The Group continues to have a strong financial position benefiting from both the steady and growing cash flow from its established businesses and cash and liquid investments on hand totalling HK$140,301 million at 31 December 2004. The Group is currently rated A- by Fitch Ratings, A3 by Moody's, and A- by Standard & Poor's. In February this year, Moody's reconfirmed its A3 rating of the Group and revised the outlook from negative to stable.

The Group's total shareholders' funds increased 7% to HK$260,841 million at 31 December 2004 compared to HK$244,017 million at the end of last year. The comparative 2003 amount has been restated to reflect the adoption of HKAS and HKFRS as explained in Note 1(a) to the accounts. The increase in shareholders' funds mainly reflects the profit and dividends paid for the year and the positive impact of exchange translation differences.

Net debt of the Group was HK$142,692 million (2003 – HK$87,602 million) and the net debt to net total capital ratio was 33% (2003 – 24%). This ratio is a combination of the net debt to net total capital ratio of the established businesses of approximately 1% (2003 – 9%) and of the **3** Group businesses of approximately 67% (2003 – 38%). The Group continues to benefit from the low net debt levels of its established businesses, while the net debt of the **3** Group businesses increased in 2004 to fund the build-up of these businesses, mainly in the UK, Italy and Australia. The Group's capital expenditures, excluding expenditures for properties under development and for sale, totalled HK$34,090 million (2003 – HK$36,393 million), of which HK$21,428 million (2003 – HK$23,422 million) related to **3** Group businesses. Capital expenditures for the ports and related services division amounted to HK$4,654 million (2003 – HK$6,559 million); for the property and hotels division HK$702 million (2003 – HK$858 million); for the retail and manufacturing division HK$2,331 million (2003 – HK$1,475 million); HK$99 million (2003 – HK$124 million) for the energy, infrastructure, finance and investments division and for HTIL HK$4,876 million (2003 – HK$3,955 million). The investment in customer acquisition costs totalled HK$21,227 million (2003 – HK$3,699 million) comprised of 3G postpaid CAC of HK$12,804 million (2003 – HK$2,782 million) which is capitalised, and 3G prepaid CAC of HK$8,423 million (2003 – HK$917 million) which is expensed as incurred. The capital expenditures for the **3** Group businesses in Italy and Australia were primarily funded by financing facilities. The Group's remaining capital expenditures and investments in customer acquisition costs were funded primarily from cash generated from operations, cash on hand and to the extent required, by borrowings.

At 31 December 2004, the Group's cash, liquid funds and other listed investments totalled HK$140,301 million (2003 – HK$185,542 million) of which 11% were denominated in HK dollars, 61% in US dollars, 1% in British pounds, 21% in Euros and 6% in other currencies. The year-on-year decrease mainly reflects the repayment of loans described in the following paragraph. Cash and cash equivalents represented 54% of the total, listed held-to-maturity fixed income securities 36%, listed equity securities 7% and long-term deposits 3%. The listed held-to-maturity fixed income securities including those held under managed funds comprise US treasury notes (45%), government issued guaranteed notes (24%), supranational notes (16%) and others (15%). More than 80% of these securities investments are rated at Aaa/AAA, with an average duration of approximately 3.8 years.

The Group's total borrowings at 31 December 2004 were HK$282,993 million (2003 – HK$273,144 million) of which HK$51,998 million related to the external borrowings of the 3G Italy operations (2003 – borrowings of Hutchison 3G UK and 3G Italy: HK$53,235 million). During the year, the Group repaid exchangeable notes of US$2,657 million on maturity and repaid the more expensive 3G UK project financing loan of £1,551 million in April 2004 as planned, utilising the cash raised from the issuance of seven to thirty years US dollar denominated notes in the latter half of last year. The significant financing activities in 2004 were as follows:

