

# 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 2020, approximately 35% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 65% were at fixed rates (31 December 2019 – 38% floating; 62% fixed). The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK\$5,460 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK\$17,264 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 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 at 31 December 2020 (31 December 2019 – 33% floating; 67% 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.

## Group Capital Resources and Liquidity

The Group has operations in about 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 <sup>(1)</sup> for 2020 was HK\$96,944 million, on a recurring basis (excluding the gain on disposal of tower assets completed in 2020 and dilution gain from the merger of VHA with TPG Corporation Limited and the Group's share of impairment and other charges of Husky Energy), 62% was derived from European operations, including 23% from the UK. At 31 December 2020, of the Group's total principal amount of bank and other debts after currency swap arrangements, 51% and 5% were denominated in Euro and British Pounds respectively, whilst liquid assets comprised 9% Euro and 10% British Pounds denominated cash and cash equivalents. As a result, 89% and 1% of the Group's consolidated net debt <sup>(2)</sup> of HK\$185,298 million were denominated in Euro and British Pounds respectively. Net assets <sup>(3)</sup> was HK\$646,478 million, with 16% and 22% attributable to Continental Europe and UK operations respectively.

At 31 December 2020, the Group's total principal amount of bank and other debts were denominated as follows: 42% in Euro, 41% in US dollars, 3% in HK dollars, 5% in British Pounds and 9% in other currencies. The Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK\$31,356 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: 51% in Euro, 32% in US dollars, 3% in HK dollars, 5% in British Pounds and 9% in other currencies.

For purposes of illustrating the Group's currency sensitivity, based on the recurring results for 2020, a 10% depreciation of British Pounds would result in a HK\$2.2 billion decrease in EBITDA, a HK\$0.6 billion decrease in NPAT, HK\$0.2 billion decrease in net debt and 0.4%-point increase on net debt to net total capital ratio. Similarly, a 10% depreciation of Euro would result in a HK\$3.1 billion decrease in EBITDA, a HK\$1.3 billion decrease in NPAT, HK\$16.4 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. CK Hutchison Group Telecom Holdings ("CK Hutchison Group Telecom"), a wholly-owned subsidiary of the Group, obtained long term credit rating from Moody's, S&P and Fitch at Baa1 (stable outlook), A- (stable outlook) and BBB+ (stable outlook) respectively. CK Hutchison Group Telecom will seek to maintain its ratings by applying the same financial disciplines as the Group.

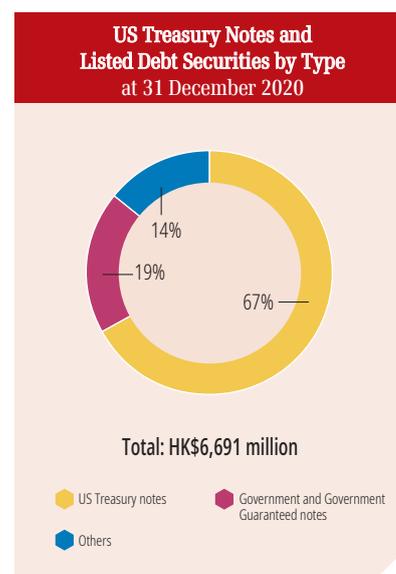
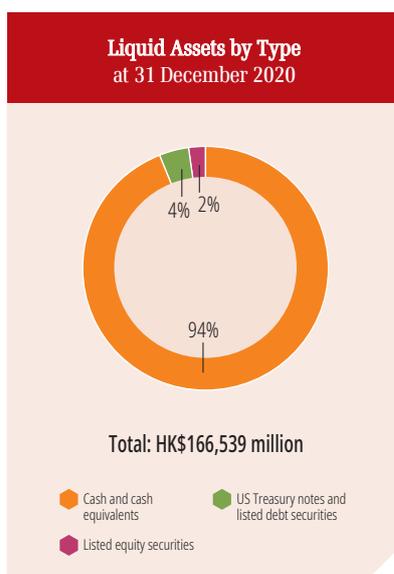
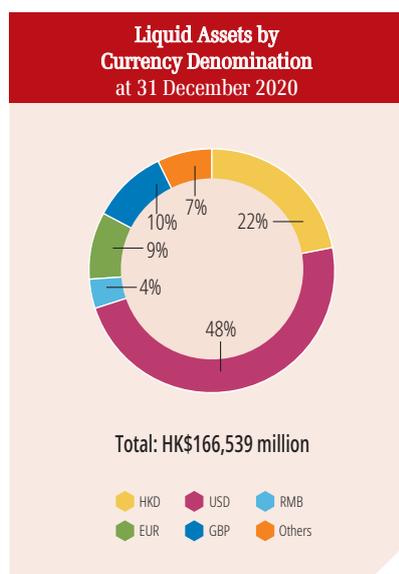
### Market Price Risk

