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 2017, approximately 36% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 64% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$9,600 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$27,950 million principal amount of floating interest rate borrowings that were used to finance long term investments have been swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 30% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 70% were at fixed rates at 31 December 2017. 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' cash flow 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 50 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. In 2017, the Group entered into hedges by ways of forward contracts against British Pounds, Euro and Renminbi currency risks. These contracts resulted in realised hedging losses of HK$1,173 million during the year which were fully offset by translation gains against the hedged rates on the Group's attributable earnings in those currencies in 2017. All forward contracts for hedging earnings have been fully settled and no foreign currency hedges have been entered into in respect of expected 2018 foreign currency earnings.

At 31 December 2017, the Group's total principal amount of bank and other debts are denominated as follows: 21% in Euro, 42% in US dollars, 5% in HK dollars, 22% in British Pounds and 10% in other currencies. The Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$23,010 million to Euro principal amount of borrowings to reflect currency exposures of its underlying businesses. The Group's total principal amount of bank and other debts, after the above swaps, are denominated as follows: 28% in Euro, 35% in US dollars, 5% in HK dollars, 22% in British Pounds and 10% 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 A2 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. During 2017, our long term credit rating from Fitch remained at A- with a stable outlook. Standard & Poor's maintained our rating at A- but revised the outlook from stable to positive in July 2017. In November 2017, Moody's revised our rating from A3 to A2 with a stable outlook.

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 5% (31 December 2016 – 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.

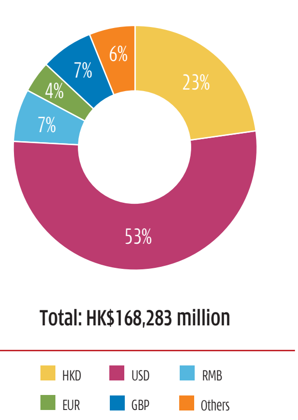
Liquid Assets

The Group continues to maintain a robust financial position. Liquid assets amounted to HK$168,283 million at 31 December 2017, an increase of 4% from the balance of HK$162,224 million at 31 December 2016, mainly reflecting the cash arising from positive funds from operations from the Group's businesses and cash from new borrowings, including floating rate loans of AUD1,550 million (approximately HK$9,207 million), floating rate loans of US$700 million (approximately HK$5,460 million) and guaranteed bonds of EUR600 million (approximately HK$5,516 million) by listed subsidiary CKI and proceeds from HTHKH's disposal of its fixed-line telecommunication business of HK$14,244 million, partly offset by the acquisitions of DUET Group of AUD2,976 million (approximately HK$17,275 million), ista of EUR1,543 million (approximately HK$14,236 million), Reliance of CAD715 million (approximately HK$4,458 million) and UK Broadband Limited of GBP292 million (approximately HK$2,952 million), 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 23% in HK dollars, 53% in US dollars, 7% in Renminbi, 4% in Euro, 7% in British Pounds and 6% in other currencies.

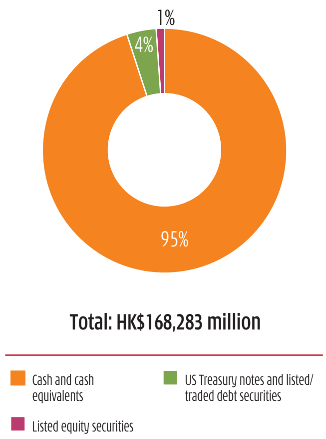
Cash and cash equivalents represented 95% (31 December 2016 – 96%) of the liquid assets, US Treasury notes and listed/traded debt securities 4% (31 December 2016 – 3%) and listed equity securities 1% (31 December 2016 – 1%). The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 56%, government and government guaranteed notes of 17%, notes issued by the Group's associated company, Husky Energy of 4%, notes issued by financial institutions of 1%, and others of 22%. Of these US Treasury notes and listed/traded debt securities, 79% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.4 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

Liquid Assets (continued)

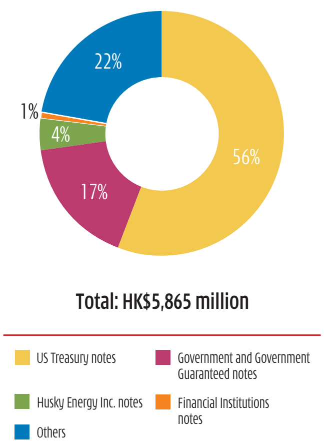
Liquid Assets by Currency Denomination at 31 December 2017



Liquid Assets by Type at 31 December 2017



US Treasury Notes and Listed/ Traded Debt Securities by Type at 31 December 2017



Cash Flow

EBITDA [1] in 2017 was HK$104,354 million, an increase of 10% compared to HK$94,525 million last year. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital was HK$53,892 million for the year, a 10% increase compared to 2016.

