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 fluctuations in interest rates and exchange rates on the Group's overall financial position 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 uses 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 2011, approximately 34% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 66% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$70,988 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$3,996 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 66% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 34% were at fixed rates at 31 December 2011.

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 certain countries where the Group has overseas operations, including the Euro, British pound, the Canadian and Australian dollars as well as Renminbi in the Mainland, fluctuated against the Hong Kong dollar. This gave rise to an unrealised gain of approximately HK$2,478 million (2010 – loss of HK$2,611 million) on translation of these operations' net assets to the Group's Hong Kong dollar reporting currency, including the Group's share of the translation gains and losses of associated companies and jointly controlled entities. This unrealised gain is reflected as a movement in the Consolidated Statement of Changes in Equity under the heading of exchange reserve.

At 31 December 2011, 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 swaps, are denominated as follows: 33% in Euro, 29% in US dollars, 22% in HK dollars, 9% in British Pounds and 7% in other currencies.

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 2011, 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 / traded 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 / traded debt and equity securities represented approximately 23% (2010 – approximately 20%) of the cash, liquid funds and other listed investments ("liquid assets"). The Group controls this risk through active monitoring of price movements and changes in market conditions that may have an impact on the value of these financial assets and instruments.

Liquid Assets

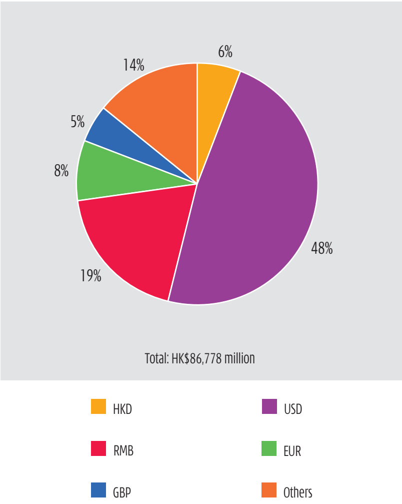
The Group continues to be in a healthy financial position. Liquid assets amounted to HK$86,778 million at 31 December 2011, a 25% reduction from the balance of HK$116,237 million at 31 December 2010, mainly reflecting the utilisation of cash for the repayment and early repayment of certain borrowings, dividend payments to ordinary and non-controlling shareholders as well as to perpetual capital securities holders, acquisition of fixed assets and investments, net of the positive funds from operations from the Group's businesses, proceeds from the IPO of HPH Trust and disposal of fixed assets. Liquid assets were denominated as to 6% in HK dollars, 48% in US dollars, 19% in Renminbi, 8% in Euro, 5% in British Pounds and 14% in other currencies.

Cash and cash equivalents represented 76% (2010 – 79%) of the liquid assets, US Treasury notes and listed / traded debt securities 16% (2010 – 15%), listed equity securities 7% (2010 – 5%) and long-term deposits and others 1% (2010 – 1%).

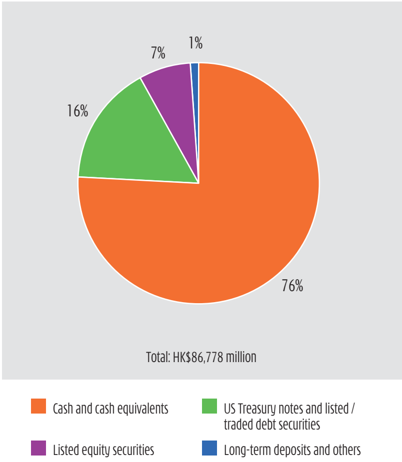
The US Treasury notes and listed / traded debt securities, including those held under managed funds, consisted of US Treasury notes of 48%, government guaranteed notes of 15%, supranational notes of 14%, notes issued by the Group's associated company, Husky Energy Inc of 7% and others of 16%. Of these US Treasury notes and listed / traded debt securities, 74% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.1 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

