

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 31st December 2005, the Group had a net current borrowings position of HK\$4,374 million (31st December 2004: HK\$540 million) and long-term borrowings of HK\$2,425 million (31st December 2004: nil). After taking into account of a portfolio of financial assets at fair value through profit or loss of HK\$1,891 million (trading securities as at 31st December 2004: HK\$812 million), net current debt as at 31st December 2005 amounted to HK\$2,483 million (net liquid funds as at 31st December 2004: HK\$272 million). In addition, banking facilities available for use amounted to HK\$2,234 million (31st December 2004: HK\$2,594 million).

During the year, the Company repurchased 106,010,000 shares on The Stock Exchange of Hong Kong Limited. The aggregate consideration before expenses amounted to HK\$1,677 million in cash. Furthermore, investments have been made to a number of promising city gas and water joint ventures in mainland China amounting to HK\$2,332 million in 2005 (2004: HK\$722 million).

The operating and capital expenditures of the Group is funded by cash flow from operations, internal liquidity and bank loans. The Group has adequate sources of funds and unutilised banking facilities to meet its future capital expenditures and working capital requirements.

Borrowing Structure

As at 31st December 2005, the Group's borrowings amounted to HK\$8,282 million (31st December 2004: HK\$2,742 million). All bank loans and overdrafts are unsecured and have a floating interest rate, of which HK\$2,370 million was long-term bank loans and of which HK\$5,835 million was with maturity within one year on revolving credit or term loan facilities. As at 31st December 2005, a newly acquired subsidiary in mainland China had a finance lease of HK\$77 million equivalent for a portion of its pipeline with quarterly fixed instalment payment up to 2009 (31st December 2004: nil).

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations. The net gearing ratio [net borrowing / (shareholders' funds + net borrowing)] for the Group as at 31st December 2005 remained healthy at around 29 per cent (31st December 2004: at around 4 per cent). After taking into account of a portfolio of financial assets at fair value through profit or loss of HK\$1,891 million as at 31st December 2005 (31st December 2004: HK\$812 million), the net gearing ratio [net debt / (shareholders' funds + net debt)] will be at 23 per cent (31st December 2004: net liquid funds of HK\$272 million).

On 15th February 2006, the Group took advantage of the liquidity in the Hong Kong bank market and concluded a

HK\$3 billion unsecured 5-year syndicated term and revolving loan facilities to refinance its shorter maturity existing loan and finance the general corporate funding requirements at a low benchmark pricing for corporation in Hong Kong.

Contingent Liabilities

As at 31st December 2005, the Group provided guarantees totalling HK\$840 million (31st December 2004: HK\$929 million) in respect of bank borrowing facilities made available to an associated company.

Currency Profile

The Group's operations and activities are predominantly based in Hong Kong. As such, both its cash and cash equivalents and borrowings are denominated in either Hong Kong dollars or United States dollars. Borrowings for the Group's subsidiaries and joint ventures in mainland China are however predominantly denominated in the local currency, Renminbi, in order to provide natural hedging for the investment there.

Group's Investments in Securities

Under the guidance of the Group's Treasury Committee, investments have been made in equity and debt securities. As at 31st December 2005, the investments in securities amounted to HK\$2,659 million (31st December 2004: HK\$1,437 million). The performance of the Group's investments in securities was satisfactory.