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 will 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 2012, approximately 25% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 75% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$74,966 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$7,900 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 51% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 49% were at fixed rates at 31 December 2012. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are expected to be highly effective.

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 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$5,077 million (2011: HK$2,478 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 2012, 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: 32% in Euro, 36% in US dollars, 20% in HK dollars, 6% in British Pounds and 6% 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 2012, 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 18% (2011: approximately 23%) 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

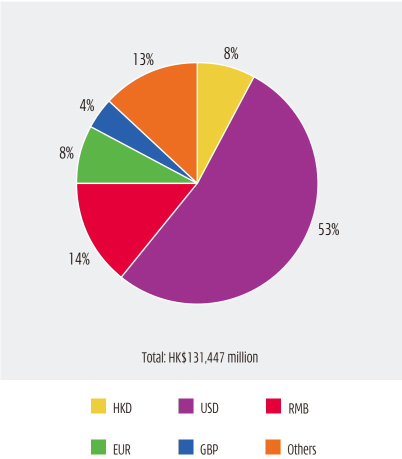
The Group continues to maintain a healthy and sound financial position. Liquid assets amounted to HK$131,447 million at 31 December 2012, an increase of 51% from the balance of HK$86,778 million at 31 December 2011, mainly reflecting positive funds from operations from the Group's businesses, cash from new borrowings, proceeds from the issue of perpetual capital securities, as well as from issues of perpetual capital securities and new shares by the Group's listed subsidiary, Cheung Kong Infrastructure ("CKI"), net of the utilisation of cash for the repayment and early repayment of certain borrowings, dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, and acquisition of fixed assets and investments. Liquid assets were denominated as to 8% in HK dollars, 53% in US dollars, 14% in Renminbi, 8% in Euro, 4% in British Pounds and 13% in other currencies.

Cash and cash equivalents represented 82% (2011: 76%) of the liquid assets, US Treasury notes and listed / traded debt securities 11% (2011: 16%), listed equity securities 7% (2011: 7%) and long-term deposits and others 0% (2011: 1%).

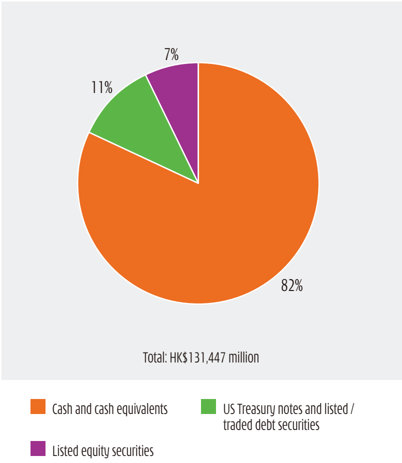
The US Treasury notes and listed / traded debt securities, including those held under managed funds, consisted of US Treasury notes of 47%, government and government guaranteed notes of 17%, supranational notes of 12%, notes issued by the Group's associated company, Husky Energy Inc of 6%, notes issued by financial institutions of 2%, and others of 16%. Of these US Treasury notes and listed / traded debt securities, 72% are rated at Aaa/AAA or Aa1/AA+ 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.

Group Capital Resources and Liquidity

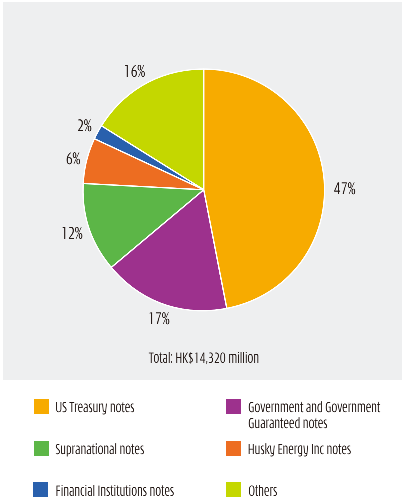
Liquid Assets by Currency Denomination at 31 December 2012



Liquid Assets by Type at 31 December 2012



US Treasury Notes and Listed / Traded Debt Securities by Type at 31 December 2012



Cash Flow

Consolidated EBITDA[1] amounted to HK$88,218 million, a decrease of 36% compared to HK$137,183 million reported last year mainly due to the inclusion of the gain on initial public offering of HPH Trust of HK$55,644 million in last year's reported numbers. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures and changes in working capital amounts to HK$36,344 million, a 25% increase compared to last year.