Group Capital Resources and Liquidity

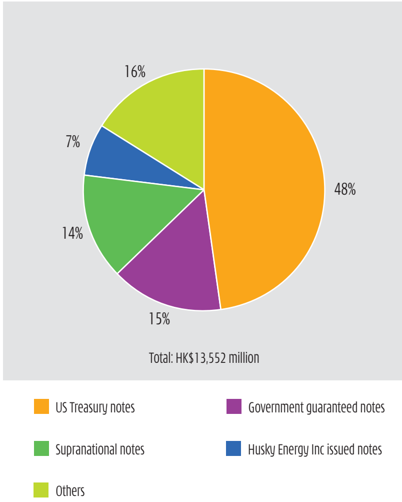
Liquid Assets by Currency Denomination at 31 December 2011



Liquid Assets by Type at 31 December 2011



US Treasury Notes and Listed / Traded Debt Securities by Type at 31 December 2011



Cash Flow

Consolidated EBITDA before and after all telecommunications CACs amounted to HK$164,837 million and HK$137,183 million respectively for 2011, increases of 93% and 111% respectively compared to last year. Total CACs of all of the Group's telecommunications operations amounted to HK$27,654 million for the year, a 36% increase compared to 2010, reflecting the increase in the number of customers acquired and retained, particularly the higher proportion of smartphone customers, as well as a 25% increase in the unit cost to acquire a customer. 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$29,112 million, an 11% decrease compared to last year, mainly due to the deconsolidation of FFO of the newly listed associate, HPH Trust.

The Group's capital expenditures increased 38% to total HK$30,924 million during 2011 (2010 – HK$22,344 million), primarily due to higher capital expenditures for the acquisition of telecommunications licences in Hong Kong, Europe and Asia, which totalled HK$5,693 million (2010 – HK$146 million) as well as network expansions and enhancements. Capital expenditures on fixed assets for the ports and related services division amounted to HK$5,928 million (2010 – HK$6,726 million); for the property and hotels division HK$274 million (2010 – HK$127 million); for the retail division HK$2,622 million (2010 – HK$1,791 million); for CKI HK$353 million (2010 – HK$70 million); for HTHKH HK$1,143 million (2010 – HK$1,118 million); for HAT HK$6,543 million (2010 – HK$2,411 million); for **3** Group HK$8,158 million (2010 – HK$9,375 million); and for the finance and investments and others HK$128 million (2010 – HK$119 million). Capital expenditures for telecommunications licences, brand names and other rights for HTHKH HK$1,602 million (2010 – HK$18 million); for HAT HK$1,351 million (2010 – HK$70 million) and for **3** Group HK$2,822 million (2010 – HK$519 million).

Purchases of and advances to (including deposits from) associated companies and jointly controlled entities totalled HK$25,768 million (2010 – HK$16,056 million), mainly reflecting the acquisition of Northumbrian Water in the UK by CKI, advances to property joint ventures as well as the investment by the Group to take up approximately C$100 million of a private share placement by Husky Energy.

The capital expenditures and investments 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

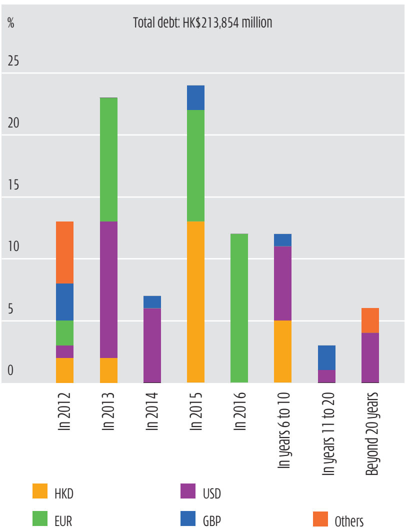
The Group's total principal amount of bank and other debts at 31 December 2011 decreased 14% to total HK$213,854 million (2010 – HK$247,362 million), of which 65% (2010 – 60%) are notes and bonds and 35% (2010 – 40%) are bank and other loans. The net decrease in principal amount of bank and other debts was primarily due to the repayment of debts as they matured and also early repayment of certain debts totalling HK$42,014 million, the deconsolidation of HK$8,911 million of aggregate loans upon the IPO of HPH Trust and the favourable impact of HK$1,192 million upon the translation of foreign currency-denominated loans to Hong Kong dollars, partly offset by HK$18,957 million in new borrowings. The Group's weighted average cost of debt at 31 December 2011 increased by 0.3%-points to 3.3% (2010 – 3.0%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK$6,502 million at 31 December 2011 (2010 – HK$13,493 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2011 is set out below:

