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 2019, approximately 38% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 62% were at fixed rates (31 December 2018: 39% floating; 61% fixed). The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$6,760 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$23,718 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 33% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 67% were at fixed rates at 31 December 2019 (31 December 2018: 27% floating; 73% 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 2019 was HK$112,068 million, of which 55% was derived from European operations, including 22% from the UK. At 31 December 2019, of the Group's total principal amount of bank and other debts after currency swap arrangements, 52% and 5% were denominated in Euro and British Pounds respectively, whilst liquid assets comprised 9% Euro and 5% British Pounds denominated cash and cash equivalents. As a result, 82 % and 6% of the Group's consolidated net debt(2) of HK$202,877 million were denominated in Euro and British Pounds respectively. Net assets(3) was HK$612,950 million, with 15% and 22% attributable to Continental Europe and UK operations respectively.

Note 1: Under Post-IFRS 16 basis, EBITDA was HK$136,049 million.

Note 2: Under Post-IFRS 16 basis, consolidated net debt was HK$202,648 million.

Note 3: Under Post-IFRS 16 basis, net assets was HK$596,963 million.

Foreign Currency Exposure (continued)

At 31 December 2019, the Group's total principal amount of bank and other debts were denominated as follows: 42% in Euro, 41% in US dollars, 4% in HK dollars, 5% 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$36,660 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, were denominated as follows: 52% in Euro, 31% in US dollars, 4% in HK dollars, 5% in British Pounds and 8% in other currencies.

For purposes of illustrating the Group's currency sensitivity, based on the results for 2019, a 10% depreciation of British Pounds would result in a HK$2.5 billion decrease in EBITDA, a HK$0.9 billion decrease in NPAT, HK$1.2 billion decrease in net debt and 0.3%-point increase on net debt to net total capital ratio. Similarly, a 10% depreciation of Euro would result in a HK$3.2 billion decrease in EBITDA, a HK$1.2 billion decrease in NPAT, HK$16.7 billion decrease in net debt and 1.3%-point decrease on net debt to net total capital ratio. Actual sensitivity will 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, S&P and Fitch remained at A2 (stable outlook), A (stable outlook) and A- (stable outlook) respectively. 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. During 2019, CK Hutchison Group Telecom Holdings ("CKH Group Telecom"), a newly established wholly-owned subsidiary of the Group, obtained its first long term credit rating from Moody's, S&P and Fitch at Baa1 (stable outlook), A- (stable outlook) and BBB+ (stable outlook) respectively. CKH Group Telecom will seek to maintain its ratings by applying the same financial disciplines as the Group.

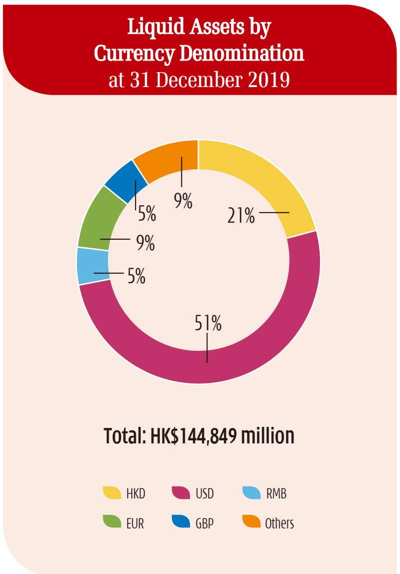
Market Price Risk

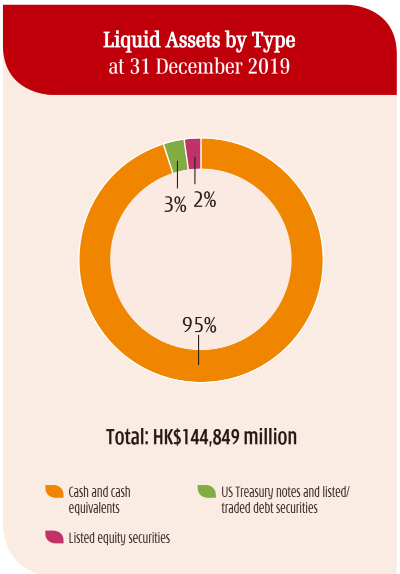
The Group's main market price risk exposures relate to listed/traded debt and equity securities described in "Liquid Assets" below and the interest rate swaps described in "Interest Rate Exposure" above. The Group's holding of listed/traded debt and equity securities represented approximately 5% (31 December 2018 – approximately 6%) 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.

