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 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 2013, approximately 29% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 71% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$62,708 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$6,540 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 54% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 46% were at fixed rates at 31 December 2013. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are considered highly effective.

Foreign Currency Exposure

For overseas subsidiaries, 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 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 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 loss of approximately HK$5,130 million (2012: gain of HK$5,077 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 exchange reserve.

At 31 December 2013, 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, 31% in US dollars, 22% in HK dollars, 7% in British Pounds and 7% 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 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 and credit ratings as well as 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 2013, 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 16% (2012: approximately 18%) 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

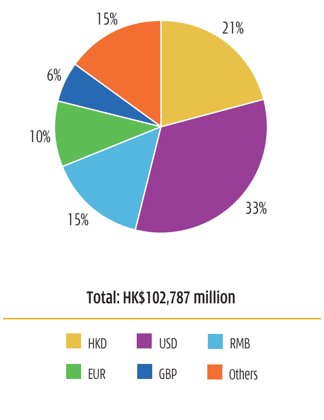
The Group continues to maintain a solid and healthy financial position. Liquid assets amounted to HK$102,787 million at 31 December 2013, a decrease of 22% from the balance of HK$131,447 million at 31 December 2012, mainly reflecting the utilisation of cash for the repayment and early repayment of certain borrowings, the repurchase of US$217 million (approximately HK$1,692 million) nominal amount of perpetual capital securities issued in 2010, dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, acquisition of new investments, including the acquisition of Orange Austria and Enviro Waste in New Zealand, of HK$17,651 million, and acquisition of fixed assets and telecommunications licences totalling HK$30,493 million, net of the cash arising from positive funds from operations from the Group's businesses, cash from new borrowings and proceeds from the issue of €1,750 million perpetual capital securities during the year. Liquid assets were denominated as to 21% in HK dollars, 33% in US dollars, 15% in Renminbi, 10% in Euro, 6% in British Pounds and 15% in other currencies.

Cash and cash equivalents represented 84% (2012: 82%) of the liquid assets, US Treasury notes and listed/traded debt securities 8% (2012: 11%) and listed equity securities 8% (2012: 7%).

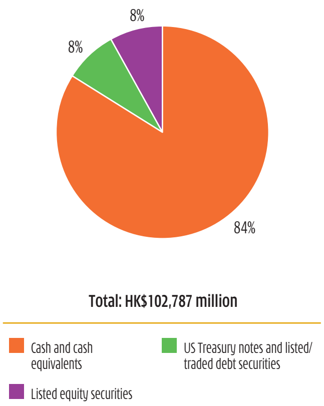
The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 26%, government and government guaranteed notes of 32%, notes issued by the Group's associated company, Husky Energy of 11%, notes issued by financial institutions of 3%, and others of 28%. Of these US Treasury notes and listed/traded debt securities, 55% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 3.1 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

Liquid Assets (continued)

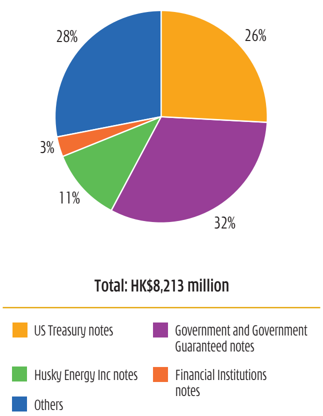
Liquid Assets by Currency Denomination at 31 December 2013



Liquid Assets by Type at 31 December 2013



US Treasury Notes and Listed/ Traded Debt Securities by Type at 31 December 2013



Cash Flow

Consolidated EBITDA [1] amounted to HK$98,170 million, an increase of 12% compared to HK$87,947 million, as restated, for last year. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital amounts to HK$49,390 million, a 37% increase compared to last year mainly due to higher EBITDA contributions by the Group's subsidiaries, together with an increase in dividends and distributions received from associated companies and joint ventures.

