offset by the utilisation of cash to repay debts as they matured, and also to repay certain debts early, totalling HK$103,182 million. Of the liquid assets, 9% were denominated in HK dollars, 57% in US dollars, 13% in Renminbi, 6% in Euro, 4% in British pounds and 11% in other currencies.

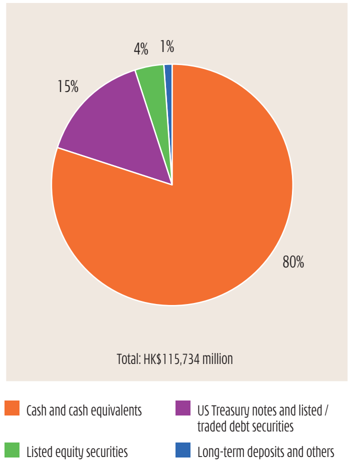
Cash and cash equivalents represented 80% (2008 – 65%) of the liquid assets, US Treasury notes and listed/traded debt securities 15% (2008 – 29%), listed equity securities 4% (2008 – 5%) and long-term deposits and others 1% (2008 – 1%).

The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of supranational notes (38%), government guaranteed notes (32%), government related entities issued notes (12%), notes issued by the Group's associated company, Husky Energy Inc. (5%), US Treasury notes (1%) and others (12%). Of these US Treasury notes and listed/traded debt securities, 78% are rated at Aaa/AAA with an average maturity of 1.3 years on the overall portfolio. The Group has no exposure in mortgage backed securities, collateralised debt obligations or similar asset classes.

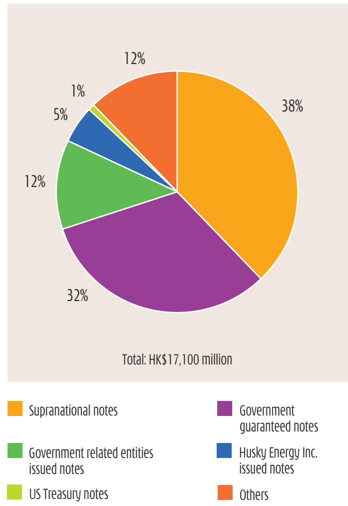
Liquid assets by currency denomination
at 31 December 2009



Liquid assets by type
at 31 December 2009



US Treasury notes and listed/traded
debt securities by type
at 31 December 2009



Cash Flow

Consolidated EBITDA before and after all telecommunications CACs amounted to HK$82,987 million and HK$63,987 million respectively for 2009, both decreasing 15% compared to last year. Total CACs of all of the Group's telecommunications operations amounted to HK$19,000 million for the year, a 17% decrease compared to 2008, mainly due to a 25% reduction in **3** Group's unit cost to acquire a customer, partially offset by an increase in the number of customers acquired and retained during the year. Consolidated funds from operations ("FFO") after all telecommunications CACs but before cash profits from disposals, capital expenditures and changes in working capital amounted to HK$24,741 million, a 16% increase from last year.

In 2009, the Group's capital expenditures decreased 32% to total HK$19,576 million (2008 – HK$28,712 million). The decrease in the Group's total capital expenditures is primarily due to reduced expenditures by the ports and related services division as projects were completed, and by **3** Group with the completion of most of the major network expansion activities and deconsolidation of the financial results of **3** Australia. Capital expenditures for the ports and related services division amounted to HK$4,970 million (2008 – HK$9,502 million); for the property and hotels division HK$54 million (2008 – HK$89 million); for the retail division HK$1,072 million (2008 – HK$1,686 million); for the energy and infrastructure division HK$139 million (2008 – HK$92 million); for the finance and investments division HK$19 million (2008 – HK$14 million); for HTHKH HK$1,111 million (2008 – HK$1,105 million); for HTIL HK$3,893 million (2008 – HK$3,414 million); for others HK$59 million (2008 – HK$84 million) and for **3** Group HK$8,259 million (2008 – HK$12,726 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.

