

FINANCIAL REVIEW

Financial Resources, Treasury Activities and Gearing Ratio

The Group's capital expenditure and investments were funded from cash on hand, internal cash generation, syndicated loans, notes issued and other project loans.

As at 31st December, 2005, total borrowings of the Group amounted to HK\$9,056 million, which included Hong Kong dollar syndicated loan of HK\$3.8 billion and foreign currency borrowings of HK\$5,256 million. Of the total borrowings, 78 per cent. were repayable between 2007 and 2010 and 22 per cent. repayable beyond 2010. The Group's financing activities continue to be well received and fully supported by its bankers.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars, Hong Kong dollars or Australian dollars. The Group's liquidity and financing requirements are reviewed regularly. The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans.

As at 31st December, 2005, the Group maintained a gearing ratio of 3 per cent. which was based on its net debt of HK\$946 million and shareholders' equity of HK\$33,498 million. This ratio was

significantly lower than the gearing ratio of 14 per cent. at the year end of 2004, mainly due to proceeds from divestment of interests in certain Australian energy projects in December 2005.

To minimise currency risk exposure in respect of its investments in other countries, the Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of those countries. The Group also entered into certain interest rate and currency swaps to mitigate interest rate and other currency exposure risks. As at 31st December, 2005, the contractual notional amounts of these derivative instruments amounted to HK\$8,123 million.

Adoption of New and Revised Financial Reporting Standards

Due to the requirement to adopt the new and revised Hong Kong Financial Reporting Standards on 1st January, 2005, the Group has incorporated prior year and opening adjustments in its 2005 Financial Statements, mainly related to the change in accounting policy in respect of interests in associates, restatement of certain assets at fair values and recognition of derivative financial instruments at market values. These adjustments have resulted in a restating of the shareholders' equity on 1st January, 2005 to HK\$29,670 million, which does not have any impact on the Group's cashflow position. Further details of the implications have been provided in notes 2 and 3 to the 2005 Financial Statements of the Group on pages 94 to 99.

Charge on Group Assets

As at 31st December, 2005, the Group's interests in an affiliated company with carrying value of HK\$1,736 million were pledged as part of the security to secure bank borrowings totalling HK\$3,249 million granted to the affiliated company. Moreover, the Group's obligations under finance leases totalling HK\$35 million were secured by charge over the leased assets with carrying value of HK\$199 million.

Contingent Liabilities

As at 31st December, 2005, the Group was subject to the following contingent liabilities:

HK\$ million	
Guarantee in respect of a bank loan drawn by an affiliated company	644
Performance bonds	20
Total	664

Employees

The Group, including its subsidiaries but excluding affiliated companies, employs a total of 1,077 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$279 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company was given to those employees who had subscribed for shares of HK\$1.00 each in the Company at HK\$12.65 per share on the flotation of the Company in 1996. The Group does not have any share option scheme for employees.