Group Capital Resources and Liquidity

Treasury Management

The Group's treasury function sets financial risk management policies in accordance with policies and procedures approved by its Executive Directors, 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 uses derivatives, principally interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transaction for speculative purposes.

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, 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 net 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 a combination of interest rate swaps and forward rate agreements to manage its long-term interest rate exposure and exposure to short-term interest rate volatility respectively. The Group's main interest risk exposures relate to US dollar, Euro and HK dollar borrowings.

At 31 December 2005, approximately 53% of the Group's principal amount of borrowings were at floating rates and the remaining 47% were at fixed rates. The Group has entered into various interest rate agreements with major creditworthy financial institutions to swap approximately HK$96,706 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$7,838 million principal amount of floating interest rate borrowings was swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 86% of the Group's principal amount of borrowings were at floating rates and the remaining 14% were at fixed rates at 31 December 2005.

Foreign Currency Exposure

For overseas subsidiaries and associates and other investments, which consist of non-HK dollar and non-US dollar assets, the Group generally endeavours to establish a natural hedge with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in the local currency are not attractive, the Group may not borrow in the local currency and instead monitor the development of the businesses' cashflow and the debt markets and, when appropriate, would expect to refinance these businesses with local currency borrowings. During the year, the HK dollar strengthened against the currencies of most of those countries where the Group has overseas operations. This gave rise to an unrealised charge of HK$13,904 million (2004 - unrealised gain of HK$7,983 million) on translation of these operations' net assets to the Group's HK dollar reporting currency, which was reflected as a movement in the Group's reserves. Exposure to movements in exchange rates on individual transactions directly related to the underlying businesses is minimised using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist.

At 31 December 2005, the Group had entered into currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$1,365 million to non-US dollar principal amount of borrowings to match currency exposures of the underlying businesses. The Group's borrowings after taking into consideration of these currency swaps is denominated as to 16% in HK dollars, 35% in US dollars, 3% in British pounds, 32% in Euros and 14% in others currencies.

Credit Exposure

The Group's holdings of cash, managed funds and other liquid investments expose the Group to credit risk of the counterparty. The Group controls its credit risk to non-performance by its counterparties through the setting of approved counterparty credit limits which are regularly reviewed and by monitoring their credit ratings.

Credit Profile

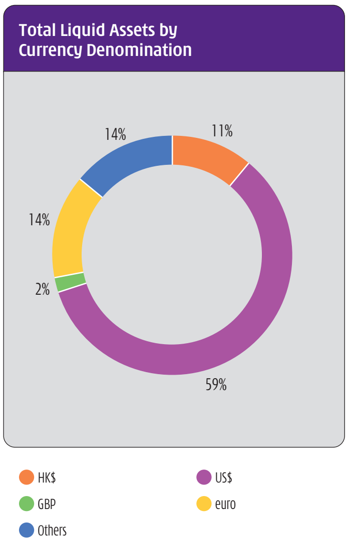
The Group aims to maintain a capital structure that is appropriate for long-term investment gradings of A3 on the Moody's Investor Service scale, A- on the Standard & Poor's Rating Services scale and A- on the Fitch Ratings scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances. At 31 December 2005, our long-term credit ratings were A3 from Moody's, A- from Standard & Poor's and A- from Fitch.

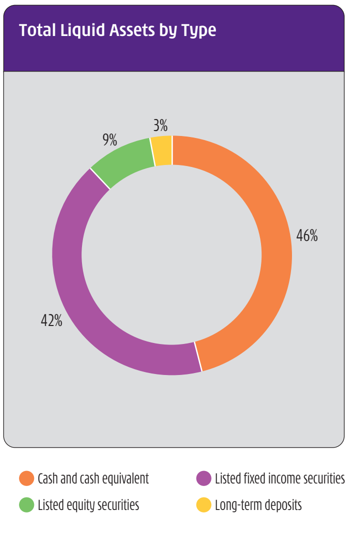
Liquid Assets

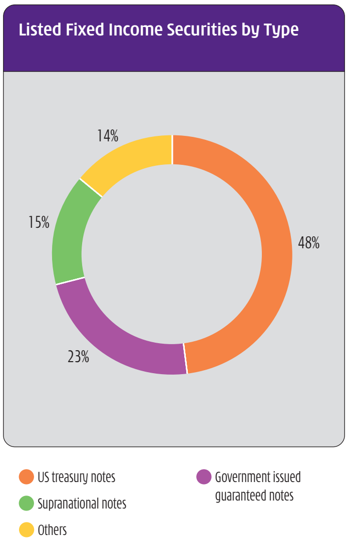
The Group continues to have a strong financial position benefiting from both the steady and growing cash flow from its established businesses. Cash, liquid funds and other investments ("total liquid assets") on hand totalled HK$110,386 million at 31 December 2005 (2004 - HK$140,301 million). The year-on-year decrease in total liquid assets mainly reflects the repayment of a €2,465 million **3** Italia bank loan. Of the total liquid assets, 11% were denominated in HK dollars, 59% in US dollars, 2% in British pounds, 14% in Euros and 14% in other currencies.

