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 contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's exposure to interest rate and foreign exchange rate fluctuations. In limited circumstances, the Group also enters into swaps and forward contracts relating to oil and gas prices to hedge earnings and cash flow in Husky Energy. 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 associated companies to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings, for which the proportions 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 2016, approximately 31% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 69% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$25,200 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$8,678 million principal amount of floating interest rate borrowings that were used to finance long term infrastructure investments have been swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 37% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 63% were at fixed rates at 31 December 2016. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are considered highly effective.

Foreign Currency Exposure

For overseas subsidiaries, associated companies 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 its 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 associated companies, except in relation to certain infrastructure investments.

The Group has operations in over 50 countries and conducts businesses in over 45 currencies. The Group's functional currency for reporting purposes is Hong Kong Dollars and the Group's reported results in Hong Kong Dollars are exposed to exchange translation gains or losses on its foreign currency earnings. The Group generally does not enter into foreign currency hedges in respect of its foreign currency earnings. At times of significant exchange rate volatility and where appropriate opportunities arise, the Group may prudently enter into forward foreign currency contracts and currency swaps for selective foreign currencies for a portion of its budgeted foreign currency earnings to limit potential downside foreign currency exposure on its earnings.

The Group's total principal amount of bank and other debts are denominated as follows: 27% in Euro, 41% in US dollars, 5% in HK dollars, 21% in British Pounds and 6% in other currencies.

Credit Exposure

The Group's holdings of cash, managed funds and other liquid investments, 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, particularly in its ports businesses. Such risks are 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 2016, 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

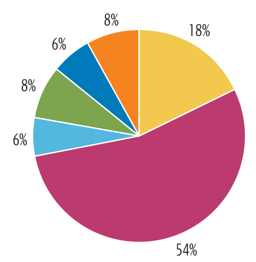
The Group's main market price risk exposures relate to listed/traded debt and equity securities described in "Liquid Assets" below and the interest rate swaps described in "Interest Rate Exposure" above. The Group's holding of listed/traded debt and equity securities represented approximately 4% of the 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 robust financial position. Liquid assets amounted to HK$162,224 million at 31 December 2016, an increase of 23% from the balance of HK$131,426 million at 31 December 2015, mainly reflecting the cash arising from positive funds from operations from the Group's businesses and cash from new borrowings, including the issuance of US$750 million (approximately HK$5,850 million), US$500 million (approximately HK$3,900 million) and EUR1,000 million (approximately HK$8,470 million) fixed rate notes in September 2016, EUR1,350 million (approximately HK$11,894 million) and EUR650 million (approximately HK$5,726 million) fixed rate notes in April 2016, the issuance of US$1,200 million (approximately HK$9,360 million) of perpetual capital securities in March 2016 by listed subsidiary CKI, partly offset by the redemption of US$1,000 million (approximately HK$7,800 million) of perpetual capital securities by CKI, dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, the repayment and early repayment of certain borrowings and capex and investment spendings. Liquid assets were denominated as to 18% in HK dollars, 54% in US dollars, 6% in Renminbi, 8% in Euro, 6% in British Pounds and 8% in other currencies.

Cash and cash equivalents represented 96% of the liquid assets, US Treasury notes and listed/traded debt securities 3% and listed equity securities 1%. The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 58%, government and government guaranteed notes of 4%, notes issued by the Group's associated company, Husky Energy of 6%, notes issued by financial institutions of 3%, and others of 29%. Of these US Treasury notes and listed/traded debt securities, 70% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.0 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

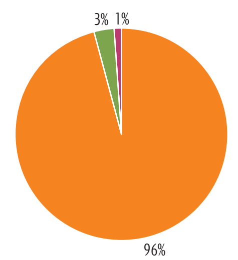
Liquid Assets by Currency Denomination at 31 December 2016



