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 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 2010, approximately 40% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 60% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$71,300 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$4,270 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. 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 2010.

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' cash flow 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, notably the Euro and British pound, where the Group has overseas operations, weakened against the Hong Kong dollar. This gave rise to an unrealised loss of approximately HK$2,610 million (2009 – gain of HK$15,813 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 loss is reflected as a movement in the Consolidated Statement of Changes in Equity under the heading of exchange reserve.

At 31 December 2010, 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: 31% in HK dollars, 29% in US dollars, 28% in Euro, 5% 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 2010, 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 20% (2009 – approximately 19%) of the cash, liquid funds and other listed investments ("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.

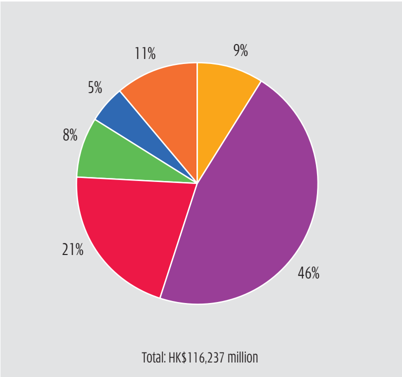
Liquid Assets

The Group continues to be in a healthy financial position. Liquid assets amounted to HK$116,237 million at 31 December 2010, an increase from HK$115,734 million at the end of 2009, mainly reflecting the higher cash flow from the operations of both the established businesses and **3** Group, as well as the proceeds from the issuance of perpetual capital securities in 2010 of US$2 billion and US$1 billion by HWL and CKI respectively, offset by the utilisation of cash for the acquisition of fixed assets, investments in the UK Power Assets businesses and the Group's 34.55% share of Husky Energy's C$1 billion common share placement, dividend payments and the payment of HK$4,199 million to non-controlling interests of Hutchison Telecommunications International Limited ("HTIL") pursuant to the scheme to privatise HTIL. Liquid assets were denominated as to 9% in HK dollars, 46% in US dollars, 21% in Renminbi, 8% in Euro, 5% in British Pounds and 11% in other currencies.

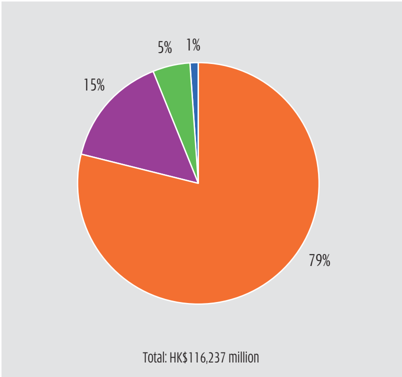
Cash and cash equivalents represented 79% (2009 – 80%) of the liquid assets, US Treasury notes and listed / traded debt securities 15% (2009 – 15%), listed equity securities 5% (2009 – 4%) and long-term deposits and others 1% (2009 – 1%).

The US Treasury notes and listed / traded debt securities, including those held under managed funds, consisted of government guaranteed notes (47%), supranational notes (17%), US Treasury notes (12%), government related entities issued notes (7%), notes issued by the Group's associated company, Husky Energy Inc (5%) and others (12%). Of these US Treasury notes and listed / traded debt securities, 77% are rated at Aaa/AAA with an average maturity of 1.1 years on the overall portfolio. The Group has no exposure in mortgage backed securities, collateralised debt obligations or similar asset classes.

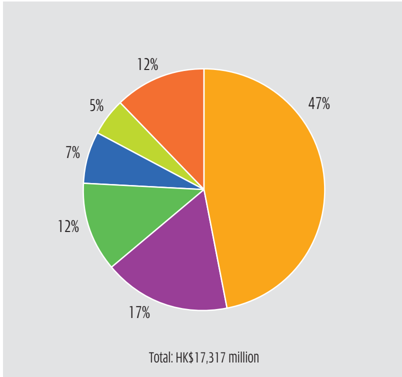
Liquid Assets by Currency Denomination at 31 December 2010



Liquid Assets by Type at 31 December 2010



US Treasury Notes and Listed / Traded Debt Securities by Type at 31 December 2010



Cash Flow

Consolidated EBITDA before and after all telecommunications CACs amounted to HK$85,475 million and HK$65,135 million respectively for 2010, increases of 4% and 3% respectively compared to last year. Total CACs of all of the Group's telecommunications operations amounted to HK$20,340 million for the year, a 7% increase compared to 2009, reflecting the increase in the number of customers acquired and retained during the year, particularly the acquisition of smartphone customers in the second half, partially offset by a 14% reduction 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$32,882 million, a 33% increase compared to last year.