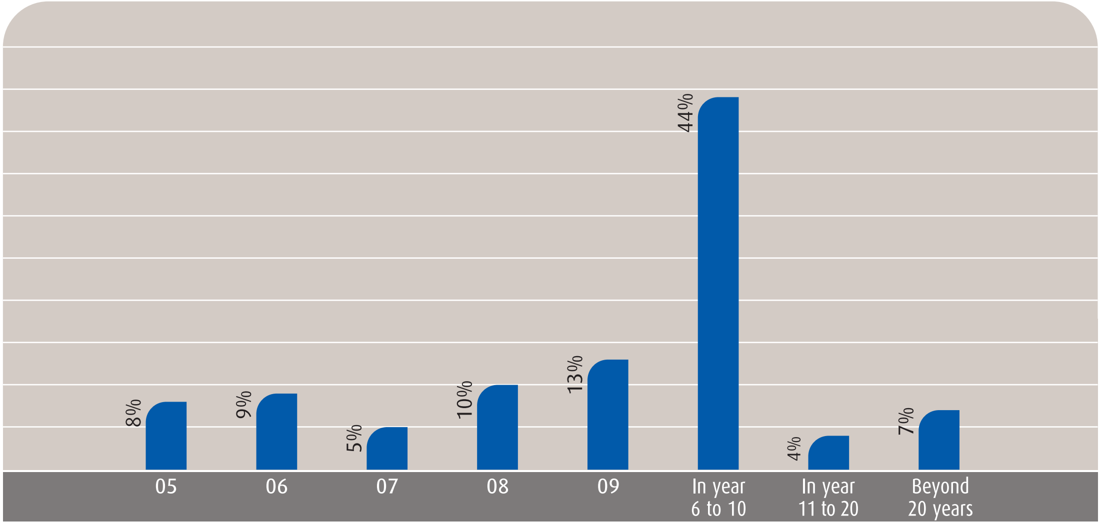
- During the year, €1,844 million was drawn on existing loan facilities to finance the 3G Italy operations;
- During the year, HTIL has drawn down HK$1,000 million from its short-term one year, floating rate, HK$8,000 million bank loan facility mainly to finance its network expansion;
- In August, HTA secured a five-year, floating rate, loan note facility of A$1,500 million, to refinance existing loans and fund the 3G network expansion in Australia;
- In September, CKI secured a five-year, floating rate, A$300 million syndicated loan, to refinance its unsecured bank loan of A$500 million on maturity;
- In October, AS Watson ("ASW") secured a five-year, floating rate, €1,280 million syndicated loan, mainly to refinance existing debt; and
- In December, ASW obtained a seven-year, floating rate, €500 million term loan, mainly to refinance existing debt

The Group's borrowings at 31 December 2004 are denominated and repayable as follows:

	HK$	US$	£	€	Others	Total
Within 1 year	4%	–	–	–	4%	8%
In 2006	4%	–	1%	2%	2%	9%
In 2007	2%	2%	–	–	1%	5%
In 2008	5%	–	–	2%	3%	10%
In 2009	1%	–	–	7%	5%	13%
In years 6 to 10	–	24%	–	20%	–	44%
In years 11 to 20	–	2%	2%	–	–	4%
Beyond 20 years	–	6%	–	–	1%	7%
Total	16%	34%	3%	31%	16%	100%

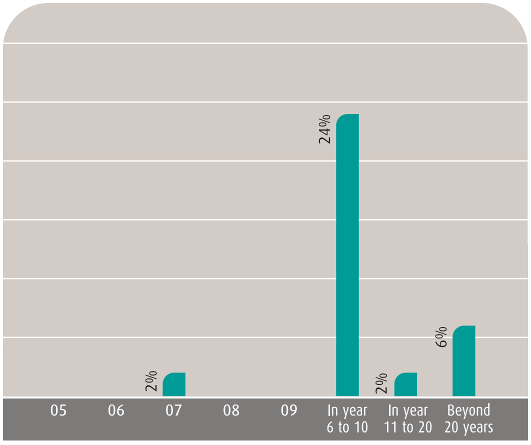
The non-HK dollar and non-US dollar denominated loans are either directly related to the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. All of the Group's borrowings are free of any credit rating triggers that would accelerate the maturity dates of debt outstanding.