The Group's capital expenditures increased 5% to total HK$30,493 million during 2013 (2012: HK$29,107 million), primarily due to higher capital expenditures for the acquisition of telecommunications licences, mainly in Europe, which totalled HK$6,828 million (2012: HK$2,422 million), partially offset by lower capital expenditures for the acquisition of fixed assets, particularly for the telecommunications division. Capital expenditures on fixed assets for the ports and related services division amounted to HK$7,060 million (2012: HK$7,556 million); for the property and hotels division HK$535 million (2012: HK$271 million); for the retail division HK$2,264 million (2012: HK$2,717 million); for CKI HK$406 million (2012: HK$680 million); for **3** Group Europe HK$10,116 million (2012: HK$11,323 million); for HTHKH HK$1,239 million (2012: HK$1,600 million); for HAT HK$1,621 million (2012: HK$2,017 million); and for the finance and investments and others segment HK$319 million (2012: HK$381 million). Capital expenditures for licences, brand names and other rights were HK$11 million (2012: Nil) for the ports and related services division; for CKI HK$11 million (2012: Nil); for **3** Group Europe HK$6,884 million (2012: HK$2,276 million); for HTHKH HK$27 million (2012: HK$172 million); and for HAT nil (2012: HK$114 million).

In addition, during the year, the Group have spent HK$17,651 million on the acquisition of new investments which included the acquisition of Orange Austria as well as Enviro Waste in New Zealand.

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$5,287 million (2012: HK$3,910 million) mainly due to higher advances to property joint ventures in 2013, the acquisition of AVR-Afvalverwerking B.V. in the Netherlands by CKI, partly offset by higher repayments from associated companies and joint ventures in the year.

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: EBITDA includes the non-controlling interests' share of HPH Trust's EBITDA.

Debt Maturity and Currency Profile

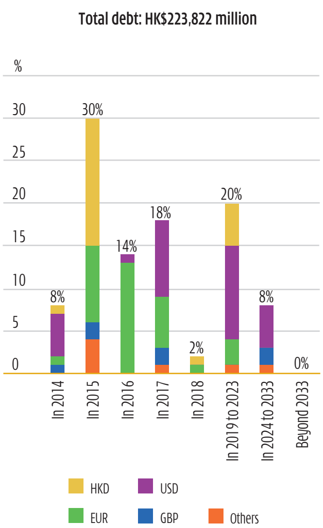
The Group's total principal amount of bank and other debts at 31 December 2013 decreased 13% to total HK\$223,822 million (2012: HK\$256,152 million), of which 70% (2012: 74%) are notes and bonds and 30% (2012: 26%) are bank and other loans. The net decrease in principal amount of bank and other debts was primarily due to the repayment of debts as they matured as well as the early repayment of certain debts totalling HK\$61,822 million, partially offset by new borrowings of HK\$28,323 million and the unfavourable impact of HK\$812 million upon translation of foreign currency-denominated loans to Hong Kong dollars. The Group's weighted average cost of debt at 31 December 2013 decreased by 0.3%-points to 3.1% (2012: 3.4%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK\$5,445 million at 31 December 2013 (2012: HK\$6,307 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2013 is set out below:

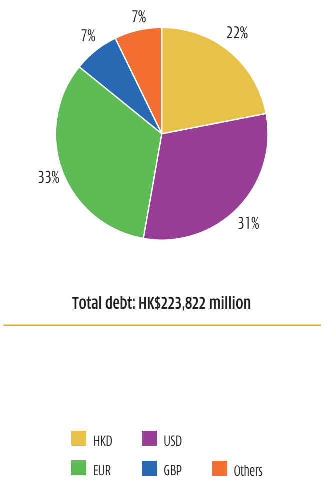
	HK$	US$	Euro	GBP	Others	**Total**
In 2014	1%	5%	1%	1%	-	8%
In 2015	15%	-	9%	2%	4%	30%
In 2016	-	1%	13%	-	-	14%
In 2017	-	9%	6%	2%	1%	18%
In 2018	1%	-	1%	-	-	2%
In 2019 - 2023	5%	11%	3%	-	1%	20%
In 2024 -2033	-	5%	-	2%	1%	8%
Beyond 2033	-	-	-	-	-	-
Total	22%	31%	33%	7%	7%	100%

