

# 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. 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 2015, approximately 32% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 68% were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK\$47,973 million principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK\$6,061 million principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 47% of the Group's total principal amount of bank and other debts were at floating rates and the remaining 53% were at fixed rates at 31 December 2015. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are considered highly effective.

## Foreign Currency Exposure

For overseas subsidiaries, associated companies and other investments, which consist of non-HK dollar or non-US dollar assets, the Group generally endeavours to establish a natural hedge for debt financing with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in local currency are not or are no longer attractive, the Group may not borrow in the local currency or may repay existing borrowings and monitor the development of the businesses' cashflow and the relevant debt markets with a view to refinance these businesses with local currency borrowings in the future when conditions are more appropriate. Exposure to movements in exchange rates for individual transactions (such as major procurement contracts) directly related to its underlying businesses is minimised by using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist. The Group generally does not enter into foreign currency hedges in respect of its long-term equity investments in overseas subsidiaries and associated companies, except in relation to certain infrastructure investments.

The Group has operations in over 50 countries and conducts businesses in 46 currencies. The Group's functional currency for reporting purposes is Hong Kong Dollars and the Group's reported results in Hong Kong Dollars are exposed to exchange translation gains or losses on its foreign currency earnings. The Group generally does not enter into foreign currency hedges in respect of its foreign currency earnings. At times of significant exchange rate volatility and where appropriate opportunities arise, the Group may prudently enter into forward foreign currency contracts and currency swaps for selective foreign currencies for a portion of its budgeted foreign currency earnings to limit potential downside foreign currency exposure on its earnings.

The Group's total principal amount of bank and other debts are denominated as follows: 25% in Euro, 36% in US dollars, 7% in HK dollars, 25% in British Pounds and 7% in other currencies.

## Treasury Management *(continued)*

### 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 and aircraft leasing businesses. Such risks are continuously monitored by the local operational management.

### Credit Profile

The Group aims to maintain a capital structure that is appropriate for long-term investment grade ratings of A3 on the Moody's Investor Service scale, A- on the Standard & Poor's Rating Services scale and A- on the Fitch Ratings scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances.

After the completion of the reorganisation of Cheung Kong (Holdings) Limited ("Cheung Kong") and Hutchison Whampoa Limited ("HWL") on the 3 June 2015, the Group was assigned long-term credit ratings of A3 from Moody's on 3 June 2015, A- from Standard & Poor's on 6 July 2015 and A- from Fitch on 13 July 2015. All three agencies have also assigned stable outlooks on the Group's ratings. On these same dates, HWL's long-term credit ratings were withdrawn by the three agencies. At 31 December 2015, these ratings and outlooks remain unchanged.

### 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 as described in "Interest Rate Exposure" above. The Group's holding of listed/traded debt and equity securities represented approximately 8% 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.

## Reorganisation

The reorganisation of Cheung Kong and HWL, which merged their assets and businesses into CK Hutchison Holdings Limited and simultaneously reallocated them between the Group and Cheung Kong Property Holdings Limited (the "Reorganisation") was completed on 3 June 2015.

As part of the Reorganisation, HWL became a wholly owned subsidiary of the Group upon the completion. In accordance with HKFRS 3 "Business Combinations", the identifiable assets and liabilities of HWL have been re-measured and accounted for at fair value and consolidated into the financial results of the Group.

Furthermore, upon completion of the Reorganisation, certain entities, including Northumbrian Water, Park'N Fly and UK Rails (the "New Consolidated Businesses"), previously co-owned by Cheung Kong and HWL and which the Group now controls, have been accounted for at fair value and consolidated into the financial results of the Group.

Interests in Dutch Enviro Energy (formerly known as AVR), Australian Gas Networks and Wales & West Utilities, acquired as part of the Reorganisation continue to be accounted for using the equity method of accounting as interests in joint venture under HKFRS 11 "Joint Arrangements" and are not consolidated into the financial results of the Group.

## Significant Acquisitions and Disposals for Continuing Operations

As part of the Reorganisation, the Group issued approximately 1,544 million of new shares to acquire, through an all share exchange, the remaining 50.03% of the issued and outstanding equity of HWL, as well as, an additional 6.23% interest in Husky Energy's shares. The total cash acquired from the acquisition of HWL amounted to HK\$106,313 million.

As part of the Reorganisation, the Group's enlarged property businesses held by Cheung Kong Property Holdings Limited was separately listed following a distribution in specie of Cheung Kong Property Holdings Limited shares. This increased the Group's liquidity by an aggregate amount of HK\$40,649 million comprising cash of HK\$55,000 million from Cheung Kong Property Holdings Limited for settlement of certain intercompany loans, and netting off the bank balances and cash retained by Cheung Kong Property Holdings Limited of HK\$14,351 million of which the interest has been distributed.