The Group's capital expenditures (including licences, brand name and other rights) for 2017 amounted to HK$23,915 million (31 December 2016 – HK$24,546 million). Capital expenditures for the ports and related services division amounted to HK$3,703 million (31 December 2016 – HK$2,884 million); for the retail division HK$3,148 million (31 December 2016 – HK$2,403 million); for the infrastructure division HK$5,549 million (31 December 2016 – HK$5,550 million); for **3** Group Europe HK$8,080 million (31 December 2016 – HK$8,252 million); for HTHKH HK$1,027 million (31 December 2016 – HK$2,950 million); for HAT HK$2,122 million (31 December 2016 – HK$2,246 million); and for the finance and investments and others segment HK$286 million (31 December 2016 – HK$261 million).

During 2017, the Group acquired UK Broadband Limited for HK$2,952 million (net of cash acquired of HK$5 million) and Tele2 Austria Holding GmbH for HK$725 million (net of cash acquired of HK$193 million) (31 December 2016 – HK$278 million for acquisition of additional interest in a subsidiary for the ports and relates services division).

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$36,994 million (31 December 2016 – HK$42 million). The outflow in 2017 mainly represented the payment for the acquisition of DUET Group, Reliance and ista totalling HK$35,969 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: EBITDA excludes the non-controlling interests' share of HPH Trust's EBITDA.

Debt Maturity and Currency Profile

The Group's total bank and other debts, including unamortised fair value adjustments from acquisitions, at 31 December 2017 amounted to HK$333,155 million (31 December 2016 - HK$304,030 million) which comprises principal amount of bank and other debts of HK$322,816 million (31 December 2016 - HK$292,047 million) and unamortised fair value adjustments arising from acquisitions of HK$10,339 million (31 December 2016 - HK$11,983 million). The Group's total principal amount of bank and other debts at 31 December 2017 consist of 65% notes and bonds (31 December 2016 - 70%) and 35% bank and other loans (31 December 2016 - 30%). The Group's weighted average cost of debt for the year ended 31 December 2017 is 2.3% (31 December 2016 - 2.2%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK$3,143 million as at 31 December 2017 (31 December 2016 - HK$4,283 million).

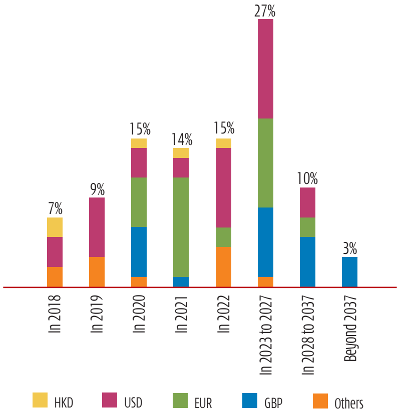
The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2017 is set out below:

	HK$	US$	Euro	GBP	Others	**Total**
In 2018	2%	3%	–	–	2%	**7%**
In 2019	–	6%	–	1%	2%	**9%**
In 2020	1%	3%	5%	5%	1%	**15%**
In 2021	1%	2%	10%	1%	–	**14%**
In 2022	1%	8%	2%	–	4%	**15%**
In 2023 - 2027	–	10%	9%	7%	1%	**27%**
In 2028 - 2037	–	3%	2%	5%	–	**10%**
Beyond 2037	–	–	–	3%	–	**3%**
Total	5%	35%	28%	22%	10%	**100%**