Debt maturity profile - Total



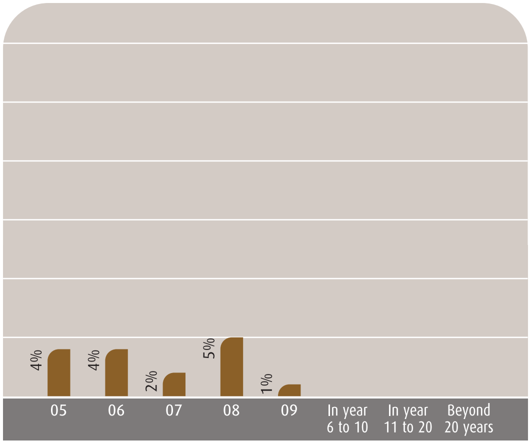
Maturity

Debt maturity profile - US Dollars



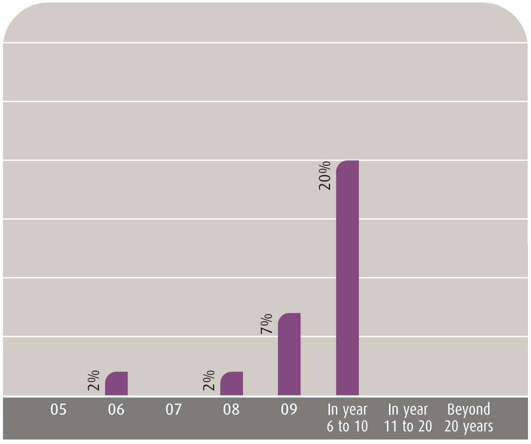
Maturity

Debt maturity profile - Hong Kong Dollars



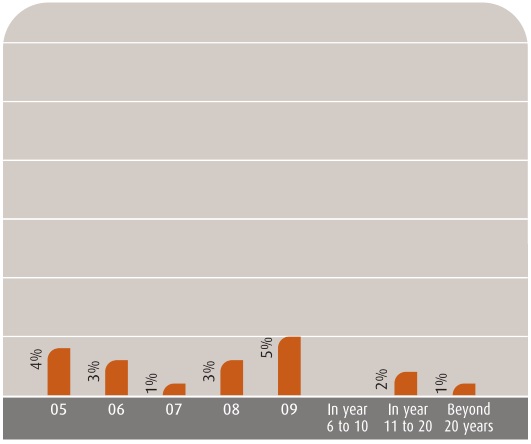
Maturity

Debt maturity profile - Euros



Maturity

Debt maturity profile - British Pounds and other currencies



Maturity

The Group's consolidated gross interest expense and finance costs before capitalisation for the year, including the **3** Group businesses and the Group's share of associated companies' and jointly controlled entities' interest expense and finance costs, totalled HK$12,712 million, compared to HK$9,568 million last year. Although the interest expense and finance costs of the established businesses decreased, reflecting repayment of certain loans and exchangeable notes as they matured, this was offset by higher interest expenses and finance costs of the **3** Group businesses, which was primarily due to a temporarily higher loan balance as the Group issued notes of US$5,000 million last year, which were partially used to repay the £1,551 million 3G UK project financing loan in April; and also higher loan balances as loan facilities were drawdown, mainly to fund the **3** Group businesses in Italy and Australia.

During the year, the Group disposed of its 20% interest in Procter & Gamble – Hutchison for a cash consideration of US$2 billion (HK$15,600 million) and received proceeds from the listings of HGCH and HTIL of HK$1,600 million and HK$7,700 million respectively. Consolidated EBITDA before 3G prepaid CAC amounted to HK$58,327 million (2003 – HK$33,903 million) and funds from operations ("FFO"), before capital expenditure, investment in 3G prepaid and postpaid CAC and changes in working capital, amounted to HK$15,829 million (2003 – HK$15,918 million). EBITDA and FFO from the Group's established businesses, excluding the **3** Group businesses, totalled HK$65,618 million (2003 – HK$45,474 million) and HK$29,697 million, (2003 – HK$29,686 million) respectively. Consolidated EBITDA and FFO including **3** Group losses covered consolidated net interest expense and finance costs 6.7 times and 2.0 times respectively (2003 – 5.2 times and 3.3 times).