The Group's capital expenditures decreased 6% to total HK$29,107 million during 2012 (2011: HK$30,924 million), primarily due to lower capital expenditures for the acquisition of telecommunications licences in Hong Kong, Europe and Asia, which totalled HK$2,422 million (2011: HK$5,693 million) partially offset by higher capital expenditures on fixed assets. Capital expenditures on fixed assets for the ports and related services division amounted to HK$7,556 million (2011: HK$5,928 million); for the property and hotels division HK$271 million (2011: HK$274 million); for the retail division HK$3,055 million (2011: HK$2,622 million); for CKI HK$680 million (2011: HK$353 million); for HTHKH HK$1,600 million (2011: HK$1,143 million); for HAT HK$2,017 million (2011: HK$6,543 million); for **3** Group Europe HK$11,323 million (2011: HK$8,158 million); and for the finance and investments and others HK$43 million (2011: HK$128 million). Capital expenditures for telecommunications licences, brand names and other rights for HTHKH amounted to HK$172 million (2011: HK$1,602 million); for HAT HK$114 million (2011: HK$1,351 million) and for **3** Group Europe HK$2,276 million (2011: HK$2,822 million).

Purchases of and advances to (including deposits from) associated companies and jointly controlled entities totalled HK$4,484 million (2011: HK$25,768 million), mainly due to lower advances to property joint ventures in 2012 and 2011 included the acquisition of Northumbrian Water in the UK by CKI and 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.

Note 1: EBITDA includes the non-controlling interests' share of HPH Trust / HPH Trust operations' EBITDA.

Debt Maturity and Currency Profile

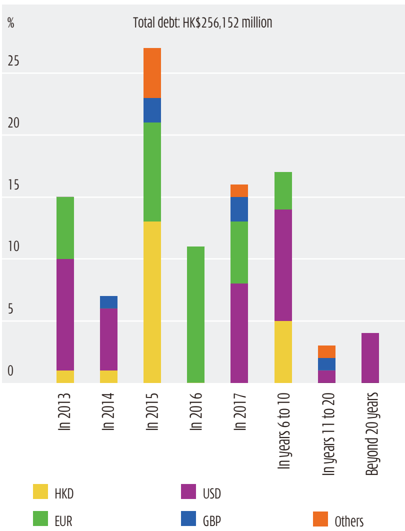
The Group's total principal amount of bank and other debts at 31 December 2012 increased 20% to total HK$256,152 million (2011: HK$213,854 million), of which 74% (2011: 65%) are notes and bonds and 26% (2011: 35%) are bank and other loans. The net increase in principal amount of bank and other debts was primarily due to new borrowings of HK$86,617 million and the unfavourable impact of HK$2,272 million upon translation of foreign currency-denominated loans to Hong Kong dollars, partly offset by the repayment of debts as they matured as well as early repayment of certain debts totalling HK$47,022 million. The Group's weighted average cost of debt at 31 December 2012 increased by 0.1%-points to 3.4% (2011: 3.3%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK$6,307 million at 31 December 2012 (2011: HK$6,502 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2012 is set out below:

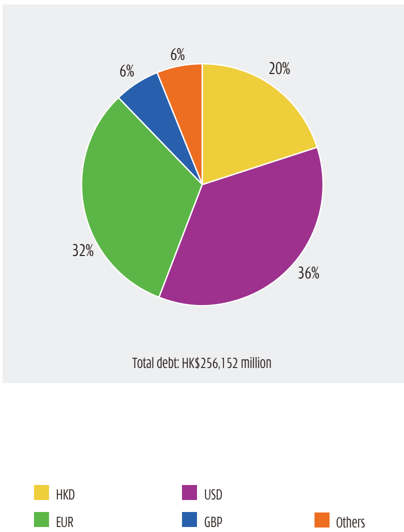
	HK$	US$	Euro	GBP	Others	**Total**
In 2013	1%	9%	5%	-	-	15%
In 2014	1%	5%	-	1%	-	7%
In 2015	13%	-	8%	2%	4%	27%
In 2016	-	-	11%	-	-	11%
In 2017	-	8%	5%	2%	1%	16%
In years 6 to 10	5%	9%	3%	-	-	17%
In years 11 to 20	-	1%	-	1%	1%	3%
Beyond 20 years	-	4%	-	-	-	4%
Total	20%	36%	32%	6%	6%	100%

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.

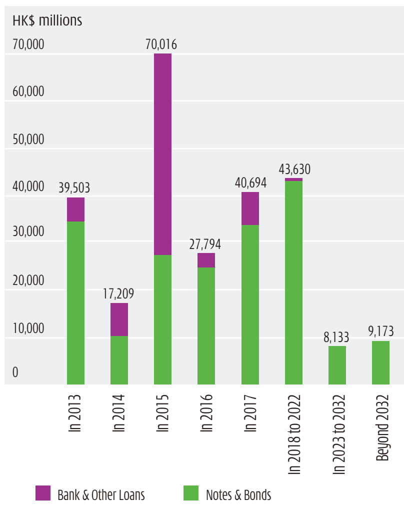
Debt Maturity Profile by Year and Currency Denomination at 31 December 2012