Cash Flow (continued)

Debt Maturity and Currency Profile

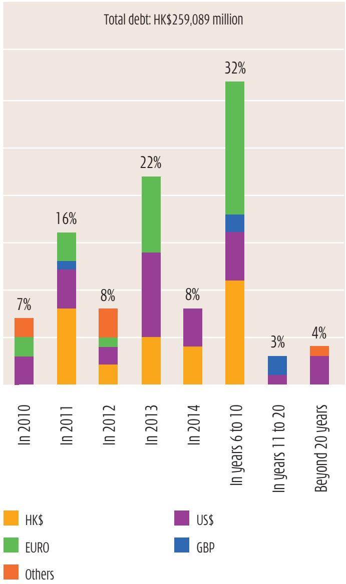
The Group's total principal amount of bank and other debts at 31 December 2009 increased 2% to total HK$259,089 million (2008 – HK$253,884 million) of which 62% (2008 – 53%) are notes and bonds and 38% (2008 – 47%) are bank and other loans. The net increase in principal amount of bank and other debts was primarily due to new borrowings of HK$111,452 million, as well as the adverse effect of the translation of foreign currency denominated loans to Hong Kong dollars of HK$4,414 million, partially offset by the repayment of debts as they matured and also early repayment of certain debts maturing in 2010 and 2011 totalling HK$103,182 million. The Group's weighted average cost of debt for the year to 31 December 2009 reduced 2.0% to 3.2% (year ended 31 December 2008 – 5.2%). Interest bearing loans from minority shareholders, which are viewed as quasi-equity, totalled HK$13,424 million at 31 December 2009 (2008 – HK$13,348 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2009 is set out below:

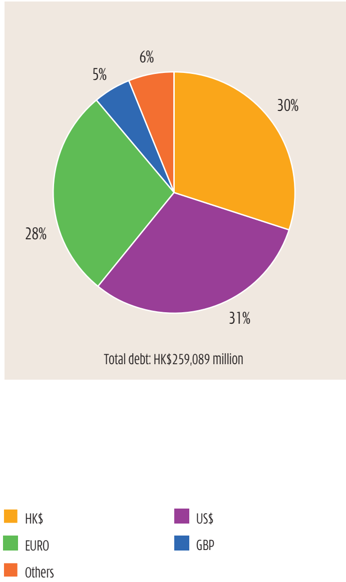
	HK$	US$	EURO	GBP	Others	Total
In 2010	–	3%	2%	–	2%	7%
In 2011	8%	4%	3%	1%	–	16%
In 2012	2%	2%	1%	–	3%	8%
In 2013	5%	9%	8%	–	–	22%
In 2014	4%	4%	–	–	–	8%
In years 6 to 10	11%	5%	14%	2%	–	32%
In years 11 to 20	–	1%	–	2%	–	3%
Beyond 20 years	–	3%	–	–	1%	4%
Total	30%	31%	28%	5%	6%	100%

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 2009



Debt profile by currency denomination at 31 December 2009



Changes in Financing

The significant financing activities in 2009 were as follows:

- In March, obtained two five-year floating rate loan facilities totalling HK$5,000 million primarily to refinance existing indebtedness;
- Between March and May, prepaid a syndicated loan facility totalling HK$1,750 million;
- In April, issued ten-year, fixed rate US$1,500 million (approximately HK$11,700 million) guaranteed notes to refinance existing indebtedness;
- In April, repaid at maturity, a loan of €240 million (approximately HK$2,425 million);
- In May, obtained a four-year, floating rate term loan facility of HK$1,500 million, to refinance existing indebtedness;
- In May, obtained a five-year, floating rate term loan facility of HK$2,000 million to refinance existing indebtedness;
- In May, obtained a four-year, floating rate syndicated loan facility of HK$8,000 million to refinance existing indebtedness;
- In May, listed subsidiaries HTHKH and HTIL, repaid on maturity, a floating rate term and revolving credit facility loan totalling HK$6,260 million;
- In May, listed subsidiary HTHKH obtained a 13-month, floating rate loan facility of HK$5,200 million to refinance existing indebtedness;
- In May, repaid on maturity, a floating rate loan facility of HK$3,300 million;
- Between June and November, through various tenders, purchased and effectively retired US$2,034 million (approximately HK$15,868 million), £275 million (approximately HK$3,518 million) and €276 million (approximately HK$3,019 million) of the Group's outstanding notes of various maturities. The Group has also purchased US$240 million (approximately HK$1,870 million) and €53 million (approximately HK$573 million) of these outstanding notes of various maturities during the year;
- In June, obtained a two-year, floating rate term loan facility of €300 million (approximately HK$3,246 million) to refinance existing indebtedness. In August, the maturity date of this facility was extended for four years to 2015;
- In June, prepaid a floating rate term loan facility of €300 million (approximately HK$3,279 million);
- In June, listed subsidiary HTIL, prepaid floating rate Israeli notes of NIS167 million (approximately HK$327 million) maturing in March 2012;
- In July, obtained a five-year, floating rate term loan facility of HK$1,000 million to refinance existing indebtedness;
- In July, put options were exercised to retire US$196 million (approximately HK$1,532 million) fixed rate notes maturing in August 2037;
- In September, issued six-year, fixed rate US$2,000 million (approximately HK$15,600 million) and ten-year, fixed rate US$1,000 million (approximately HK$7,800 million) guaranteed notes to refinance existing indebtedness;
- In September, listed subsidiary CKI obtained a three-year, floating rate term bank loan facility of A$300 million (HK$2,019 million) to refinance existing indebtedness;