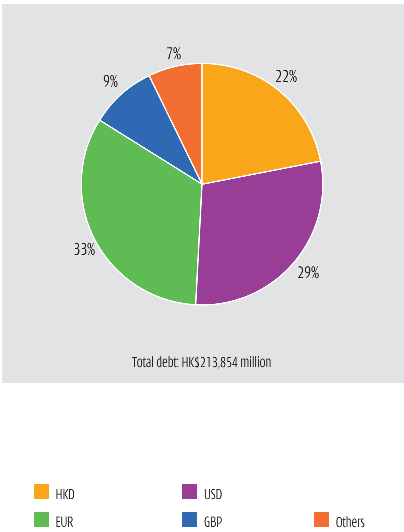
	HKD	USD	EUR	GBP	Others	**Total**
In 2012	2%	1%	2%	3%	5%	13%
In 2013	2%	11%	10%	–	–	23%
In 2014	–	6%	–	1%	–	7%
In 2015	13%	–	9%	2%	–	24%
In 2016	–	–	12%	–	–	12%
In years 6 to 10	5%	6%	–	1%	–	12%
In years 11 to 20	–	1%	–	2%	–	3%
Beyond 20 years	–	4%	–	–	2%	6%
Total	22%	29%	33%	9%	7%	100%

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.

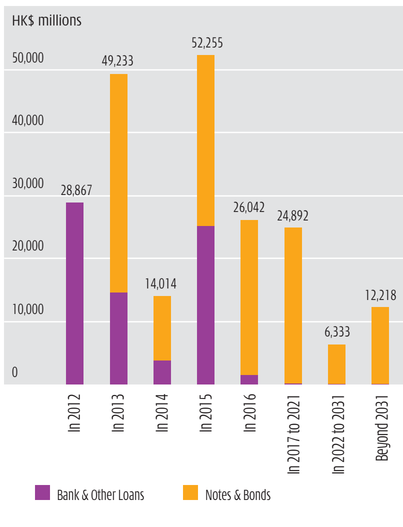
Debt Maturity Profile by Year and Currency Denomination at 31 December 2011



Debt Profile by Currency Denomination at 31 December 2011



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2011



Group Capital Resources and Liquidity

Changes in Financing

The significant financing activities in 2011 were as follows:

- In January, prepaid a floating rate loan facility of US$170 million (approximately HK$1,326 million) maturing in 2012;
- In January, prepaid a floating rate loan facility of US$35 million (approximately HK$273 million) maturing in 2012;
- In February, repaid on maturity fixed rate notes of US$1,100 million (approximately HK$8,581 million);
- In April, prepaid a floating rate loan facility of HK$8,000 million maturing in 2013;
- In April, prepaid aggregate floating rate loan facilities of HK$8,000 million maturing in 2014;
- In June, repaid on maturity a floating loan rate facility of US$130 million (approximately HK$1,014 million);
- In July, listed subsidiary CKI repaid on maturity a floating rate term loan facility of GBP100 million (approximately HK$1,248 million);
- In August, obtained a five-year, floating rate syndicated loan facility of EUR280 million (approximately HK$2,842 million) to refinance existing indebtedness;
- In September, repaid on maturity a floating rate syndicated loan facility of HK$5,000 million;
- In September, obtained a three-year floating rate loan facility of US$130 million (approximately HK$1,014 million) to refinance existing indebtedness;
- In October, obtained a three-year, floating rate loan facility of GBP125 million (approximately HK$1,524 million) and prepaid a floating rate loan facility of the same amount maturing later in 2011;
- In October, listed subsidiary CKI obtained one-year floating rate equity bridge facilities of GBP600 million (approximately HK$7,441 million) for acquisition of Northumbrian Water; and
- In November, obtained a three-year floating rate term loan facility of HK$2,800 million to fund capital expenditures.