The Group's capital expenditures increased 14% to total HK$22,344 million during 2010 (2009 – HK$19,576 million), primarily due to higher capital expenditures for the ports division on continuing developments, retail store expansion, as well as **3** Group network enhancements, partially offset by reduced telecommunications expenditure after the disposal of the Group's entire shareholding in Partner Communications in Israel in October 2009. Capital expenditures for the ports and related services division amounted to HK$6,726 million (2009 – HK$4,970 million); for the property and hotels division HK$127 million (2009 – HK$54 million); for the retail division HK$1,791 million (2009 – HK$1,072 million); for the energy and infrastructure division HK$70 million (2009 – HK$139 million); for the finance and investments division HK$8 million (2009 – HK$19 million); for HTHKH HK$1,136 million (2009 – HK$1,111 million); for HAT HK$2,481 million (2009 – HK$2,759 million); for Partner Communications HK$nil (2009 – HK$1,134 million); for others HK$111 million (2009 – HK$59 million); and for **3** Group HK$9,894 million (2009 – HK$8,259 million).

Purchases of and advances to (including deposits from) associated companies and jointly controlled entities totalled HK$16,056 million (2009 – net repayment of previous advances of HK$1,449 million), mainly reflecting the acquisition of UK Power Networks and Seabank Power, both located in the United Kingdom, as well as the investment by the Group to take up its 34.55% share of the C$1 billion common 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

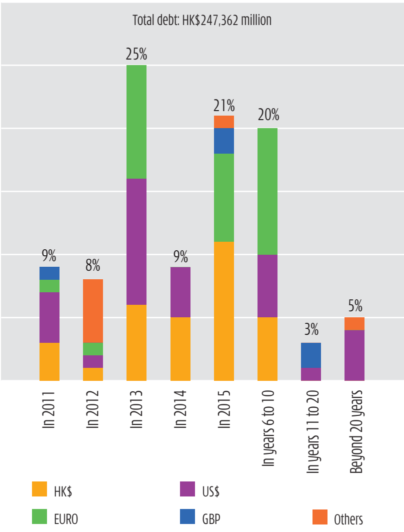
The Group's total principal amount of bank and other debts at 31 December 2010 decreased 5% to total HK$247,362 million (2009 – HK$259,089 million), of which 60% (2009 – 62%) are notes and bonds and 40% (2009 – 38%) are bank and other loans. The net decrease in principal amount of bank and other debts was primarily due to the repayment of debts as they matured and also early repayment of certain debts totalling HK$49,434 million, as well as the favourable effect of the translation of foreign currency denominated loans to Hong Kong dollars of HK$3,817 million, partially offset by new borrowings of HK$41,232 million. The Group's weighted average cost of debt for 2010 reduced 0.2% to 3.0% (2009 – 3.2%). Interest bearing loans from non-controlling interests, which are viewed as quasi-equity, totalled HK$13,493 million at 31 December 2010 (2009 – HK$13,424 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2010 is set out below:

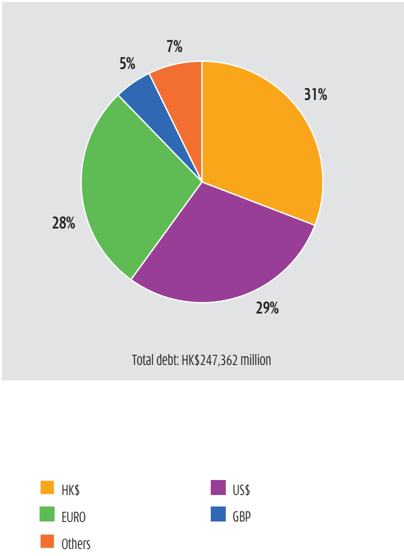
	HK$	US$	Euro	GBP	Others	**Total**
In 2011	3%	4%	1%	1%	–	**9%**
In 2012	1%	1%	1%	–	5%	**8%**
In 2013	6%	10%	9%	–	–	**25%**
In 2014	5%	4%	–	–	–	**9%**
In 2015	11%	–	7%	2%	1%	**21%**
In years 6 to 10	5%	5%	10%	–	–	**20%**
In years 11 to 20	–	1%	–	2%	–	**3%**
Beyond 20 years	–	4%	–	–	1%	**5%**
Total	**31%**	**29%**	**28%**	**5%**	**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 2010