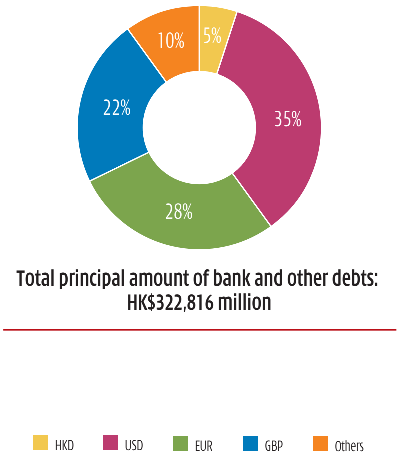
The non-HK dollar and non-US dollar denominated loans are either directly related to the Group's businesses in the countries of the currencies concerned, or the loans are balanced by assets in the same currencies. None of the Group's consolidated borrowings have credit rating triggers that would accelerate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

Debt Maturity Profile by Year and Currency Denomination at 31 December 2017

Total principal amount of bank and other debts: HK$322,816 million

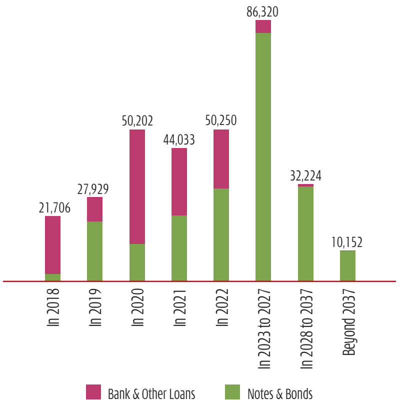


Debt Profile by Currency Denomination at 31 December 2017



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2017

Total principal amount of bank and other debts: HK$322,816 million



Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group in 2017 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);
- In February, listed subsidiary CKI obtained a one-year floating rate loan facility of AUD750 million (approximately HK$4,455 million), a five-year floating rate loan facility of AUD500 million (approximately HK$2,970 million) and a five-year floating rate loan facility of AUD300 million (approximately HK$1,782 million);
- In March, made a drawdown of US$1,200 million (approximately HK$9,360 million) loan under a three-year floating rate Hong Kong / US Dollar loan facility of HK$9,500 million that was obtained in the same month, and applied the proceeds of such loan towards prepayment of a floating rate loan of EUR1,113 million (approximately HK$9,335 million) maturing in May 2017;
- In March, obtained a five-year floating rate loan facility of US$200 million (approximately HK$1,560 million);
- In March, issued US$1,000 million (approximately HK$7,800 million) guaranteed notes due 2022 and US$800 million (approximately HK$6,240 million) guaranteed notes due 2027;
- In March, listed subsidiary CKI obtained a three-year floating rate loan facility of GBP300 million (approximately HK$2,907 million);
- In March, listed subsidiary CKI obtained a five-year floating rate loan facility of AUD103 million (approximately HK$612 million);
- In March, listed subsidiary CKI made a drawdown of an AUD550 million (approximately HK$3,275 million) loan under a five-year floating rate loan facility that was obtained in December 2016 to prepay an AUD550 million (approximately HK$3,275 million) floating rate loan maturing in May 2017;
- In March, listed subsidiary CKI obtained and made a drawdown of an JPY12,000 million (approximately HK$847 million) loan under a five-year floating rate loan facility to prepay a JPY12,000 million (approximately HK$847 million) floating rate loan;
- In April, an unlisted subsidiary of the infrastructure division issued twenty-year, GBP100 million (approximately HK$996 million) fixed rate notes;
- In May, obtained two three-year floating rate loan facilities of HK$1,650 million each;
- In May, obtained a five-year floating rate loan facility of SEK4,300 million (approximately HK$3,784 million);
- In May, the US$1,000 million (approximately HK$7,800 million) Subordinated Guaranteed Perpetual Capital Securities issued by Hutchison Whampoa International (12) Limited were redeemed in full at first call date;
- In May, issued US$1,000 million (approximately HK$7,800 million) Subordinated Guaranteed Perpetual Capital Securities;
- In May, listed subsidiary CKI repaid a floating rate loan facility of AUD103 million (approximately HK$593 million) on maturity;
- In May, repaid a floating rate loan facility of HK$3,296 million on maturity;
- In June, prepaid US$100 million (approximately HK$780 million) of a US$165 million floating rate loan facility maturing in June 2018;
- In June, repaid EUR1,250 million (approximately HK$10,888 million) principal amount of fixed rate notes on maturity;
- In June, obtained a three-year floating rate loan facility of US$1,000 million (approximately HK$7,800 million);
- In June, listed subsidiary CKI repaid US$300 million (approximately HK$2,340 million) principal amount of floating rate notes on maturity;
- In June, obtained a ten-year fixed rate loan facility of GBP100 million (approximately HK$984 million);
- In July, prepaid a floating rate loan facility of EUR300 million (approximately HK$2,730 million) maturing in September 2018;
- In July, the HK$1,000 million Guaranteed Senior Perpetual Securities issued by Cheung Kong Bond Securities (02) Limited were redeemed in full;
- In August and November, listed subsidiary CKI issued a total of US$650 million (approximately HK$5,070 million) perpetual capital securities;
- In August, prepaid a floating rate loan facility of EUR300 million (approximately HK$2,760 million) maturing in December 2020;
- In August, repaid US$500 million (approximately HK$3,900 million) principal amount of fixed rate notes on maturity;
- In August, an unlisted subsidiary of the infrastructure division issued a twenty five-year, GBP400 million (approximately HK$4,016 million) fixed rate bonds;