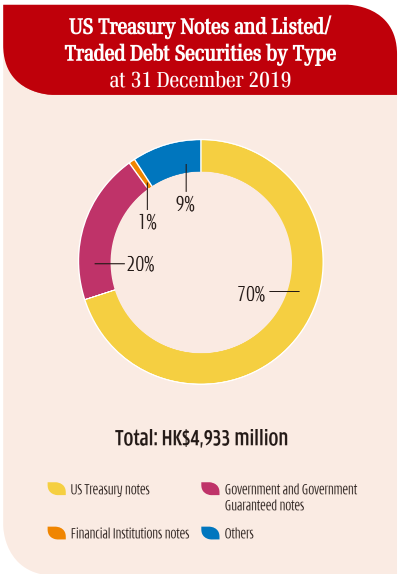
Liquid Assets

The Group continues to maintain a robust financial position. Liquid assets amounted to HK$144,849 million at 31 December 2019, flat against the balance of HK$144,703 million at 31 December 2018, mainly reflecting cash arising from positive funds from operations from the Group's businesses and cash from new borrowings, offset by dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, repayment and early repayment of certain borrowings and capital expenditure and investment spending. Liquid assets were denominated as to 21% in HK dollars, 51% in US dollars, 5% in Renminbi, 9% in Euro, 5% in British Pounds and 9% in other currencies.

Cash and cash equivalents represented 95% (31 December 2018 – 94%) of the liquid assets, US Treasury notes and listed/traded debt securities 3% (31 December 2018 – 4%) and listed equity securities 2% (31 December 2018 – 2%). The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 70%, government and government guaranteed notes of 20%, notes issued by financial institutions of 1% and others of 9%. Of these US Treasury notes and listed/traded debt securities, 99% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.3 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.







Cash Flow

EBITDA in 2019 was HK$112,068 million, a decrease of 1% compared to HK$113,580 million last year. Consolidated funds from operations[4] ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital was HK$57,919 million for the year, an increase of 1% against last year.

The Group's capital expenditures (including licences, brand name and other rights, but excluding capital expenditures of assets classified as held for sale) for 2019 amounted to HK$29,642 million (31 December 2018 – HK$37,546 million). Capital expenditures (including licences, brand name and other rights, but excluding capital expenditures of assets classified as held for sale) for the ports and related services division amounted to HK$3,037 million (31 December 2018 – HK$3,910 million); for the retail division HK$3,072 million (31 December 2018 – HK$3,454 million); for the infrastructure division HK$438 million (31 December 2018 – HK$6,060 million); for CKH Group Telecom HK$19,871 million (31 December 2018 – HK$19,229 million); for HAT HK$2,902 million (31 December2018 – HK$4,656 million); and for the finance and investments and others segment HK$322 million (31 December 2018 – HK$237 million).

The Group's dividends received from associated companies and joint ventures for 2019 amounted to HK$9,097 million (31 December 2018 – HK$14,519 million). Dividends received from associated companies and joint ventures for the ports and related services division amounted to HK$1,613 million (31 December 2018 – HK$1,946 million); for the retail division HK$1,291 million (31 December 2018 – HK$1,255 million); for the infrastructure division HK$4,659 million (31 December 2018 – HK$10,043 million); for Husky HK$1,164 million (31 December 2018 – HK$667 million); and for the finance and investments and others segment HK$370 million (31 December 2018 – HK$608 million).

The Group's purchases of and advances to associated companies and joint ventures amounted to HK$885 million (31 December 2018 – HK$2,446 million). Purchases of and advances to associated companies and joint ventures for the ports and related services divisions was nil (31 December 2018 – HK$3 million), for the retail division HK$82 million (31 December 2018 – Nil); for the infrastructure division HK$396 million (31 December 2018 – HK$1,444 million); for CKH Group Telecom HK$104 million (31 December 2018 – HK$72 million); and for the finance and investments and others segment HK$303 million (31 December 2018 – HK$927 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.

Note 4: Under Post-IFRS 16 basis, FFO was HK$74,847 million.

