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. The Group generally does not enter into foreign currency hedges in respect of its foreign currency earnings and no derivative instruments to hedge the Group's earnings were entered during the year or remain outstanding at the end of the year. 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, that have 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 2018, approximately 39% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 61% were at fixed rates (31 December 2017: 36% floating; 64% fixed). The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$9,100 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$50,613 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 27% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 73% were at fixed rates at 31 December 2018 (31 December 2017: 30% floating; 70% fixed). 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 on its foreign currency earnings, net debt and net assets, in particular for Euro and British Pounds. EBITDA [(1)] for 2018 was HK$113,580 million, of which 55% was derived from European operations, including 27% from the UK. At 31 December 2018, of the Group's total principal amount of bank and other debts after currency swap arrangements, 53% and 3% were denominated in Euro and British Pounds respectively, whilst liquid assets comprised 9% Euro and 4% British Pounds denominated cash and cash equivalents. As a result, 81% and 3% of the Group's consolidated net debt of HK$207,965 million were denominated in Euro and British Pounds respectively. Net assets was HK$590,823 million, with 24% and 31% attributable to Continental Europe and UK operations respectively.

Note 1: EBITDA excludes the non-controlling interests' share of HPH Trust's EBITDA.

At 31 December 2018, the Group's total principal amount of bank and other debts are denominated as follows: 42% in Euro, 44% in US dollars, 3% in HK dollars, 3% in British Pounds and 8% in other currencies. The Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$38,610 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: 53% in Euro, 33% in US dollars, 3% in HK dollars, 3% in British Pounds and 8% in other currencies.

For purposes of illustrating the Group's currency sensitivity, based on the results for 2018, a 10% depreciation of British Pounds would result in a HK$3.1 billion decrease in EBITDA, a HK$1.2 billion decrease in NPAT, HK$0.5 billion decrease in cash and cash equivalents, HK$1.2 billion decrease in gross debt, HK$0.7 billion decrease in net debt, HK$14.2 billion decrease in net assets, no impact on gross debt over EBITDA and 0.4%-point increase on net debt to net total capital ratio. Similarly, a 10% depreciation of Euro would result in a HK$2.7 billion decrease in EBITDA, a HK$1.0 billion decrease in NPAT, HK$1.3 billion decrease in cash and cash equivalents, HK$18.2 billion decrease in gross debt, HK$16.9 billion decrease in net debt, HK$7.7 billion decrease in net assets, no impact on gross debt over EBITDA and 1.4%-point decrease on net debt to net total capital ratio. Actual sensitivity will of course depend on actual results and cash flows for the period under consideration.

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

Our long term credit rating from Moody's and Fitch remained at A2 (stable outlook) and A- (stable outlook) respectively. In September 2018, S&P revised our rating from A- to A with a stable outlook. 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 S&P 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.

Market Price Risk

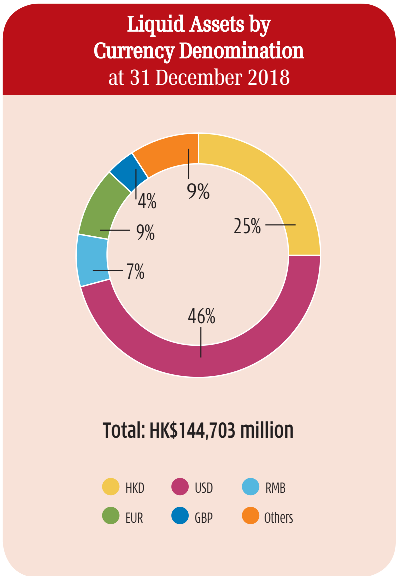
The Group's main market price risk exposures relate to listed/traded debt and equity securities described in "Liquid Assets" below and the interest rate swaps described in "Interest Rate Exposure" above. The Group's holding of listed/traded debt and equity securities represented approximately 6% (31 December 2017 – approximately 5%) 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.