Total: HK$162,224 million

HKD USD RMB EUR GBP Others

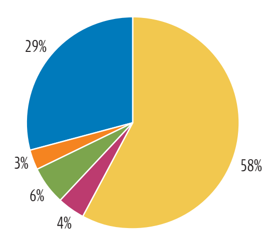
Liquid Assets by Type at 31 December 2016



Total: HK$162,224 million

Cash and cash equivalents
US Treasury notes and listed/traded debt securities
Listed equity securities

US Treasury Notes and Listed/Traded Debt Securities by Type at 31 December 2016



Total: HK$3,949 million

US Treasury notes
Government and Government Guaranteed notes
Husky Energy Inc. notes
Financial Institutions notes
Others

Cash Flow

Reported EBITDA [1] amounted to HK$91,980 million for 2016. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital amounts to HK$49,188 million for the year.

The Group's capital expenditures and investments in subsidiaries for 2016 amounted to HK$24,546 million and HK$333 million respectively. Capital expenditures on fixed assets for the ports and related services division amounted to HK$2,858 million; for the retail division HK$2,403 million; for the infrastructure division HK$5,532 million; for **3** Group Europe HK$7,449 million; for HTHKH HK$1,131 million; for HAT HK$439 million; and for the finance and investments and others segment HK$234 million. Capital expenditures for licences, brand names and other rights were HK$26 million for the ports and related services division, HK$18 million for the infrastructure division; for **3** Group Europe HK$803 million; for HTHKH HK$1,819 million; for HAT HK$1,807 million; and for the finance and investments and others segment HK$27 million.

Purchases of and advances to associated companies and joint ventures, net of repayments from associated companies and joint ventures, resulted in a net cash outflow of HK$42 million.

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 division and cash flow, please see Note 5(e) and the "Consolidated Statement of Cash flows" section of this Annual Report.

Note 1: Reported EBITDA excludes the non-controlling interests' share of HPH Trust's EBITDA and profits on disposals of investments and others.

Debt Maturity and Currency Profile

The Group's total bank and other debts, including unamortised fair value adjustments from acquisitions, at 31 December 2016 amounted to HK$304,030 million (31 December 2015 - HK$304,006 million) which comprises principal amount of bank and other debts of HK$292,047 million (31 December 2015 - HK$287,603 million), and unamortised fair value adjustments arising from acquisitions of HK$11,983 million (31 December 2015 - HK$16,403 million). The Group's total principal amount of bank and other debts at 31 December 2016 consist of 70% notes and bonds (31 December 2015 - 69%) and 30% bank and other loans (31 December 2015 - 31%). The Group's weighted average cost of debt for the year ended 31 December 2016 is 2.18%. Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK$4,283 million as at 31 December 2016 (31 December 2015 - HK$4,827 million).

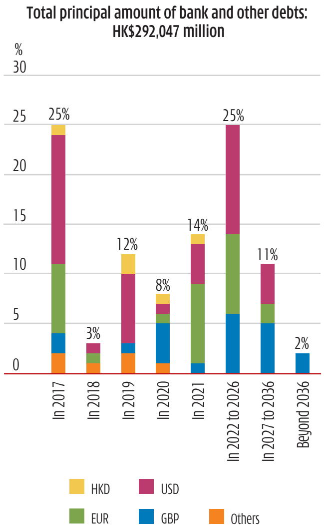
The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2016 is set out below:

	HK$	US$	Euro	GBP	Others	**Total**
In 2017	1%	13%	7%	2%	2%	**25%**
In 2018	–	1%	1%	–	1%	**3%**
In 2019	2%	7%	–	1%	2%	**12%**
In 2020	1%	1%	1%	4%	1%	**8%**
In 2021	1%	4%	8%	1%	–	**14%**
In 2022 - 2026	–	11%	8%	6%	–	**25%**
In 2027 - 2036	–	4%	2%	5%	–	**11%**
Beyond 2036	–	–	–	2%	–	**2%**
Total	5%	41%	27%	21%	6%	**100%**