At 31 December 2004, the shares of Hutchison 3G Italy owned by the Group were pledged as security for its project financing facilities. The assets of Hutchison 3G Italy amounted to approximately HK$83,273 million (2003 – pledged assets of Hutchison 3G UK and 3G Italy: HK$164,818 million). In addition, HK$41,107 million (2003 – HK$17,628 million) of the Group's assets were pledged as security for bank and other loans of the Group. Committed borrowing facilities available to Group companies, but not drawn at 31 December 2004, amounted to the equivalent of HK$33,656 million (2003 – HK$39,997 million), of which HK$17,400 million (2003 – HK$38,060 million) related to **3** Group businesses.

CONTINGENT LIABILITIES

At 31 December 2004, the Group had provided guarantees for banking and other borrowing facilities granted to associated companies and jointly controlled entities of HK$7,442 million (2003 – HK$13,193 million), and had provided performance and other guarantees of HK$5,994 million (2003 – HK$5,005 million) primarily for the Group's telecommunications businesses.

TREASURY POLICIES

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. The Executive Directors agree and review the policies and procedures governing the Group's treasury activities, which are subject to periodic review by the Group's internal audit function. Regular treasury reports are provided to the Executive Directors which detail investment and funding activities, including the Group's holdings of cash, managed funds and other portfolio securities, the debt maturity profile, interest rates and currency exposures. Derivative financial instruments such as interest rate and foreign currency swaps are utilised as appropriate for risk management purposes only, for hedging transactions and in managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative financial transactions for speculative purposes.

Funding and Cash Management

The Group operates a central cash management system for all of its unlisted subsidiaries. The Group's holdings of cash, managed funds and other liquid investments expose the Group to a credit risk of the counterparty. The treasury policy sets aggregate credit limits of any one counterparty and regularly reviews these limits and credit ratings of the counterparties. 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. 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.

Managing Interest Rate Risk

The Group's interest rate exposure management policy focuses on reducing the Group's overall interest expense and exposure to changes in interest rates. As at 31 December 2004, approximately 57% of the Group's borrowings bear interest at floating rates and the remaining 43% are at fixed rates. When considered appropriate, the Group utilises derivatives, for example, interest rate swaps and forward rate agreements to manage the Group's interest rate exposures. The Group has entered into various interest rate agreements with major creditworthy financial institutions to swap approximately HK$97,458 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$10,956 million principal amount of floating interest rate borrowings was swapped to a fixed interest rate borrowing. After taking into consideration these interest rate swaps, as at 31 December 2004, approximately 88% of the Group's borrowings bear interest at floating rates and the remaining 12% are at fixed rates.

The Group's main interest risk exposures relate to US dollar, Euro and HK dollar borrowings.

Managing Foreign Currency Risk

For overseas subsidiaries and associates and other investments, which consist of non-HK and non-US dollar assets, the Group generally endeavours to naturally hedge its foreign currency investments with the 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 monitors the development of the businesses cashflow and debt markets and, when appropriate, would expect to refinance these businesses with local currency borrowings. For transactions directly related to the underlying businesses, forward foreign exchange contracts and currency swaps are utilised when suitable opportunities arise and, when considered appropriate, to hedge against major non-HK and non-US dollar currency exposures. As at 31 December 2004, the Group had entered into currency swap arrangements with banks to swap non-HK dollar borrowings of HK$650 million to US dollar borrowings, US dollar borrowings of HK$1,365 million to non-US dollar borrowings and non-US dollar borrowings of HK$3,606 million to non-US dollar borrowings to match currency exposure of the underlying businesses.

The Group's borrowings at 31 December 2004 were denominated as to 16% in HK dollars, 34% in US dollars, 3% in British pounds, 31% in Euros and 16% in others currencies.

In 2004, a relative weakening in the value of the HK dollar against the currencies of countries where the Group has operations gave rise to a credit of HK$8,032 million on translation of these operations' net assets to our HK dollar reporting currency which was reflected as a movement in the Group's reserves.

Credit Loss Risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligations with the result that the Group thereby suffers financial loss. These credit risks are minimised by the Group's internal controls and its procedures for monitoring and reporting credit risks to the Group's management.