Cash Flow (continued)

Changes in Financing (continued)

- In November, issued seven-year, fixed rate €1,750 million (approximately HK$20,248 million) guaranteed notes to refinance existing indebtedness;
- In November, prepaid a €47.9 million (approximately HK$554 million) loan facility maturing in 2010;
- In November, prepaid a syndicated loan facility of €2,000 million (approximately HK$23,140 million) maturing in 2011;
- In November, issued six-year, fixed rate US$189 million (approximately HK$1,477 million) guaranteed notes to refinance existing indebtedness;
- In November, obtained a five-year, floating rate loan facility of US$300 million (approximately HK$2,340 million) to refinance existing indebtedness;
- In December, listed subsidiary HTHKH obtained a three-year, floating rate facility of HK$5,000 million to refinance existing indebtedness;
- In December, repaid before maturity a syndicated loan facility of SEK10,500 million (approximately HK$11,130 million), and obtained a three-year, floating rate syndicated loan facility of SEK6,300 million (approximately HK$6,678 million);
- In December, obtained a five-year, floating rate syndicated loan facility of HK$5,000 million to refinance existing indebtedness;
- In December, repaid a €450 million (approximately HK$4,986 million) loan facility on maturity;
- In December, obtained a four-year, floating rate term loan facility of €1,000 million (approximately HK$11,080 million) to refinance existing indebtedness; and
- In December, prepaid a syndicated loan facility of €1,000 million (approximately HK$11,080 million) maturing in 2011.

Subsequent to the year end:

- In February this year, obtained a five-year, floating rate loan facility of HK$1,000 million to refinance existing indebtedness;
- In March this year, obtained a five-year, floating rate loan facility of HK$1,000 million to refinance existing indebtedness; and
- In March this year, prepaid a HK$5,000 million loan facility maturing later in 2010.

Capital, Net Debt and Interest Coverage Ratios

The Group's total shareholders' funds increased 9% to HK$283,531 million at 31 December 2009 compared to HK$260,319 million at 31 December 2008 (after restatement for the retroactive change of the CACs accounting policy), reflecting the profit for the year, net of dividends paid and a non-cash favourable effect, of HK$15,875 million arising from the translation of overseas subsidiaries' net assets at 31 December 2009 exchange rates, mainly due to the strengthening of the Euro and the British pound against the Hong Kong dollar compared to the prior year end. At 31 December 2009, the consolidated net debt of the Group, excluding interest bearing loans from minority shareholders which are viewed as quasi-equity, unamortised loan facilities fees and premiums or discounts on issue and fair value changes of interest rate swap contracts, was HK$143,355 million (2008 – HK$165,863 million), a 14% reduction compared to the net debt at the beginning of the year. The Group's net debt to net total capital ratio at 31 December 2009 is 29.9% (2008, as restated – 34.9%). This ratio is affected by foreign currency translation effects on shareholders' funds and on debt balances as shown below.

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 2009.

Net debt/Net total capital ratios at 31 December 2009:	**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	30.6%	29.9%
A2 – as in A1 above and investments in listed subsidiaries and associated companies marked to market value	28.1%	27.6%
B1 – including interest bearing loans from minority shareholders as debt	33.5%	32.7%
B2 – as in B1 above and investments in listed subsidiaries and associated companies marked to market value	30.8%	30.2%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, decreased 45% to total HK$9,889 million in 2009, compared to HK$17,891 million last year, mainly due to lower effective market interest rate in 2009 and lower average borrowings as a result of the previously mentioned debt repayments during the year.

Consolidated EBITDA and FFO before all telecommunications CACs for the year covered consolidated net interest expense and other finance costs 11.6 times and 6.9 times respectively (2008, as restated – 7.5 times and 4.4 times).

Secured Financing

At 31 December 2009, assets of the Group totalling HK$2,503 million (2008 – HK$10,857 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 2009 amounted to the equivalent of HK$20,340 million (2008 – HK$13,342 million).

Contingent Liabilities

At 31 December 2009, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities totalling HK$13,081 million (2008 – HK$4,334 million), of which HK$12,527 million (2008 – HK$3,749 million) has been drawn down as at 31 December 2009, and also provided performance and other guarantees of HK$5,039 million (2008 – HK$7,820 million).