- In September, issued US$1,000 million (approximately HK$7,800 million) guaranteed notes due 2020, US$750 million (approximately HK$5,850 million) guaranteed notes due 2023 and US$500 million (approximately HK$3,900 million) guaranteed notes due 2027;
- In October, repaid US$2,000 million (approximately HK$15,600 million) principal amount of fixed rate notes on maturity;
- In October, listed subsidiary CKI obtained two one-year floating rate loan facilities of US$200 million each (approximately HK$3,120 million);
- In October, listed subsidiary CKI obtained a nine-month floating rate loan facility of US$300 million (approximately HK$2,340 million);
- In November, repaid US$1,000 million (approximately HK$7,800 million) principal amount of fixed rate notes on maturity; and
- In December, listed subsidiary CKI issued EUR600 million (approximately HK$5,516 million) guaranteed bonds due 2024;

Furthermore, the significant debt financing activities undertaken by the Group subsequent to the year ended 31 December 2017 were as follows:

- In January, prepaid a floating rate term and revolving loan facility of HK$2,900 million maturing in November 2019;
- In January, prepaid a floating rate term and revolving loan facility of HK$1,000 million maturing in October 2019; and
- In January, listed subsidiary CKI prepaid two floating rate loan facilities of US$200 million each (approximately HK$3,120 million) maturing in October 2018.

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities increased to HK$459,537 million as at 31 December 2017, compared to HK$424,679 million as at 31 December 2016, reflecting the Group's profit for 2017 and other items recognised directly in reserves, partly offset by the 2016 final and 2017 interim dividend and distributions paid.

As at 31 December 2017, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK$164,872 million (31 December 2016 - HK$141,806 million), a 16% increase compared to the net debt at the beginning of the year, resulting in an increase of the Group's net debt to net total capital ratio to 21.7% as at 31 December 2017 (31 December 2016 - 20.5%). The Group's consolidated cash and liquid investments as at 31 December 2017 were sufficient to repay all outstanding consolidated Group's principal amount of debt maturing before 2022.

The Group's consolidated gross interest expenses and other finance costs of subsidiaries, before capitalisation in 2017 was HK$8,644 million (31 December 2016 - HK$ 7,444 million). EBITDA of HK$104,354 million (31 December 2016 - HK$94,525 million) and FFO of HK$53,892 million (31 December 2016 - HK$49,188 million) for the year covered consolidated net interest expenses and other finance costs 22.2 times (31 December 2016 - 20.5 times) and 13.1 times (31 December 2016 - 12.5 times) respectively.

Secured Financing

At 31 December 2017, assets of the Group totalling HK$27,990 million (31 December 2016 - HK$24,994 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 2017 amounted to the equivalent of HK$13,168 million (31 December 2016 - HK$15,335 million).

Contingent Liabilities

At 31 December 2017, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK$3,911 million (31 December 2016 - HK$3,797 million), of which HK$3,310 million (31 December 2016 - HK$3,063 million) has been drawn down as at 31 December 2017 and also provided performance and other guarantees of HK$3,307 million (31 December 2016 - HK$3,950 million).