Cash and cash equivalents represented 46% (2004 – 54%) of the total liquid assets, listed fixed income securities 42% (2004 – 36%), listed equity securities 9% (2004 – 7%) and long-term deposits 3% (2004 – 3%).

The listed fixed income securities, including those held under managed funds, comprise US treasury notes (48%), government issued guaranteed notes (23%), supranational notes (15%) and others (14%). More than 83% of the listed fixed income securities are rated at Aaa/AAA, with an average maturity of approximately 3.1 years on the overall portfolio.







Cash Flow

Consolidated EBITDA before prepaid CACs amounted to HK$73,292 million in 2005, a 24% increase from 2004, and funds from operations ("FFO"), before capital expenditure, investment in prepaid and postpaid CACs and changes in working capital amounted to HK$25,293 million, a 54% increase. The increase is attributed to the continued strong financial performance of the Group's established businesses and more significantly, the impressive improvement in the **3** Group which reported a 123% improvement in EBITDA and 52% improvement in FFO. EBITDA and FFO from the Group's established businesses, excluding the **3** Group businesses continued to be strong, totalling HK$71,467 million (2004 – HK$66,942 million) and HK$32,449 million (2004 – HK$31,292 million) respectively.

In addition to funds from operations, the Group received cash considerations from the disposal of a 19.3% interest in HTIL and also, a 20% interest in HIT and 10% interest in COSCO-HIT, totalling HK$17,310 million. The Group also received cash proceeds from the listing of the Australian electricity distribution businesses by CKI of approximately A$2,200 million.

The Group's capital expenditures, excluding expenditures for properties under development and for sale, totalled HK$26,968 million (2004 – HK$34,090 million), of which HK$14,051 million (2004 – HK$21,428 million) related to the **3** Group. Capital expenditures for the ports and related services division amounted to HK$4,951 million (2004 – HK$4,654 million); for the property and hotels division HK$226 million (2004 - HK$794 million); for the retail division HK$2,454 million (2004 – HK$2,249 million); HK$500 million (2004 – HK$181 million) for the energy, infrastructure, finance & investments and others division; and for HTIL HK$4,824 million (2004 – HK$4,876 million). The decrease in the **3** Group capital expenditures by 34% to HK$14,051 million was mainly due to the reduction in expenditures incurred for the build-out of the 3G networks, which are nearing completion.

The investment in customer acquisition costs totalled HK$23,543 million (2004 – HK$20,505 million), comprised of the capitalised **3** Group's postpaid CACs of HK$12,099 million (2004 – HK$12,082 million), and expensed as incurred the **3** Group's prepaid CACs of HK$11,444 million (2004 – HK$8,423 million).

The capital expenditures of the **3** Group businesses in Italy and Australia were primarily funded by financing facilities, whilst the Group's remaining capital expenditures in its other businesses and investments in customer acquisition costs were funded primarily from cash generated from operations, cash on hand and to the extent required, by borrowings.

During the year, the Group also expanded its established businesses through strategic acquisitions including the acquisition of Marionnaud for €534 million and The Perfume Shop for £222 million by the retail division and the purchase of a 40% interest in Northern Gas Networks in the UK by CKI. In addition, the Group also exercised its right to re-purchase from the minority shareholders of **3** UK their 35% interest for £210 million at a substantial discount to its net asset value and to the £2,100 million paid to the Group by the minority shareholders when they acquired these interests in 2000.

Debt Maturity and Currency Profile

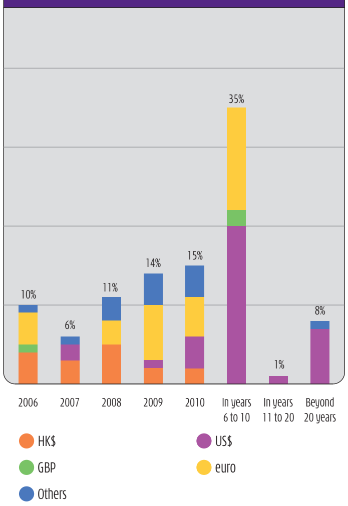
The Group's total borrowings at 31 December 2005 were HK$264,911 million (2004 - HK$282,993 million). The decrease in borrowings was mainly due to the repayment of a **3** Italia loan of approximately €2,465 million. The Group's weighted average cost of debt during 2005 was 4.7% (2004 - 4.0%).

The maturity profile of the Group's total borrowings after taking into consideration of foreign currency swaps at 31 December 2005 is set out below:

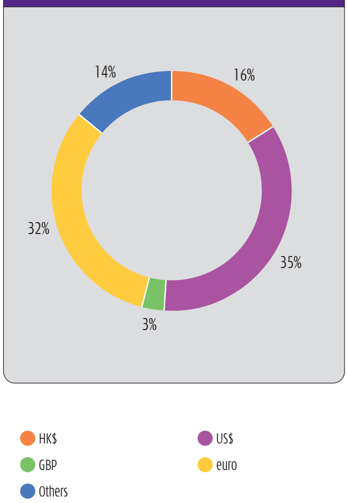
	HK$	US$	£	€	Others	Total
Within 1 year	4%	-	1%	4%	1%	10%
In 2007	3%	2%	-	-	1%	6%
In 2008	5%	-	-	3%	3%	11%
In 2009	2%	1%	-	7%	4%	14%
In 2010	2%	4%	-	5%	4%	15%
In years 6 to 10	-	20%	2%	13%	-	35%
In years 11 to 20	-	1%	-	-	-	1%
Beyond 20 years	-	7%	-	-	1%	8%
Total	16%	35%	3%	32%	14%	100%

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 borrowings, as a matter of policy, have credit rating triggers that would accelerate the maturity dates of the debt outstanding.