Debt Profile by Currency Denomination at 31 December 2010



Changes in Financing

The significant financing activities in 2010 were as follows:

- In February, obtained a five-year, floating rate loan facility of HK$1,000 million to refinance existing indebtedness;
- In March, obtained a five-year, floating rate loan facility of HK$1,000 million to refinance existing indebtedness;
- In March, obtained a five-year, floating rate syndicated loan facility of HK$3,800 million to refinance existing indebtedness;
- In March, prepaid a HK$5,000 million loan facility maturing later in 2010;
- In April, obtained two five-year, floating rate loan facilities, each of HK$1,000 million, to refinance existing indebtedness;
- In June, listed subsidiary CKI obtained a two-year, floating rate term syndicated bank loan facility of A$210 million (approximately HK$1,334 million) to refinance existing indebtedness;
- In June, obtained a five-year, floating rate loan of THB4,905 million (approximately HK$1,180 million) and repaid a floating rate term loan facility of THB5,660 million (approximately HK$1,361 million) on maturity;
- In June, prepaid a HK$3,800 million loan facility maturing later in 2010;
- In November, obtained a five-year, floating rate loan facility of €320 million (approximately HK$3,264 million) to refinance existing indebtedness;
- In November, repaid on maturity fixed rate notes of US$1,045 million (approximately HK$8,157 million);
- In November and December, prepaid a floating rate loan facility of HK$4,000 million maturing in 2011;
- In December, obtained a three-year, floating rate loan facility of HK$3,500 million to refinance existing indebtedness;
- In December, prepaid a floating rate loan facility of HK$5,500 million maturing in 2011;
- In December, obtained three five-year, floating rate loan facilities, each of HK$1,000 million, to refinance existing indebtedness; and
- In December, refinanced a floating rate syndicated loan facility of €600 million (approximately HK$6,120 million).

Subsequent to the year end:

- In February this year, repaid on maturity fixed rate notes of US$1,100 million (approximately HK$8,581 million).

Group Capital Resources and Liquidity

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased 10% to HK$309,497 million at 31 December 2010, compared to HK$282,499 million, at 31 December 2009 (as restated), reflecting the profits for 2010 net of dividends paid and the issuance of perpetual capital securities in 2010 of US$2 billion (HK$15,600 million) by HWL. At 31 December 2010, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling interests 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$131,125 million (2009 - HK$143,355 million), a reduction of 9% compared to the net debt at the beginning of the year. The Group's net debt to net total capital ratio at 31 December 2010 reduced to 26.2% (2009 - 29.9%). In March 2011, the Group's consolidated net debt reduced significantly due to the net cash proceeds of approximately HK$45,000 million from the IPO of HPH Trust and the net debt to net total capital ratio is expected to reduce to around 20% in 2011.

The following table shows the net debt to net total capital ratio calculated on the basis of including interest bearing loans from non-controlling interests and also with the Group's investments in its listed subsidiaries and associated companies marked to market value at 31 December 2010. This ratio is affected by foreign currency translation effects on total ordinary shareholders' funds and perpetual capital securities and on debt balances as shown below.

Net debt / Net total capital ratios at 31 December 2010:		**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 interests from debt	26.8%	26.2%
A2:	as in A1 above and investments in listed subsidiaries and associated companies marked to market value	24.0%	23.5%
B1:	including interest bearing loans from non-controlling interests as debt	29.4%	28.9%
B2:	as in B1 above and investments in listed subsidiaries and associated companies marked to market value	26.4%	25.9%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, decreased 13% in 2010 to total HK$8,634 million, compared to HK$9,889 million in 2009, mainly due to lower effective market interest rates and lower average borrowings during the year.

Consolidated EBITDA and FFO before all CACs for the year covered consolidated net interest expense and other finance costs 13.6 times and 8.9 times respectively (31 December 2009, as restated - 11.5 times and 6.9 times).

Secured Financing

At 31 December 2010, assets of the Group totalling HK$963 million (2009 - HK$2,503 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 2010 amounted to the equivalent of HK$11,162 million (2009 - HK$20,340 million).

Contingent Liabilities

At 31 December 2010, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities totalling HK$5,805 million (2009 - HK$13,081 million), of which HK$5,122 million (2009 - HK$12,527 million) has been drawn down as at 31 December 2010, and also provided performance and other guarantees of HK$3,159 million (2009 - HK$5,039 million).