Debt Maturity and Currency Profile

The Group's total bank and other debts, including unamortised fair value adjustments from acquisitions, at 31 December 2019 amounted to HK$347,726 million (31 December 2018 – HK$352,668 million) which comprises principal amount of bank and other debts of HK$343,187 million (31 December 2018 – HK$346,918 million) and unamortised fair value adjustments arising from acquisitions of HK$4,539 million (31 December 2018 – HK$5,750 million). The Group's total principal amount of bank and other debts at 31 December 2019 consist of 62% notes and bonds (31 December 2018 – 66%) and 38% bank and other loans (31 December 2018 – 34%). The Group's weighted average cost of debt for the year ended 31 December 2019 is 2.1% (31 December 2018 – 2.4%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK$728 million as at 31 December 2019 (31 December 2018 – HK$752 million).

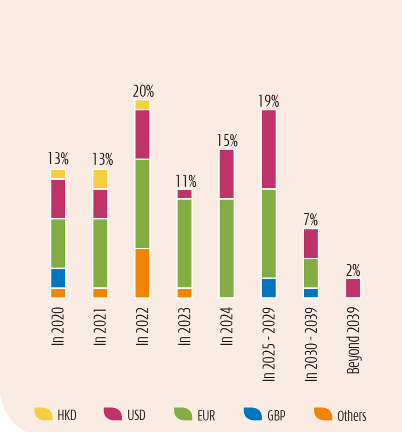
The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2019 is set out below:

	HK$	US$	Euro	GBP	Others	**Total**
In 2020	1%	4%	5%	2%	1%	**13%**
In 2021	2%	3%	7%	–	1%	**13%**
In 2022	1%	5%	9%	–	5%	**20%**
In 2023	–	1%	9%	–	1%	**11%**
In 2024	–	5%	10%	–	–	**15%**
In 2025 - 2029	–	8%	9%	2%	–	**19%**
In 2030 - 2039	–	3%	3%	1%	–	**7%**
Beyond 2039	–	2%	–	–	–	**2%**
Total	4%	31%	52%	5%	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.

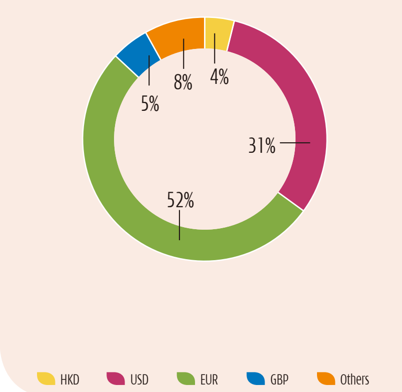
Debt Maturity Profile by Year and Currency Denomination
at 31 December 2019

Total principal amount of bank and other debts: HK$343,187 million



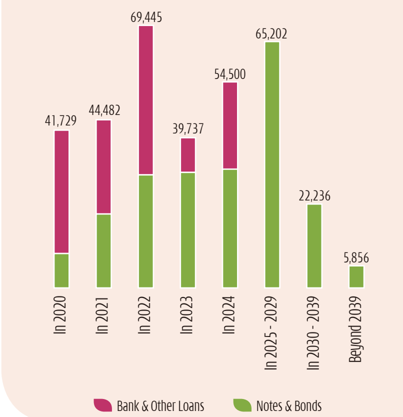
Debt Profile by Currency Denomination
at 31 December 2019

Total principal amount of bank and other debts: HK$343,187 million



Debt Maturity Profile by Notes & Bonds and Bank & Other Loans
at 31 December 2019

Total principal amount of bank and other debts: HK$343,187 million



Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group in 2019 were as follows:

- In February, partially prepaid EUR450 million (approximately HK$4,010 million) of a floating rate loan facility of EUR3,000 million maturing in November 2022;
- In April, repaid USD1,500 million (approximately HK$11,700 million) principal amount of fixed rate notes on maturity;
- In April, repaid a floating rate loan facility of SEK1,786 million (approximately HK$1,500 million) on maturity;
- In April, issued USD750 million (approximately HK$5,850 million) guaranteed notes due 2024 and USD750 million (approximately HK$5,850 million) guaranteed notes due 2029;
- In July, prepaid GBP165 million (approximately HK$1,605 million) of a floating rate loan facility maturing in October 2021;
- In July, obtained a bridging loan facility of EUR10,400 million (approximately HK$90,584 million);
- In August, prepaid the remaining EUR2,550 million (approximately HK$22,210 million) of a floating rate loan facility of EUR3,000 million maturing in November 2022;
- In August, early redeemed EUR5,139 million (approximately HK$44,684 million) of guaranteed notes due 2023 to 2025;
- In August, early redeemed USD1,843 million (approximately HK$14,266 million) of guaranteed notes due 2026;
- In September, repaid USD1,000 million (approximately HK$7,800 million) principal amount of fixed rate notes on maturity;
- In September, issued USD500 million (approximately HK$3,900 million) guaranteed notes due 2029 and USD750 million (approximately HK$5,850 million) guaranteed notes due 2049;
- In October, obtained a two year floating rate term loan facility of EUR2,100 million (approximately HK$18,123 million), a four year floating rate term loan facility of EUR2,100 million (approximately HK$18,123 million) and a two year revolving credit facility of EUR360 million (approximately HK$3,107 million);
- In October, issued EUR1,500 million (approximately HK$13,080 million) guaranteed notes due 2023; EUR1,000 million (approximately HK$8,720 million) guaranteed notes due 2026; EUR1,000 million (approximately HK$8,720 million) guaranteed notes due 2028 and EUR750 million (approximately HK$6,540 million) guaranteed notes due 2031; and
- In October, issued GBP500 million (approximately HK$5,055 million) guarantee notes due 2027 and GBP300 million (approximately HK$3,033 million) guarantee notes due 2034.

Furthermore, the significant debt financing activities undertaken by the Group subsequent to the year ended 31 December 2019 were as follows:

- In January 2020, repaid two HK$500 million fixed rate notes on maturity; and
- In February 2020, obtained a three year floating rate term loan facility of USD1,300 million (approximately HK$10,140 million).

Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities [5] increased to HK$488,648 million as at 31 December 2019, compared to HK$458,477 million as at 31 December 2018, reflecting profit for 2019, partly offset by the Group's 2018 final and 2019 interim dividends and distributions paid and other items recognised directly in reserves.

As at 31 December 2019, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK$202,877 million (31 December 2018 – HK$207,965 million), a 2% decrease compared to the net debt at the beginning of the year primarily due to the positive funds from operations, partly offset by dividend payments, capital expenditure and investment spending. The Group's consolidated net debt to net total capital ratio [6] was 24.8% as at 31 December 2019 (31 December 2018 – 26.0%). The Group's consolidated cash and liquid investments as at 31 December 2019 were sufficient to repay all outstanding consolidated Group's principal amount of debt maturing before 2022.

Note 5: Under Post-IFRS 16 basis, total ordinary shareholders' funds and perpetual capital securities was HK$476,695 million.

Note 6: Under Post-IFRS 16 basis, net debt to net total capital ratio was 25.3%.

Group Capital Resources and Liquidity

The Group's consolidated cash interest expenses and other finance costs of subsidiaries, before capitalisation and net of interest income of HK$5,916 million (31 December 2018: HK$5,948 million) in 2019 was HK$4,985 million (31 December 2018: HK$4,226 million). EBITDA of HK$112,068 million (31 December 2018: HK$113,580 million) and FFO excluding net interest [7] of HK$63,001 million (31 December 2018: HK$62,063 million) for the year covered consolidated net interest expenses and other finance costs 21.3 times (31 December 2018 – 25.5 times) and 12.6 times (31 December 2018 – 14.7 times) respectively.

Secured Financing

At 31 December 2019, assets of the Group totalling HK$1,260 million (31 December 2018 – HK$111,017 million) were pledged as security for bank loans.

Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2019 amounted to the equivalent of HK$7,528 million (31 December 2018 – HK$14,402 million).

Contingent Liabilities

At 31 December 2019, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK$6,960 million (31 December 2018 – HK$4,138 million), of which HK$6,058 million (31 December 2018 – HK$3,505 million) has been drawn down as at 31 December 2019 and also provided performance and other guarantees of HK$2,817 million (31 December 2018 – HK$2,885 million).

Note 7: Under Post-IFRS 16 basis, FFO excluding net interest was HK$83,552 million.