Debt Maturity Profile by Period and Currency Denomination



Debt Profile by Currency Denomination



Changes in Financing

The significant financing activities in 2005 were as follows:

- In March, Partner issued seven-year, CPI linked New Israeli Shekels 2,000 million (approximately HK$3,354 million) notes which bear an annual interest rate of 4.25% to finance the re-purchase of its shares and to repay certain existing debts falling due;

- In May, HTIL secured a three-year, floating rate HK$6,000 million senior secured credit facility, mainly to refinance existing loans and to fund the Hong Kong mobile operations;

- In June, issued ten-year, fixed rate €1,000 million (approximately HK$9,360 million) notes to refinance existing indebtedness;

- In June, Hi3G Access AB obtained a five-year, floating rate SEK10,500 million (approximately HK$10,500 million) term loan, to fund the 3G network operations in Sweden and Denmark;

- In July, obtained a five-year, floating rate HK$5,000 million syndicated bank loan to refinance existing loans;

- In October, HTIL's Indian operation obtained two three-year syndicated bank loans aggregated to INR19,450 million (approximately HK$3,432 million), to fund the Indian mobile operations;

- In November, HTIL secured a three-year, floating rate HK$9,000 million senior secured revolving credit facility, mainly to refinance the existing HK$8,000 million facility and to fund the existing operation; and

- In December, HTIL's Thailand operation arranged two one-year Baht denominated credit facilities: one THB9,500 million (approximately HK$1,799 million) term loan facility and one THB8,000 million (approximately HK$1,515 million) revolving and term loan facility, to refinance the existing loans.

Capital, Debt and Interest Coverage Ratios

The Group's total shareholders' funds decreased 3% to HK$243,554 million at 31 December 2005 compared to HK$251,171 million at the end of last year. The decrease in shareholders' funds mainly reflects the negative impact of exchange translation differences arising from the translation of the net assets of overseas businesses to HK dollars as mentioned above. The comparative 2004 amount has been restated to reflect the adoption of HKAS and HKFRS as explained in Note 1 to the accounts.

At 31 December 2005, net debt of the Group was HK$154,525 million (2004 – HK$142,692 million) and the net debt to net total capital ratio was 38% (2004 – 34%). The increased ratio mainly reflects the completion of the acquisition of a 40% interest in Northern Gas Networks by CKI and the acquisition of the Marionnaud and The Perfume Shop by the retail division. As a result, the net debt to net total capital ratio attributable to the established businesses rose to approximately 10% (31 December 2004 – 1%). The net debt to net total capital ratio attributable to the **3** Group businesses was 70% (31 December 2004 – 70%).

The Group's consolidated gross interest expense and finance costs before capitalisation for the year, including the **3** Group businesses, totalled HK$15,984 million, compared to HK$12,089 million last year. The gross interest expense and finance costs for established businesses increased by 49% to HK$7,430 million, mainly due to the higher loan balance related to the Group's acquisitions, as well as higher effective interest rates in 2005. The gross interest expense and finance costs for the **3** Group were higher than last year by 21% to HK$8,554 million, mainly due to higher loan balances as loan facilities were drawn to fund the operations in Italy and Australia and also a new loan of HK$10,500 million to fund the 3G network operations in Sweden and Denmark.

Consolidated EBITDA and FFO before prepaid CACs, including the **3** Group losses, covered consolidated net interest expense and finance costs 6.5 times and 3.4 times respectively (2004 – 7.9 times and 3.3 times).

Secured Financing

At 31 December 2005, the shares of H3G S.p.A. owned by the Group were pledged as security for its project financing facilities. The assets of H3G S.p.A. amounted to approximately HK$66,845 million (2004 – HK$73,781 million). In addition, HK$8,554 million (2004 – HK$40,633 million) of the Group's assets were pledged as security for bank and other loans of the Group.

Borrowing Facilities Available

Committed borrowing facilities available to Group companies, but not drawn at 31 December 2005, amounted to the equivalent of HK$4,007 million (2004 - HK$33,656 million), of which HK$2,628 million (2004 – HK$17,400 million) related to the **3** Group.

Contingent Liabilities

At 31 December 2005, the Group provided guarantees for banking and other borrowing facilities granted to associated companies and jointly controlled entities of HK$15,125 million (2004 – HK$7,442 million), and provided performance and other guarantees of HK$6,165 million (2004 – HK$5,994 million), primarily for the Group's telecommunications businesses.