## Group Capital Resources and Liquidity

### Significant Acquisitions and Disposals for Continuing Operations *(continued)*

In April, prior to the Reorganisation, Cheung Kong and Cheung Kong Infrastructure Holdings Limited both advanced £559 million each (approximately HK\$6,407 million each) to UK Rails, a 50/50 joint venture with Cheung Kong Infrastructure Holdings Limited. UK Rails subsequently acquired a 100% interest in Eversholt Rail Group at an enterprise value of approximately £2,500 million (approximately HK\$29,300 million).

Subsequent to the Reorganisation, in July, the Group has spent HK\$1,839 million on the concession extension of Jakarta International Container Terminal, and, in November, Cheung Kong Infrastructure Holdings Limited advanced €164 million (approximately HK\$1,375 million) to Portugal Renewable Energy, a 50/50 joint venture with Power Assets Holdings Limited, to acquire the entire share capital of Iberwind-Desenvolvimento e Projectos, S.A., the largest wind farm operator in Portugal.

### Capital and Net Debt

The Group's total ordinary shareholders' funds and perpetual capital securities amounted to HK\$428,588 million at 31 December 2015.

The cash and cash equivalents of the Group, including the cash and cash equivalents consolidated from HWL and the New Consolidated Businesses and the increased liquidity resulting from the separate listing of Cheung Kong Property Holdings Limited, amounted to HK\$131,426 million as at 31 December 2015. Correspondingly, the Group's consolidated principal amount of bank and other debts including unamortised fair value adjustments from acquisitions, comprising those consolidated from HWL and the New Consolidated Businesses amounted to HK\$304,006 million at 31 December 2015.

At 31 December 2015, the consolidated net debt of the Group, excluding interest bearing loans from non-controlling shareholders which are viewed as quasi-equity, was HK\$172,580 million. The Group's net debt to net total capital ratio at 31 December 2015 was 23.7%. The Group's consolidated cash and liquid investments as at 31 December 2015 were sufficient to repay all outstanding consolidated Group's principal amount of debt maturing before 2019.

### Changes in Debt Financing and Perpetual Capital Securities

The significant financing activities for the Group including those for HWL in 2015 were as follows:

- In March, obtained a five-year floating rate term loan facility of HK\$500 million;
- In March, obtained a five-year floating rate revolving loan facility of HK\$500 million;
- In March, obtained a five-year floating rate loan facility of £245 million (approximately HK\$2,801 million) and repaid on maturity a floating rate loan facility of the same amount;
- In March, obtained a one-year floating rate loan facility of £6,000 million (approximately HK\$69,240 million);
- In March, repaid a floating rate loan facility of HK\$400 million on maturity;
- In March, prepaid a floating rate loan facility of HK\$1,000 million maturing in August 2015;
- In March, prepaid a floating rate loan facility of HK\$1,800 million maturing in October 2015;
- In March, prepaid a floating rate loan facility of HK\$400 million maturing in August 2017;
- In April, prepaid a floating rate term loan facility of HK\$500 million maturing in August 2015;
- In April, prepaid a floating rate revolving loan facility of HK\$500 million maturing in August 2015;
- In April, obtained a five-year floating rate loan facility of £250 million (approximately HK\$2,907 million);
- In April, repaid HK\$500 million principal amount of fixed rate notes on maturity;
- In June, repaid US\$500 million (approximately HK\$3,900 million) principal amount of floating rate notes on maturity;
- In June, repaid €603 million (approximately HK\$5,233 million) principal amount of fixed notes on maturity;
- In June, repaid a floating rate loan facility of THB4,455 million (approximately HK\$1,022 million) on maturity;
- In June, obtained a five-year floating rate loan facility of THB4,500 million (approximately HK\$1,032 million);
- In June, obtained a three-year floating rate loan facility of US\$165 million (approximately HK\$1,287 million);