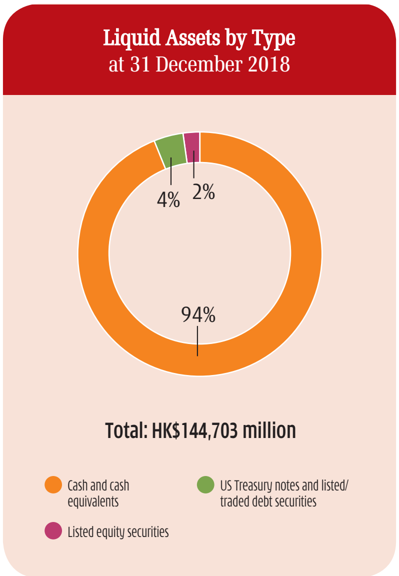
Liquid Assets

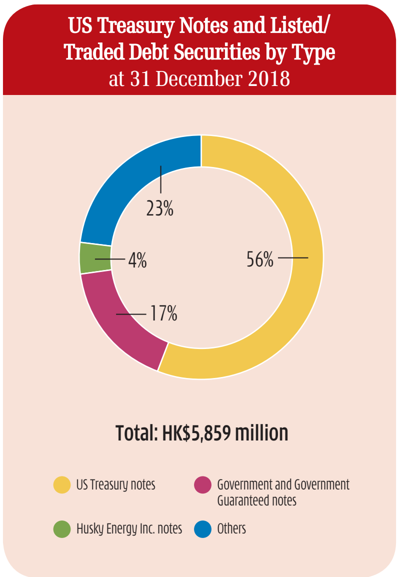
The Group continues to maintain a robust financial position. Liquid assets amounted to HK$144,703 million at 31 December 2018, a decrease of 14% from the balance of HK$168,283 million at 31 December 2017, mainly reflecting dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, redemption of certain perpetual capital securities, repayment and early repayment of certain borrowings and capital expenditure and investment spending, partly offset by the cash arising from positive funds from operations from the Group's businesses, issuance of perpetual capital securities and cash from new borrowings. Liquid assets were denominated as to 25% in HK dollars, 46% in US dollars, 7% in Renminbi, 9% in Euro, 4% in British Pounds and 9% in other currencies.

Cash and cash equivalents represented 94% (31 December 2017 – 95%) of the liquid assets, US Treasury notes and listed/traded debt securities 4% (31 December 2017 – 4%) and listed equity securities 2% (31 December 2017 – 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% and others of 23%. Of these US Treasury notes and listed/traded debt securities, 80% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.2 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

Liquid Assets (continued)







Cash Flow

EBITDA in 2018 was HK$113,580 million, an increase of 9% compared to HK$104,354 million last year. Consolidated funds from operations ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital was HK$57,345 million for the year, a 6% increase compared to 2017.

The Group's capital expenditures (including licences, brand name and other rights) for 2018 amounted to HK$37,546 million (31 December 2017 – HK$23,915 million). Capital expenditures (including licences, brand name and other rights) for the ports and related services division amounted to HK$3,910 million (31 December 2017 – HK$3,703 million); for the retail division HK$3,454 million (31 December 2017 – HK$3,148 million); for the infrastructure division HK$6,060 million (31 December 2017 – HK$5,549 million); for **3** Group Europe HK$18,715 million (31 December 2017 – HK$8,080 million); for HTHKH HK$513 million (31 December 2017 – HK$1,027 million); for HAT HK$4,656 million (31 December 2017 – HK$2,122 million); and for the finance and investments and others segment HK$238 million (31 December 2017 – HK$286 million).

The Group's dividends received from associated companies and joint ventures for 2018 amounted to HK$14,519 million (31 December 2017 – HK$19,029 million). Dividends received from associated companies and joint ventures for the ports and related services division amounted to HK$1,946 million (31 December 2017 – HK$2,046 million); for the retail division HK$1,255 million (31 December 2017 – HK$1,025 million); for the infrastructure division HK$10,043 million (31 December 2017 – HK$15,369 million); for Husky HK$667 million (31 December 2017 – Nil); and for the finance and investments and others segment HK$608 million (31 December 2017 – HK$589 million).

The Group's purchases of and advances to associated companies and joint ventures amounted to HK$2,446 million (31 December 2017 – HK$37,798 million). Purchases of and advances to associated companies and joint ventures for the ports and related services division amounted to HK$3 million (31 December 2017: HK$137 million), for the retail division was nil (31 December 2017 – HK$85 million); for the infrastructure division HK$1,444 million (31 December 2017 – HK$36,157 million); for HTHKH HK$72 million (31 December 2017 – HK$85 million); and for the finance and investments and others segment HK$927 million (31 December 2017 – HK$1,334 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 3(b)(v) and the "Consolidated Statement of Cash Flows" section of this Annual Report.

Debt Maturity and Currency Profile

The Group's total bank and other debts, including unamortised fair value adjustments from acquisitions, at 31 December 2018 amounted to HK$352,668 million (31 December 2017 – HK$333,155 million) which comprises principal amount of bank and other debts of HK$346,918 million (31 December 2017 – HK$322,816 million) and unamortised fair value adjustments arising from acquisitions of HK$5,750 million (31 December 2017 – HK$10,339 million). The Group's total principal amount of bank and other debts at 31 December 2018 consist of 66% notes and bonds (31 December 2017 – 65%) and 34% bank and other loans (31 December 2017 – 35%). The Group's weighted average cost of debt for the year ended 31 December 2018 is 2.4% (31 December 2017 – 2.3%). For purposes of illustrating the Group's sensitivity to interest rates, based on the 2018 results, a 100 basis-points increase in interest rates will result in 0.2%-point increase in the Group's weighted average cost of debt. Actual sensitivity will of course depend on actual results, cash flows and financing activities in the period under consideration. Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totaled HK$752 million as at 31 December 2018 (31 December 2017 – HK$3,143 million).