The Group's main market price risk exposures relate to listed 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 debt and equity securities represented approximately 6% (31 December 2019 – 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.

Note 1: Under Post-IFRS 16 basis, EBITDA for 2020 was HK\$122,348 million (31 December 2019 – HK\$136,049 million).

Note 2: Under Post-IFRS 16 basis, consolidated net debt as at 31 December 2020 was HK\$185,103 million (31 December 2019 – HK\$202,648 million).

Note 3: Under Post-IFRS 16 basis, net assets as at 31 December 2020 was HK\$630,063 million (31 December 2019 – HK\$596,963 million).



## Liquid Assets

The Group continues to maintain a robust financial position. Liquid assets amounted to HK\$166,539 million at 31 December 2020, an increase of 15% from the balance of HK\$144,849 million at 31 December 2019, mainly reflecting proceeds received from tower sales, cash arising from positive funds from operations from the Group's businesses and cash from new borrowings, partly 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 22% in HK dollars, 48% in US dollars, 4% in Renminbi, 9% in Euro, 10% in British Pounds and 7% in other currencies.

Cash and cash equivalents represented 94% (31 December 2019 – 95%) of the liquid assets, US Treasury notes and listed debt securities 4% (31 December 2019 – 3%) and listed equity securities 2% (31 December 2019 – 2%). The US Treasury notes and listed debt securities, including those held under managed funds, consisted of US Treasury notes of 67%, government and government guaranteed notes of 19% and others of 14%. Of these US Treasury notes and listed debt securities, 99% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 1.2 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

## Cash Flow

EBITDA for 2020 was HK\$96,944 million, a decrease of 13% compared to HK\$112,068 million last year. Consolidated funds from operations<sup>(4)</sup> ("FFO") before cash profits from disposals, capital expenditures, investments and changes in working capital was HK\$55,543 million for 2020, a decrease of 4% against last year of HK\$57,919 million. Changes in working capital<sup>(5)</sup> was HK\$332 million outflow for 2020, an improvement of HK\$4,251 million against HK\$4,583 million outflow 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 2020 amounted to HK\$29,588 million (31 December 2019 – HK\$29,642 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\$1,712 million (31 December 2019 – HK\$3,037 million); for the retail division HK\$1,947 million (31 December 2019 – HK\$3,072 million); for the infrastructure division HK\$205 million (31 December 2019 – HK\$438 million); for CK Hutchison Group Telecom HK\$21,542 million (31 December 2019 – HK\$19,871 million); for HAT HK\$4,003 million (31 December 2019 – HK\$2,902 million); and for the finance and investments and others segment HK\$179 million (31 December 2019 – HK\$322 million).

Note 4: Under Post-IFRS 16 basis, FFO for 2020 was HK\$72,655 million (31 December 2019 – HK\$74,847 million).

Note 5: Under Post-IFRS 16 basis, changes in working capital for 2020 was positive HK\$516 million (31 December 2019 – negative HK\$5,577 million).