Debt Profile by Currency Denomination at 31 December 2012



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2012



Group Capital Resources and Liquidity

Changes in Financing

The significant financing activities in 2012 were as follows:

- In January and February, 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;
- In January, prepaid a floating rate loan facility of Euro1,000 million (approximately HK$10,070 million) maturing in December 2013;
- In March, listed subsidiary CKI issued 15-year, fixed rate notes of JPY15,000 million (approximately HK$1,408 million) and early repaid JPY30,000 million (approximately HK$2,817 million) fixed rate notes maturing in March 2032;
- In June, issued five-year, fixed rate Euro1,250 million (approximately HK$12,300 million) and ten-year, fixed rate Euro750 million (approximately HK$7,380 million) guaranteed notes to refinance existing indebtedness and for general corporate purposes;
- In June, obtained a three-year floating rate syndicated loan facility of HK$5,500 million to refinance existing indebtedness and repaid on maturity a floating rate loan facility of HK$4,860 million;
- In July, obtained a three-year floating rate loan facility of Euro240 million (approximately HK$2,246 million) and repaid on maturity a floating rate loan facility of the same amount;
- In July, obtained a three-year floating rate loan facility of SEK10,500 million (approximately HK$11,655 million) and early repaid a floating rate loan facility of the same amount maturing in December 2012;
- In July and August respectively, listed subsidiary CKI obtained a three-year syndicated loan facility of A$260 million (approximately HK$2,119 million) and a five year syndicated loan facility of A$250 million (approximately HK$2,038 million) to refinance a syndicated loan facility of A$510 million (approximately HK$4,158 million);
- In September, repaid on maturity a syndicated loan facility of US$280 million (approximately HK$2,184 million);
- In September, obtained a three-year floating rate syndicated loan facility of US$280 million (approximately HK$2,184 million);
- In September, obtained a ten-year floating rate term loan facility of RMB1,273 million (approximately HK$1,565 million);
- In October, listed subsidiary CKI repaid an equity bridge facility of GBP600 million (approximately HK$7,554 million) upon maturity and obtained a five-year loan facility of GBP300 million (approximately HK$3,777 million);
- In November, issued five-year, fixed rate US$1,000 million (approximately HK$7,800 million) and ten year, fixed rate US$500 million (approximately HK$3,900 million) guaranteed notes to refinance existing indebtedness and for general corporate purposes;
- In December, listed subsidiary CKI obtained a five-year floating rate syndicated loan facility of JPY12,000 million (approximately HK$1,146 million); and
- In December, listed subsidiary CKI issued seven-year fixed rate notes of JPY3,000 million (approximately HK$286 million).

Subsequent to the year end:

- In January this year, obtained a short term floating rate loan facility of Euro1,450 million (approximately HK$15,037 million);
- In February this year, repaid on maturity US$3,110 million principal amount of fixed rate notes (approximately HK$24,257 million); and
- In February this year, obtained a short term floating rate revolving loan facility of GBP550 million (approximately HK$6,523 million).

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased 9% to HK$391,559 million at 31 December 2012, compared to HK$359,612 million, at 31 December 2011, reflecting the profits for 2012 as well as the issuance of US$1,000 million perpetual capital securities in May 2012, 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 and distributions paid and other items recognised directly in reserves. At 31 December 2012, 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$124,705 million (2011: HK$127,076 million), a reduction of 2% compared to the net debt at the beginning of the year. The Group's net debt to net total capital ratio at 31 December 2012 reduced to 21.9% (2011: 23.8%).

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 2012. 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 2012 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 2012:		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	22.0%	21.9%
A2:	as in A1 above and investments in listed subsidiaries and associated companies marked to market value	19.4%	19.3%
B1:	including interest bearing loans from non-controlling shareholders as debt	23.1%	23.0%
B2:	as in B1 above and investments in listed subsidiaries and associated companies marked to market value	20.4%	20.3%

The Group's consolidated gross interest expense and other finance costs of subsidiaries, before capitalisation, increased 9% in 2012 to total HK$9,348 million, compared to HK$8,546 million in 2011, mainly due to higher effective market interest rates and higher average borrowings during the year.

Consolidated EBITDA and FFO for the year covered consolidated net interest expense and other finance costs 14.7 times and 7.2 times respectively (31 December 2011: 24.2 times and 6.1 times).

Secured Financing

At 31 December 2012, assets of the Group totalling HK$824 million (2011: HK$524 million) were pledged as security for bank and other debts.

Group Capital Resources and Liquidity

Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2012 amounted to the equivalent of HK$5,807 million (2011: HK$7,242 million).

Contingent Liabilities

At 31 December 2012, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities totalling HK$11,920 million (2011: HK$10,932 million), of which HK$10,139 million (2011: HK$8,587 million) has been drawn down as at 31 December 2012, and also provided performance and other guarantees of HK$4,411 million (2011: HK$4,838 million).