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

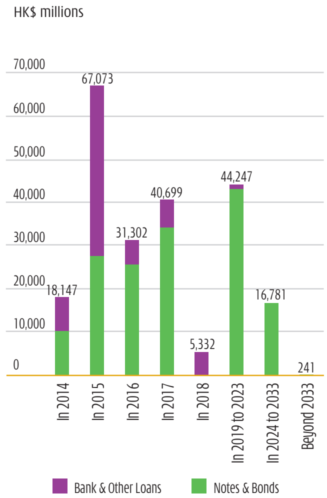
Debt Maturity Profile by Year and Currency Denomination at 31 December 2013



Debt Profile by Currency Denomination at 31 December 2013



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2013



Changes in Debt Financing

The significant financing activities in 2013 were as follows:

- In January, obtained a short term floating rate loan facility of €1,450 million (approximately HK$15,037 million) and was subsequently repaid on maturity in May 2013;
- In February, repaid on maturity US$3,110 million (approximately HK$24,257 million) principal amount of fixed rate notes;
- In February, obtained a short term floating rate revolving loan facility of GBP550 million (approximately HK$6,523 million) which has already expired;
- In March, obtained a five-year floating rate loan facility of HK$1,400 million;
- In April, listed subsidiary CKI obtained a five-year loan facility of NZ$260 million (approximately HK$1,685 million), of which the project debt of NZ$150 million (approximately HK$972 million) was drawn in relation to the acquisition of Enviro Waste Services Limited;
- In April, prepaid a floating rate loan facility of HK$1,400 million that matured in May 2013;
- In April, prepaid a floating rate loan facility of HK$500 million that matured in October 2013;
- In May, obtained a five-year floating rate loan facility of HK$2,000 million and repaid on maturity a floating rate loan facility of HK$1,500 million;
- In July, repaid €1,000 million (approximately HK$10,160 million) principal amount of fixed rate notes on maturity;
- In July, prepaid a floating rate loan facility of €300 million (approximately HK$3,048 million) maturing in June 2015;
- In August, listed subsidiary CKI obtained a five-year floating rate term loan facility of €203 million (approximately HK$2,148 million), of which the project debt of €197 million (approximately HK$2,045 million) was drawn in relation to acquisition of AVR-Afvalverwerking B.V.; and
- In December, repaid a floating rate revolving loan facility of HK$500 million maturing in April 2015.

Subsequent to year end:

- In January 2014, repaid US$1,309 million (approximately HK$10,206 million) principal amount of fixed rate notes on maturity; and
- In February 2014, prepaid HK$800 million of a floating rate term loan facility of HK$2,800 million maturing in November 2014.

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased 9% to HK$426,609 million at 31 December 2013, compared to HK$391,519 million, as restated, at 31 December 2012, reflecting the profits for 2013 as well as the issuance of €1,750 million perpetual capital securities in May 2013, partly offset by 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, dividends and distributions paid and other items recognised directly in reserves. At 31 December 2013, 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$121,035 million (2012: HK$124,705 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 2013 reduced to 20.0% (2012: 21.9 %).

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 2013. 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 2013 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 2013:		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	19.6%	20.0%
A2:	as in A1 above and investments in listed subsidiaries and associated companies marked to market value	17.8%	18.2%
B1:	including interest bearing loans from non-controlling shareholders as debt	20.5%	20.9%
B2:	as in B1 above and investments in listed subsidiaries and associated companies marked to market value	18.6%	19.0%

The Group's consolidated gross interest expenses and other finance costs of subsidiaries, before capitalisation, decreased 8% in 2013 to total HK$8,564 million, compared to HK$9,348 million in 2012, mainly due to the weighted average cost of debt for the Group reducing from 3.4% in 2012 to 3.1% in 2013 and lower average borrowings during the year.

Consolidated EBITDA of HK$98,170 million and FFO of HK$49,390 million for the year covered consolidated net interest expenses and other finance costs 17.9 times and 10.2 times respectively (31 December 2012, as restated: 14.7 times and 7.1 times).

Secured Financing

At 31 December 2013, assets of the Group totalling HK$2,299 million (2012: HK$824 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 2013 amounted to the equivalent of HK$4,479 million (2012: HK$5,807 million).

Contingent Liabilities

At 31 December 2013, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK$24,610 million (2012: HK$11,920 million), of which HK$22,839 million (2012: HK$10,485 million) has been drawn down as at 31 December 2013, and also provided performance and other guarantees of HK$4,131 million (2012: HK$4,411 million).