## Group Capital Resources and Liquidity

The Group's dividends received from associated companies and joint ventures for 2020 amounted to HK\$10,241 million (31 December 2019 – HK\$9,097 million). Dividends received from associated companies and joint ventures for the ports and related services division amounted to HK\$1,543 million (31 December 2019 – HK\$1,613 million); for the retail division HK\$1,301 million (31 December 2019 – HK\$1,291 million); for the infrastructure division HK\$6,676 million (31 December 2019 – HK\$4,659 million); for Husky HK\$633 million (31 December 2019 – HK\$1,164 million); and for the finance and investments and others segment HK\$88 million (31 December 2019 – HK\$370 million).

The Group's purchases of and advances to associated companies and joint ventures amounted to HK\$833 million (31 December 2019 – HK\$885 million). Purchases of and advances to associated companies and joint ventures for the retail division HK\$308 million (31 December 2019 – HK\$82 million); for the infrastructure division HK\$251 million (31 December 2019 – HK\$396 million); for CK Hutchison Group Telecom HK\$76 million (31 December 2019 – HK\$104 million); and for the finance and investments and others segment HK\$198 million (31 December 2019 – HK\$303 million).

Net cash inflow before financing activities<sup>(6)</sup> was HK\$48,733 million, an increase of 208% compared to HK\$15,824 million last year, reflecting proceeds received from tower sales and improvements in changes in working capital, partly offset by decrease in EBITDA.

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(b)(v) and the "Consolidated Statement of Cash Flows" section of this Annual Report.

## Debt Maturity and Currency Profile

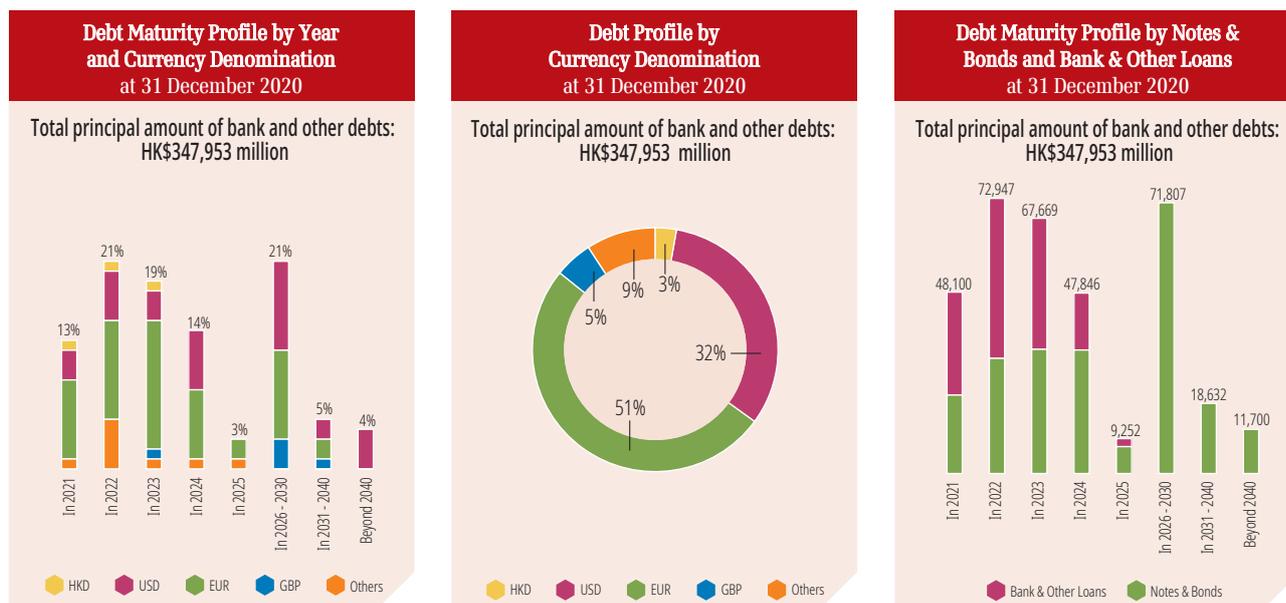
The Group's total bank and other debts, including unamortised fair value adjustments from acquisitions, at 31 December 2020 amounted to HK\$351,837 million (31 December 2019 – HK\$347,726 million) which comprises principal amount of bank and other debts of HK\$347,953 million (31 December 2019 – HK\$343,187 million) and unamortised fair value adjustments arising from acquisitions of HK\$3,884 million (31 December 2019 – HK\$4,539 million). The Group's total principal amount of bank and other debts at 31 December 2020 consist of 65% notes and bonds (31 December 2019 – 62%) and 35% bank and other loans (31 December 2019 – 38%). The Group's weighted average cost of debt for the year ended 31 December 2020 is 1.7% (31 December 2019 – 2.1%). Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK\$798 million as at 31 December 2020 (31 December 2019 – HK\$728 million).