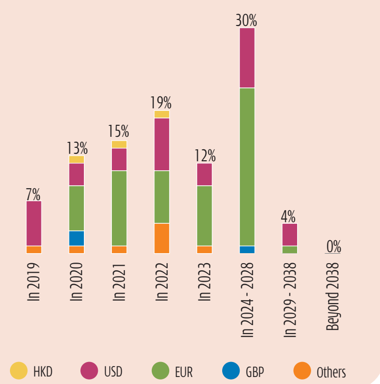
The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2018 is set out below:

	HK$	US$	Euro	GBP	Others	**Total**
In 2019	–	6%	–	–	1%	**7%**
In 2020	1%	3%	6%	2%	1%	**13%**
In 2021	1%	3%	10%	–	1%	**15%**
In 2022	1%	7%	7%	–	4%	**19%**
In 2023	–	3%	8%	–	1%	**12%**
In 2024 - 2028	–	8%	21%	1%	–	**30%**
In 2029 - 2038	–	3%	1%	–	–	**4%**
Beyond 2038	–	–	–	–	–	**–**
Total	3%	33%	53%	3%	8%	**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.

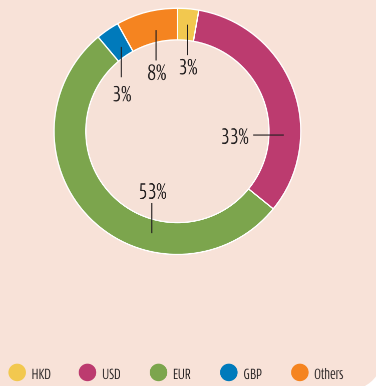
Debt Maturity Profile by Year and Currency Denomination
at 31 December 2018

Total principal amount of bank and other debts: HK$346,918 million



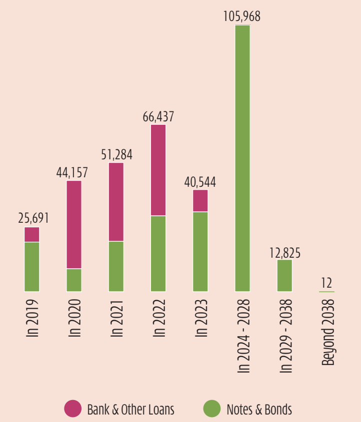
Debt Profile by Currency Denomination
at 31 December 2018

Total principal amount of bank and other debts: HK$346,918 million



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans
at 31 December 2018

Total principal amount of bank and other debts: HK$346,918 million



Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group in 2018 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;
- 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;
- In January, the US$500 million (approximately HK$3,900 million) Guaranteed Senior Perpetual Securities issued by Cheung Kong Bond Securities (03) Limited were redeemed in full;
- In February, obtained a three year floating rate loan facility of US$130 million (approximately HK$1,014 million);
- In March, obtained a five year floating rate loan facility of US$130 million (approximately HK$1,014 million);
- In March, obtained a five year floating rate loan facility of THB6,500 million (approximately HK$1,634 million) and made a drawdown in April to prepay a floating rate loan facility of THB4,500 million (approximately HK$1,122 million) maturing in June 2020;
- In March and May, prepaid a floating rate loan facility of US$165 million (approximately HK$1,287 million) maturing in June 2018;
- In April, issued EUR750 million (approximately HK$7,170 million) guaranteed notes due 2025 and EUR500 million (approximately HK$4,780 million) guaranteed notes due 2030;
- In May, EUR1,750 million (approximately HK$16,118 million) Subordinated Guaranteed Perpetual Capital Securities issued by Hutchison Whampoa Europe Finance (13) Limited were redeemed in full;
- In May, obtained four five year floating rate loan facilities of aggregate amount of AUD750 million (approximately HK$4,384 million) and repaid a floating rate loan facility of the same amount;
- In June, obtained a three year floating rate loan facility of US$500 million (approximately HK$3,900 million);
- In July, repaid S$320 million (approximately HK$1,850 million) principal amount of fixed rate notes on maturity;
- In July, listed subsidiary CKI repaid a floating rate loan facility of US$300 million (approximately HK$2,340 million) on maturity;
- In August, repaid HK$500 million principal amount of fixed rate notes on maturity;
- In August, prepaid a floating rate loan facility of GBP245 million (approximately HK$2,472 million) maturing in March 2020 and a floating rate loan facility of GBP250 million (approximately HK$2,523 million) maturing in April 2020;
- In August, obtained a three month floating rate loan facility of EUR2,450 million (approximately HK$22,222 million) for funding the acquisition of the remaining 50% interest in Wind Tre. The facility matured and was repaid fully by internal funds in November 2018;
- In September, acquired a total of 1,438,000 of CKHH's own shares through purchases on the Stock Exchange. The purchased shares were subsequently cancelled. The total amount paid to acquire the shares was approximately HK$130.4 million and has been deducted from share capital and share premium of HK$130 million and retained profit of HK$0.4 million;
- In September, announced the completion of acquiring the remaining 50% interest in Wind Tre. Subsequent to the completion, Wind Tre became a wholly-owned subsidiary of CKHH. The principal amount of Wind Tre's debts of EUR8,625 million (approximately HK$78,229 million) and US$2,000 million (approximately HK$15,600 million) has been consolidated to CKHH's total debts. In addition, a EUR400 million (approximately HK$3,628 million) revolving facility remains undrawn;
- In September, listed subsidiary CKI obtained two five-year floating rate loan facilities of US$300 million (approximately HK$2,340 million) and US$200 million (approximately HK$1,560 million);
- In October, listed subsidiary CKI obtained a three-year floating rate loan facility of HK$2,000 million and two five-year floating rate loan facilities of HK$800 million and HK$1,560 million;
- In October, obtained a three year floating rate loan facility of GBP165 million (approximately HK$1,637 million);
- In November, obtained a one year floating rate loan facility of US$110 million (approximately HK$858 million);
- In November, obtained a three year floating rate loan facility of US$170 million (approximately HK$1,326 million);
- In December, obtained a five year floating rate loan facility of US$128 million (approximately HK$998 million) and repaid a floating rate loan facility of HK$1,000 million on maturity;