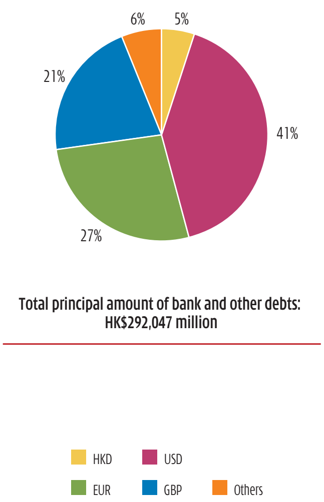
The non-HK dollar and non-US dollar denominated loans are either directly related to the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. None of the Group's consolidated borrowings have credit rating triggers that would accelerate the maturity dates of any outstanding consolidated Group's debt.

Debt Maturity and Currency Profile (continued)

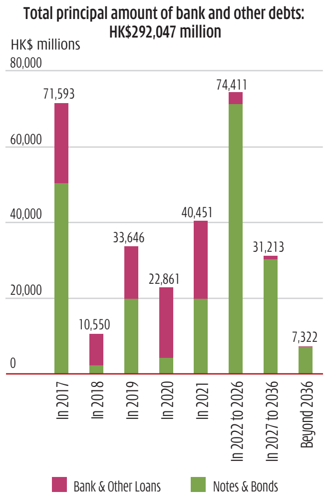
Debt Maturity Profile by Year and Currency Denomination at 31 December 2016



Debt Profile by Currency Denomination at 31 December 2016



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2016



Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group in 2016 were as follows:

- In January, repaid a floating rate loan facility of HK$1,000 million on maturity;
- In February, obtained a seven-year floating rate loan facility of US$1,200 million (approximately HK$9,360 million);
- In March, listed subsidiary CKI issued US$1,200 million (approximately HK$9,360 million) perpetual capital securities;
- In March, listed subsidiary CKI redeemed US$1,000 million (approximately HK$7,800 million) perpetual capital securities that were originally issued in 2010;
- In March, May and June, prepaid a floating rate loan facility of US$223 million (approximately HK$1,739 million) maturing in June 2016;
- In March, obtained a five-year floating rate loan facility of US$196 million (approximately HK$1,529 million);
- In March, obtained two five-year floating rate term loan facilities of HK$1,000 million each;
- In April, issued seven-year, EUR1,350 million (approximately HK$11,894 million) fixed rate notes;
- In April, issued twelve-year, EUR650 million (approximately HK$5,726 million) fixed rate notes;
- In April, repaid HK$150 million principal amount of fixed rate notes on maturity;
- In May, obtained a five-year floating rate loan facility of EUR1,000 million (approximately HK$8,740 million);
- In May, prepaid a floating rate loan facility of HK$250 million maturing in June 2016;
- In May, prepaid a floating rate loan facility of HK$750 million maturing in June 2016;
- In May, prepaid a floating rate loan facility of HK$500 million maturing in August 2016;
- In May, prepaid two floating rate loan facilities of EUR98 million each (approximately HK$850 million each) maturing in August 2018;
- In July, repaid S$180 million (approximately HK$1,037 million) principal amount of fixed rate notes on maturity;
- In July, repaid two floating rate loan facilities of HK$300 million each on maturity;

Changes in Debt Financing and Perpetual Capital Securities (continued)