The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2020 is set out below:

	HK\$	US\$	Euro	GBP	Others	Total
In 2021	1%	3%	8%	–	1%	13%
In 2022	1%	5%	10%	–	5%	21%
In 2023	1%	3%	13%	1%	1%	19%
In 2024	–	6%	7%	–	1%	14%
In 2025	–	–	2%	–	1%	3%
In 2026 – 2030	–	9%	9%	3%	–	21%
In 2031 – 2040	–	2%	2%	1%	–	5%
Beyond 2040	–	4%	–	–	–	4%
<b>Total</b>	<b>3%</b>	<b>32%</b>	<b>51%</b>	<b>5%</b>	<b>9%</b>	<b>100%</b>

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.

Note 6: Under Post-IFRS 16 basis, net cash inflow before financing activities for 2020 was HK\$66,707 million (31 December 2019 – HK\$31,851 million).



## Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group in 2020 were as follows:

- In January, repaid two HK\$500 million fixed rate notes on maturity;
- In February, obtained a three year floating rate term loan facility of USD1,300 million (approximately HK\$10,140 million);
- In March, repaid a club loan facility of US\$1,200 million (approximately HK\$9,360 million) on maturity;
- In March, obtained a three year floating rate loan facility of HK\$1,000 million;
- In March, repaid two floating rate loan facilities of HK\$500 million each on maturity;
- In March, repaid a bilateral facility of AUD260 million (approximately HK\$1,160 million) on maturity and obtained a five year revolving facility of the same amount;
- In April, repaid HK\$300 million principal amount of fixed rate notes on maturity;
- In May, issued US\$750 million (approximately HK\$5,850 million) guaranteed notes due 2030 and US\$750 million (approximately HK\$5,850 million) guaranteed notes due 2050;
- In May, obtained a three year floating rate term loan facility of EUR100 million (approximately HK\$850 million);
- In June, repaid a club loan facility of US\$1,000 million (approximately HK\$7,800 million) on maturity;
- In June, obtained a three year floating rate loan facility of US\$1,000 million (approximately HK\$7,800 million);
- In June, obtained two 364 days floating rate loan facilities of US\$100 million (approximately HK\$780 million) and US\$120 million (approximately HK\$936 million);
- In June, obtained three one year floating rate loan facilities of EUR95 million (approximately HK\$838 million), EUR100 million (approximately HK\$882 million) and EUR105 million (approximately HK\$926 million);
- In July, repaid a facility loan of US\$236.5 million (approximately HK\$1,845 million) on maturity;
- In July, repaid a term and revolving facility of GBP300 million (approximately HK\$3,014 million) on maturity and obtained a three year term loan facility of GBP150 million (approximately HK\$1,506 million);
- In September, repaid US\$1,000 million (approximately HK\$7,800 million) principal amount of fixed rate notes on maturity;
- In November, repaid a revolving loan facility of US\$175 million (approximately HK\$1,365 million) on maturity;
- In November, repaid a term loan facility of GBP325 million (approximately HK\$3,412 million) on maturity and obtained a three year syndicated facility of the same amount;
- In December, repaid a term loan facility of US\$300 million (approximately HK\$2,340 million) on maturity;
- In December, prepaid EUR1,050 million (approximately HK\$9,975 million) of a floating rate term loan facility of EUR2,100 million maturing in October 2024; and
- In December, obtained a three year floating rate term loan facility of EUR1,000 million (approximately HK\$9,500 million).