Subsequent to the year end:

- In January and February this year, issued five-year, fixed rate US$1,000 million (approximately HK$7,800 million) and ten-year, fixed rate US$1,500 million (approximately HK$11,700 million) guaranteed notes to refinance existing indebtedness and for general corporate purposes; and
- In January this year, prepaid a floating rate loan facility of EUR1,000 million (approximately HK$10,070 million) maturing in 2013.

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased 15% to HK$359,612 million at 31 December 2011, compared to HK$314,033 million, at 31 December 2010 (as restated), reflecting the profits for 2011 and the net exchange gains on translation of the Group's overseas operations' net assets to the Group's Hong Kong dollar reporting currency including the Group's share of the translation gains and losses of associated companies and jointly controlled entities, partly offset by dividends paid, the reduction in reserves in relation to the purchase of non-controlling interests, net actuarial losses of defined benefits plans and other items recognised directly in reserves. At 31 December 2011, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling 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$127,076 million (2010 – HK$131,125 million), a reduction of 3% compared to the net debt at the beginning of the year. The Group's net debt to net total capital ratio at 31 December 2011 reduced to 23.8% (2010, as restated – 26.0%).

The following table shows the net debt to net total capital ratio calculated on the basis of including interest bearing loans from non-controlling shareholders and also with the Group's investments in its listed subsidiaries and associated companies marked to market value at 31 December 2011. The net debt to net total capital ratio can be significantly affected by foreign currency translation effects on total ordinary shareholders' funds and perpetual capital securities and on debt balances. The ratios as at 31 December 2011 before and after the effect of foreign currency transaction and other non-cash movements for the year are shown below:

Net debt/Net total capital ratios at 31 December 2011:		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 non-controlling shareholders from debt	24.0%	23.8%
A2:	as in A1 above and investments in listed subsidiaries and associated companies marked to market value	21.8%	21.7%
B1:	including interest bearing loans from non-controlling shareholders as debt	25.3%	25.1%
B2:	as in B1 above and investments in listed subsidiaries and associated companies marked to market value	22.9%	22.8%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, decreased 1% in 2011 to total HK$8,546 million, compared to HK$8,634 million in 2010, mainly due to lower average borrowings, partly offset by higher effective market interest rates during the year.

Consolidated EBITDA and FFO before all telecommunications CACs for the year covered consolidated net interest expense and other finance costs 29.2 times and 10.2 times respectively (31 December 2010, as restated – 13.6 times and 8.9 times).

Secured Financing

At 31 December 2011, assets of the Group totalling HK$524 million (2010 – HK$963 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 2011 amounted to the equivalent of HK$7,242 million (2010 – HK$11,162 million).

Group Capital Resources and Liquidity

Contingent Liabilities

At 31 December 2011, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities totalling HK$10,932 million (2010 – HK$5,805 million), of which HK$8,587 million (2010 – HK$5,122 million) has been drawn down as at 31 December 2011, and also provided performance and other guarantees of HK$4,838 million (2010 – HK$3,159 million).

Corporate Strategy

The Company strategy is to enhance long-term total return for our shareholders, to maintain prudent liquidity and a net debt to net total capital ratio of less than 25%. Please refer to the Chairman's Statement and Operations Review for discussions and analyses of the Group's performance and the basis on which the Group generates or preserves value over the longer term and the strategy for delivering the Group's objective.

Past Performance and Forward Looking Statements

The performance and the results of operations of the Group contained within this Annual Report are historical in nature, and past performance is no guarantee of the future results of the Group. Any forward-looking statements and opinions contained within this Annual Report are based on current plans, estimates and projections, and therefore involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.