- In August, obtained a five-year floating rate loan facility of EUR280 million (approximately HK$2,262 million) and repaid on maturity a floating rate loan facility of the same amount;
- In August, repaid a floating rate loan facility of HK$700 million on maturity;
- In September, redeemed S$730 million (approximately HK$4,210 million) perpetual capital securities that were originally issued in 2011;
- In September, obtained a five-year floating rate loan facility of US$250 million (approximately HK$1,950 million);
- In September, obtained a five-year floating rate loan facility of US$300 million (approximately HK$2,340 million);
- In September, repaid remaining outstanding balance of EUR669 million (approximately HK$5,806 million) of EUR1,000 million (approximately HK$8,677 million) principal amount of fixed rate notes on maturity;
- In September, repaid HK$330 million principal amount of fixed rate notes on maturity;
- In September, issued five-year, US$750 million (approximately HK$5,850 million) fixed rate notes;
- In September, issued ten-year, US$500 million (approximately HK$3,900 million) fixed rate notes;
- In September, issued eight-year, EUR1,000 million (approximately HK$8,470 million) fixed rate notes;
- In September, obtained a three-year floating rate term loan facility of HK$1,010 million;
- In September, October and December, prepaid a floating rate loan facility of HK$1,100 million maturing in June 2018;
- In October, repaid a floating rate loan facility of HK$500 million on maturity;
- In October, repaid HK$377 million principal amount of fixed rate notes on maturity;
- In October, obtained a three-year floating rate term loan and revolving loan facility of HK$1,000 million;
- In October, issued ten-year, GBP300 million (approximately HK$3,153 million) fixed rate bond;
- In November, repaid EUR1,750 million (approximately HK$14,403 million) principal amount of fixed rate notes on maturity;
- In November, prepaid a floating rate loan facility of HK$2,000 million maturing in May 2018;
- In November, prepaid a floating rate loan facility of HK$1,000 million maturing in June 2018;
- In November, obtained a three-year floating rate term loan and revolving loan facility of US$50 million (approximately HK$390 million);
- In December, obtained a five-year floating rate loan facility of AUD250 million (approximately HK$1,408 million);
- In December, prepaid AUD217 million (approximately HK$1,210 million) of a floating rate loan facility of AUD250 million maturing in August 2017;
- In December, obtained a five-year floating rate loan facility of AUD550 million (approximately HK$3,097 million); and
- In December, obtained a 42-month floating rate loan facility of VND4,014 billion (approximately HK$1,365 million).

Furthermore, the significant debt financing activities undertaken by the Group following the year ended 31 December 2016 were as follows:

- In January, repaid US$1,000 million (approximately HK$7,800 million) principal amount of fixed rate notes on maturity;
- In January, obtained a five-year floating rate loan facility of US$86 million (approximately HK$671 million); and
- In March, obtained a three-year floating rate loan facility of HK$9,500 million with an option to drawdown in HK dollars or US dollars.

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities decreased to HK$424,679 million as at 31 December 2016, compared to HK$428,588 million as at 31 December 2015, reflecting the net exchange losses on translation of the Group's overseas operations' net asset 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, 2015 final and 2016 interim dividend and distributions paid and other items recognised directly in reserves, partly offset by the profits for 2016.

As at 31 December 2016, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK$141,806 million (31 December 2015 – HK$172,580 million, a 18% reduction compared to the net debt at the beginning of the year, resulting in the Group's net debt to net total capital ratio being reduced to 20.5% as at 31 December 2016 (31 December 2015 – 23.7%). The Group's consolidated cash and liquid investments as at 31 December 2016 were sufficient to repay all outstanding consolidated Group's principal amount of debt maturing before 2021.

The Group's consolidated gross interest expenses and other finance costs of subsidiaries, before capitalisation in 2016 was HK$7,444 million.

Reported EBITDA of HK$91,980 million and FFO of HK$49,188 million for the year covered consolidated net interest expenses and other finance costs 19.9 times and 12.5 times respectively.

Secured Financing

At 31 December 2016, assets of the Group totalling HK$24,994 million (31 December 2015 – HK$28,828 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 2016 amounted to the equivalent of HK$15,335 million (31 December 2015 – HK$12,183 million).

Contingent Liabilities

At 31 December 2016, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK$3,797 million (31 December 2015 – HK$3,797 million), of which HK$3,063 million (31 December 2015 – HK$2,888 million) has been drawn down as at 31 December 2016, and also provided performance and other guarantees of HK$3,950 million (31 December 2015 – HK$3,557 million).