

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. It is the Group's policy not to have credit rating triggers that would accelerate the maturity dates of the Group's borrowings. The Group uses interest rate and foreign currency swaps and forward 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 associated companies to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings for which the proportions 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 2014, approximately 26% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 74% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK\$64,793 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK\$5,995 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 50% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 50% were at fixed rates at 31 December 2014. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are considered highly effective.

Foreign Currency Exposure

For overseas subsidiaries, associated companies 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 refinance 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 associated companies. 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 loss of approximately HK\$23,998 million (2013: loss of HK\$5,130 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 joint ventures. This unrealised loss is reflected as a movement in the Consolidated Statement of Changes in Equity under the heading of Other Reserves.

At 31 December 2014, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK\$16,968 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: 41% in US dollars, 34% in Euro, 13% in HK dollars, 6% in British Pounds and 6% in other currencies.

Credit Exposure

The Group's holdings of cash, managed funds and other liquid investments, and interest rate and foreign currency swaps and forward 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 and credit ratings as well as setting approved counterparty credit limits that are regularly reviewed.

Group Capital Resources and Liquidity

Treasury Management *(continued)*

Credit Exposure *(continued)*

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 2014, our long-term credit ratings were A3 from Moody's, A- from Standard & Poor's and A- from Fitch, with all three agencies maintaining stable outlooks on the Group's ratings.

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 11% (2013: approximately 16%) 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.

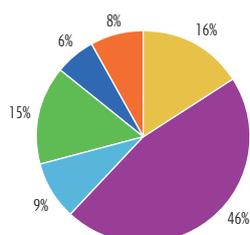
Liquid Assets

The Group continues to maintain a strong financial position. Liquid assets amounted to HK\$140,459 million at 31 December 2014, an increase of 37% from the balance of HK\$102,787 million at 31 December 2013, mainly reflecting net cash proceeds of HK\$13,853 million, after special dividend of HK\$7.00 per share amounting to HK\$29,843 million, from Temasek's acquisition of a 24.95% equity interest in A S Watson Holdings Limited during the year, the cash raised from debt capital market of HK\$42,030 million, the cash arising from positive funds from operations from the Group's businesses and cash from new borrowings, net of utilisation of cash for dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, the repayment and early repayment of certain borrowings, the acquisition of O₂ Ireland of HK\$8,325 million, purchase of additional interest of 27.51% in the Australian Gas Networks Limited ("AGN") by listed subsidiary, CKI, of HK\$4,705 million, the redemption of perpetual capital securities issued in 2012 of US\$300 million (approximately HK\$2,340 million) by listed subsidiary, CKI, advances to property joint ventures, and the acquisition of fixed assets. Liquid assets were denominated as to 16% in HK dollars, 46% in US dollars, 9% in Renminbi, 15% in Euro, 6% in British Pounds and 8% in other currencies.

Cash and cash equivalents represented 89% (2013: 84%) of the liquid assets, US Treasury notes and listed/traded debt securities 6% (2013: 8%) and listed equity securities 5% (2013: 8%).

The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 46%, government and government guaranteed notes of 20%, notes issued by the Group's associated company, Husky Energy of 3%, notes issued by financial institutions of 3%, and others of 28%. Of these US Treasury notes and listed/traded debt securities, 66% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 3.0 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

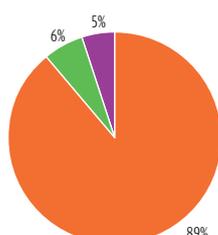
**Liquid Assets by
Currency Denomination
at 31 December 2014**



Total: HK\$140,459 million



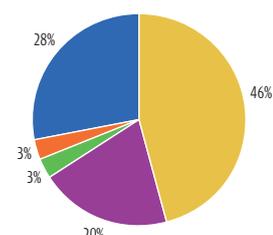
**Liquid Assets by Type
at 31 December 2014**



Total: HK\$140,459 million



**US Treasury Notes and Listed/
Traded Debt Securities by Type
at 31 December 2014**



Total: HK\$7,372 million



Cash Flow

Reported EBITDA⁽¹⁾ amounted to HK\$98,873 million, an increase of 3% compared to HK\$95,647 million for last year. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital amounts to HK\$50,836 million, a 3% increase compared to last year mainly due to higher EBITDA contributions by the Group's subsidiaries, in particular 3 Group Europe, partly offset by the decrease in distributions received from property joint ventures.