## Group Capital Resources and Liquidity

Furthermore, the significant debt financing activities undertaken by the Group subsequent to the year ended 31 December 2020 were as follows:

- In January 2021, prepaid EUR1,650 million (approximately HK\$15,527 million) of a floating rate term loan facility of EUR2,100 million maturing in October 2022; and
- In March 2021, US\$1,200 million (approximately HK\$9,360 million) Guaranteed Perpetual Capital Securities issued by OVPH Limited and guaranteed by CKI were redeemed in full.

## Capital, Net Debt and Interest Coverage Ratios

The Group's total ordinary shareholders' funds and perpetual capital securities<sup>(7)</sup> increased to HK\$518,975 million as at 31 December 2020, compared to HK\$488,648 million as at 31 December 2019, reflecting the profit for 2020 and other items recognised directly in reserves, partly offset by the Group's 2019 final and 2020 interim dividends and distributions paid.

As at 31 December 2020, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK\$185,298 million (31 December 2019 – HK\$202,877 million), a 9% decrease compared to the net debt at the beginning of the year primarily due to proceeds received from tower sales, improvement in working capital management, savings in interest costs and cash taxes, rigorous capital expenditure and investment controls, partly offset by dividend payments and distributions and adverse foreign exchange translation of net debt. The Group's consolidated net debt to net total capital ratio<sup>(8)</sup> was 22.2% as at 31 December 2020 (31 December 2019 – 24.8%). The Group's consolidated cash and liquid investments as at 31 December 2020 were sufficient to repay all of the Group's outstanding debt maturing before 2023.

The Group's consolidated cash interest expenses and other finance costs of subsidiaries, before capitalisation and net of interest income of HK\$5,398 million (31 December 2019 – HK\$5,916 million) in 2020 was HK\$1,707 million (31 December 2019 – HK\$4,985 million). EBITDA of HK\$96,944 million (31 December 2019 – HK\$112,068 million) and FFO excluding net interest<sup>(9)</sup> of HK\$57,250 million (31 December 2019 – HK\$63,001 million) for the year covered consolidated net interest expenses and other finance costs 53.6 times (31 December 2019 – 21.3 times) and 33.5 times (31 December 2019 – 12.6 times) respectively.

## Secured Financing

At 31 December 2020, assets of the Group totalling HK\$1,411 million (31 December 2019 – HK\$1,260 million) were pledged as security for bank loans.

## Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2020 amounted to the equivalent of HK\$20,766 million (31 December 2019 – HK\$7,528 million).

## Contingent Liabilities

At 31 December 2020, the Group provided guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures totalling HK\$7,022 million (31 December 2019 – HK\$6,960 million), of which HK\$6,246 million (31 December 2019 – HK\$6,058 million) has been drawn down as at 31 December 2020 and also provided performance and other guarantees of HK\$7,868 million (31 December 2019 – HK\$2,817 million).

Note 7: Under Post-IFRS 16 basis, total ordinary shareholders' funds and perpetual capital securities as at 31 December 2020 was HK\$506,711 million (31 December 2019 – HK\$476,695 million).

Note 8: Under Post-IFRS 16 basis, net debt to net total capital ratio for 2020 was 22.7% (31 December 2019 – 25.3%).

Note 9: Under Post-IFRS 16 basis, FFO excluding net interest for 2020 was HK\$78,046 million (31 December 2019 – HK\$83,552 million).