- In December, prepaid EUR500 million (approximately HK$4,475 million) of a floating rate loan facility of EUR1,000 million maturing in May 2021;
- In December, the EUR500 million (approximately HK$4,475 million) Subordinated Guaranteed Perpetual Capital Securities was issued by CK Hutchison Capital Securities (Europe) Limited; and
- In December, obtained a three year floating rate loan facility of SEK1,800 million (approximately HK$1,566 million);

Furthermore, the significant debt financing activities undertaken by the Group subsequent to the year ended 31 December 2018 were as follows,

- In February 2019, prepaid EUR450 million (approximately HK$4,010 million) tranche of a floating rate loan facility of EUR3,000 million maturing in November 2020.

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities decreased to HK$458,477 million as at 31 December 2018, compared to HK$459,537 million as at 31 December 2017, reflecting the Group's 2017 final and 2018 interim dividends and distributions paid and redemption of perpetual capital securities in 2018, partly offset by profit for 2018, issuance of perpetual capital securities and other items recognised directly in reserves.

As at 31 December 2018, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK$207,965 million (31 December 2017 – HK$164,872 million), a 26% increase compared to the net debt at the beginning of the year primarily due to the net effect of dividend payments, redemption of certain perpetual capital securities, capital expenditure and investment spending, positive funds from operations and issuance of perpetual capital securities. As at the reporting date, net debt of the co-owned infrastructure assets previously consolidated in the Group's balance sheet has been reclassified under disposal group held for sale as the Group has approved a plan to streamline the direct ownership in the relevant infrastructure assets, subject to obtaining certain regulatory approvals. The Group's net debt to net total capital ratio was 26.0% as at 31 December 2018 (31 December 2017 – 21.7%). The Group's consolidated cash and liquid investments as at 31 December 2018 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 and net of interest income of HK$5,948 (31 December 2017: HK$4,135 million) in 2018 was HK$4,226 million (31 December 2017 – HK$4,509 million). EBITDA of HK$113,580 million (31 December 2017 – HK$104,354 million) and FFO excluding net interest of HK$62,063 million (31 December 2017 – HK$59,132 million) for the year covered consolidated net interest expenses and other finance costs 25.5 times (31 December 2017 – 22.2 times) and 14.7 times (31 December 2017 – 13.1 times) respectively.

Secured Financing

At 31 December 2018, assets of the Group totalling HK$111,017 million (31 December 2017 – HK$27,990 million) were pledged as security for bank and other debts. The increase is mainly attributable to an acquisition of a subsidiary during the year.

Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2018 amounted to the equivalent of HK$14,402 million (31 December 2017 – HK$13,168 million).

Contingent Liabilities

At 31 December 2018, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK$4,138 million (31 December 2017 – HK$3,911 million), of which HK$3,505 million (31 December 2017 – HK$3,310 million) has been drawn down as at 31 December 2018 and also provided performance and other guarantees of HK$2,885 million (31 December 2017 – HK$3,307 million).