The Group's capital expenditures decreased 29% to total HK\$21,559 million during 2014 (2013: HK\$30,493 million), primarily due to lower capital expenditures for the acquisition of telecommunications licences which totalled HK\$41 million, which represented ancillary cost and interest capitalised on licences acquired in prior years (2013: HK\$6,828 million) and lower capital expenditures for the acquisition of fixed assets, particularly for the ports division. Capital expenditures on fixed assets for the ports and related services division amounted to HK\$3,943 million (2013: HK\$7,060 million); for the property and hotels division HK\$152 million (2013: HK\$535 million); for the retail division HK\$2,449 million (2013: HK\$2,264 million); for CKI HK\$292 million (2013: HK\$406 million); for 3 Group Europe HK\$11,144 million (2013: HK\$10,116 million); for HTHKH HK\$1,174 million (2013: HK\$1,239 million); for HAT HK\$1,906 million (2013: HK\$1,621 million); and for the finance and investments and others segment HK\$229 million (2013: HK\$319 million). Capital expenditures for licences, brand names and other rights were HK\$48 million (2013: HK\$11 million) for the ports and related services division; for CKI HK\$13 million (2013: HK\$11 million); for 3 Group Europe HK\$165 million (2013: HK\$6,884 million); for HTHKH HK\$43 million (2013: HK\$27 million); and for HAT HK\$1 million (2013: Nil).

In addition, during the year, the Group have spent HK\$8,467 million on the acquisition of new investments which included the acquisition of O₂ Ireland for HK\$8,325 million.

Purchases of and advances to (net of deposits from) associated companies and joint ventures, net of repayments from associated companies and joint ventures, resulted in a net cash outflow of HK\$10,040 million (2013: HK\$5,287 million). This is mainly due to the additional interest acquired in AGN by CKI for HK\$4,705 million, lower repayments from associated companies and joint ventures together with higher advances to property joint ventures in the year, which reflects the tightening of monetary policies in the Mainland resulting in the need for short-term cash retention by property joint ventures for construction purposes.

Furthermore, during the year, the Group have recognised proceeds totalling HK\$5,957 million (2013: HK\$5,155 million) from the disposal of the Group's interests in certain subsidiaries, associated companies and joint ventures.

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.

For further information of the Group's capital expenditures by divisions and cashflow, please see Note 5(e) and the "Consolidated Statement of Cashflows" section of this Annual Report.

Note 1: Reported EBITDA excludes the non-controlling interests' share of HPH Trust's EBITDA and profits on disposals of investments and others.

Group Capital Resources and Liquidity

Debt Maturity and Currency Profile

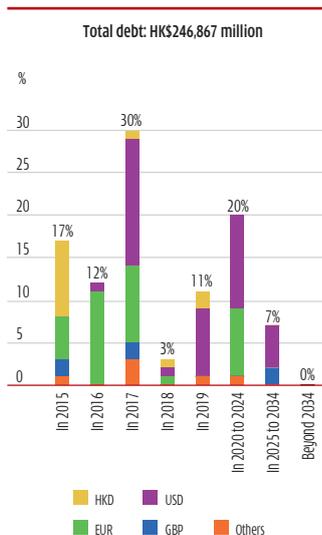
The Group's total principal amount of bank and other debts at 31 December 2014 increased 10% to total HK\$246,867 million (2013: HK\$223,822 million), of which 75% (2013: 70%) are notes and bonds and 25% (2013: 30%) are bank and other loans. The net increase in principal amount of bank and other debts was primarily due to new borrowings of HK\$77,895 million, which included HK\$42,030 million raised from the debt capital market, partially offset by the favourable impact of HK\$11,800 million upon translation of foreign currency-denominated loans to Hong Kong dollars, the repayment of debts as they matured and the early repayment of certain debts totalling HK\$44,860 million. The Group's weighted average cost of debt for the year ended 31 December 2014 remained flat at 3.1% compared to last year. Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK\$8,000 million at 31 December 2014 (2013: HK\$5,445 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2014 is set out below:

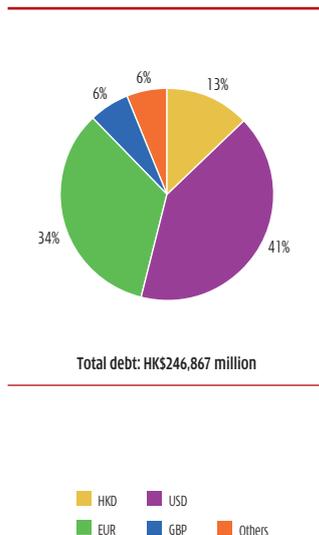
	HK\$	US\$	Euro	GBP	Others	Total
In 2015	9%	—	5%	2%	1%	17%
In 2016	—	1%	11%	—	—	12%
In 2017	1%	15%	9%	2%	3%	30%
In 2018	1%	1%	1%	—	—	3%
In 2019	2%	8%	—	—	1%	11%
In 2020 - 2024	—	11%	8%	—	1%	20%
In 2025 - 2034	—	5%	—	2%	—	7%
Beyond 2034	—	—	—	—	—	—
Total	13%	41%	34%	6%	6%	100%

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 have credit rating triggers that would accelerate the maturity dates of any outstanding consolidated Group debt.

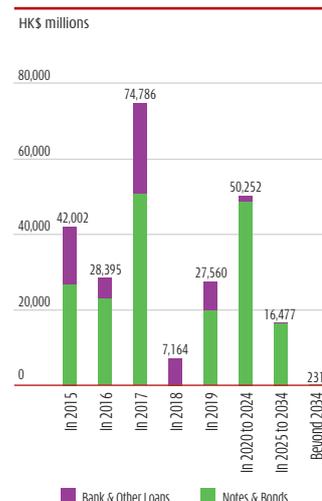
Debt Maturity Profile by Year and Currency Denomination at 31 December 2014



Debt Profile by Currency Denomination at 31 December 2014



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2014



Changes in Debt Financing

The significant financing activities in 2014 were as follows:

- In January, repaid US\$1,309 million (approximately HK\$10,206 million) principal amount of fixed notes on maturity;
- In February and November, prepaid and repaid a floating rate term loan facility of HK\$2,800 million on maturity;
- In March, obtained a five-year floating rate loan facility of US\$130 million (approximately HK\$1,014 million);
- In April, September and December, prepaid a floating rate term loan facility of €240 million (approximately HK\$2,280 million) maturing in July 2015;
- In April, June and November, prepaid a floating rate term loan facility of SEK10,000 million (approximately HK\$11,175 million) maturing in July 2015;
- In April, obtained a five-year floating rate loan facility of SEK1,786 million (approximately HK\$2,108 million);
- In May, obtained a three-year floating rate loan facility of HK\$3,296 million;
- In May, obtained a three-year floating rate loan facility of €1,113 million (approximately HK\$11,738 million);
- In May, listed subsidiary CKI obtained a three-year floating rate term loan facility of AUD705 million (approximately HK\$5,139 million);
- In June, listed subsidiary CKI issued three-year floating rate notes of US\$300 million (approximately HK\$2,340 million);
- In June, obtained a two-year floating rate loan facility of US\$280 million (approximately HK\$2,184 million);
- In June, obtained a four-year floating rate loan facility of HK\$1,400 million;
- In September, repaid a floating rate loan facility of US\$130 million (approximately HK\$1,014 million) on maturity;
- In September, prepaid a floating rate loan facility of US\$280 million (approximately HK\$2,184 million) maturing in March 2016;
- In September, obtained a five-year floating rate loan facility of £85 million (approximately HK\$1,031 million);
- In October, issued three-year, fixed rate US\$2,000 million (approximately HK\$15,600 million) and ten-year, fixed rate US\$1,500 million (approximately HK\$11,700 million) guaranteed notes;
- In October, issued seven-year, fixed rate €1,500 million (approximately HK\$14,730 million) guaranteed notes;
- In October, repaid a floating rate loan facility of £125 million (approximately HK\$1,516 million) on maturity;
- In November, prepaid a floating rate loan facility of HK\$1,000 million maturing in February 2015;
- In November, prepaid a floating rate loan facility of HK\$1,000 million maturing in March 2015;
- In November, prepaid a floating rate loan facility of HK\$3,800 million maturing in March 2015;
- In November, prepaid a floating rate loan facility of HK\$1,000 million maturing in April 2015;
- In November, obtained a five-year floating rate loan facility of HK\$5,000 million;
- In November, obtained a five-year floating rate loan facility of €100 million (approximately HK\$950 million);
- In December, prepaid a floating rate term loan facility of €320 million (approximately HK\$3,040 million) maturing in November 2015; and
- In December, prepaid a floating rate loan facility of HK\$3,540 million maturing in June 2015.

Group Capital Resources and Liquidity

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased 9% to HK\$466,218 million at 31 December 2014, compared to HK\$426,609 million at 31 December 2013, reflecting the profits for 2014, an increase of HK\$39,026 million in relation to Temasek's acquisition of a 24.95% equity interest in A S Watson Holdings Limited, as well as, an increase of HK\$25,100 million arising from the investment property revaluation gain recognised during the year, partly offset by the net exchange losses 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 joint ventures, a special dividend of HK\$29,843 million paid following Temasek's acquisition, 2013 final and 2014 interim dividends and distributions paid and other items recognised directly in reserves. At 31 December 2014, 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\$106,408 million (2013: HK\$121,035 million), a 12% 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 2014 reduced to 16.8% (2013: 20%).

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 2014. The net debt to net total capital ratio can be significantly affected by foreign currency translation effects on total ordinary shareholders' funds, perpetual capital securities and debt balances. The ratios as at 31 December 2014 before and after the effect of foreign currency translation and other non-cash movements for the year are shown below:

Net debt/Net total capital ratios at 31 December 2014:	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	17.3%	16.8%
A2: as in A1 above and investments in listed subsidiaries and associated companies marked to market value	16.3%	15.7%
B1: including interest bearing loans from non-controlling shareholders as debt	18.5%	18.0%
B2: as in B1 above and investments in listed subsidiaries and associated companies marked to market value	17.4%	16.9%

The Group's consolidated gross interest expenses and other finance costs of subsidiaries, before capitalisation, decreased 5% in 2014 to total HK\$8,153 million, compared to HK\$8,564 million in 2013, mainly due to lower average borrowings during the year.

Reported EBITDA of HK\$98,873 million and FFO of HK\$50,836 million for the year covered consolidated net interest expenses and other finance costs 20.4 times and 11.7 times respectively (31 December 2013: 17.5 times and 10.2 times).

Secured Financing

At 31 December 2014, assets of the Group totalling HK\$1,922 million (2013: HK\$2,299 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 2014 amounted to the equivalent of HK\$2,861 million (2013: HK\$4,479 million).

Contingent Liabilities

At 31 December 2014, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK\$25,285 million (2013: HK\$24,610 million), of which HK\$23,892 million (2013: HK\$22,839 million) has been drawn down as at 31 December 2014, and also provided performance and other guarantees of HK\$3,694 million (2013: HK\$4,131 million).