## Changes in Debt Financing and Perpetual Capital Securities *(continued)*

- In July, repaid a floating rate loan facility of HK\$500 million on maturity;
- In July, repaid a floating rate loan facility of HK\$640 million on maturity;
- In July, repaid a floating rate loan facility of US\$82 million (approximately HK\$640 million) on maturity;
- In July, repaid a floating rate loan facility of HK\$1,250 million on maturity;
- In July, prepaid a floating rate loan facility of US\$200 million (approximately HK\$1,560 million) maturing in August 2015;
- In July, prepaid a floating rate loan facility of HK\$1,000 million maturing in September 2015;
- In July, prepaid a floating rate loan facility of HK\$250 million maturing in December 2015;
- In July, prepaid a floating rate loan facility of HK\$650 million maturing in February 2017;
- In July, prepaid a floating rate loan facility of HK\$4,000 million maturing in July 2017;
- In July, prepaid a floating rate loan facility of HK\$700 million maturing in October 2017;
- In July, obtained a five-year floating rate loan facility of US\$237 million (approximately HK\$1,845 million);
- In August, repaid a floating rate loan facility of HK\$700 million on maturity;
- In September, obtained a five-year floating rate loan facility of US\$300 million (approximately HK\$2,340 million);
- In September, repaid US\$2,189 million (approximately HK\$17,077 million) principal amount of fixed rate notes on maturity;
- In October, obtained a three-year floating rate loan facility of €300 million (approximately HK\$2,583 million) to refinance existing indebtedness;
- In October, obtained a ten-year floating rate loan facility of £150 million (approximately HK\$1,782 million);
- In November, obtained a five-year floating rate loan facility of £325 million (approximately HK\$3,751 million);
- In November, issued fifteen-year £90 million (approximately HK\$1,039 million) fixed rate notes;
- In November, prepaid a floating rate loan facility of £100 million (approximately HK\$1,154 million) maturing in November 2018;
- In November, repaid S\$225 million (approximately HK\$1,240 million) principal amount of fixed rate notes on maturity;
- In December, obtained a three-year floating rate term loan facility of HK\$1,000 million to refinance existing indebtedness;
- In December, repaid a floating rate loan facility of HK\$1,000 million on maturity;
- In December, repaid a floating rate loan facility of HK\$1,000 million on maturity;
- In December, repaid £325 million (approximately HK\$3,751 million) principal amount of fixed rate notes on maturity; and
- In December, obtained a five-year floating rate loan facility of €300 million (approximately HK\$2,541 million) to refinance existing indebtedness.

In addition, in October, the Group had redeemed outstanding balance of US\$1,705 million (approximately HK\$13,299 million) of the US\$2,000 million (approximately HK\$15,600 million) nominal amount of perpetual capital securities that were originally issued in 2010.

Furthermore, the significant debt financing activities and perpetual capital securities undertaken by the Group following the year ended 31 December 2015 were as follows:

- In January, repaid a floating rate loan facility of HK\$1,000 million on maturity; and
- In March, listed subsidiary Cheung Kong Infrastructure Holdings Limited issued US\$1,200 million perpetual capital securities.

## Group Capital Resources and Liquidity

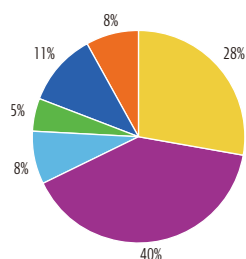
### Liquid Assets

The Group continues to maintain a robust financial position. Liquid assets amounted to HK\$131,426 million at 31 December 2015. Liquid assets were denominated as to 28% in HK dollars, 40% in US dollars, 8% in Renminbi, 5% in Euro, 11% in British Pounds and 8% in other currencies.

Cash and cash equivalents represented 92% of the liquid assets, US Treasury notes and listed/traded debt securities 4% and listed equity securities 4%.

The US Treasury notes and listed/traded debt securities, including those held under managed funds, consisted of US Treasury notes of 61%, government and government guaranteed notes of 18%, notes issued by the Group's associated company, Husky Energy of 4%, notes issued by financial institutions of 2%, and others of 15%. Of these US Treasury notes and listed/traded debt securities, 80% are rated at Aaa/AAA or Aa1/AA+ with an average maturity of 2.0 years on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

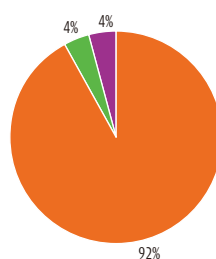
**Liquid Assets by Currency Denomination at 31 December 2015**



Total: HK\$131,426 million



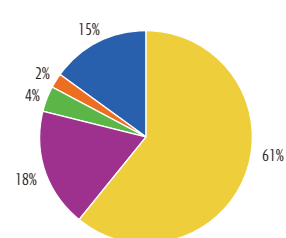
**Liquid Assets by Type at 31 December 2015**



Total: HK\$131,426 million



**US Treasury Notes and Listed/Traded Debt Securities by Type at 31 December 2015**



Total: HK\$5,783 million



### Debt Maturity and Currency Profile

The Group's total bank and other debts including unamortised fair value adjustments from acquisitions at 31 December 2015 amounted to HK\$304,006 million which comprises principal amount of bank and other debts of HK\$287,603 million, and unamortised fair value adjustments arising from acquisitions of HK\$16,403 million. The Group's total principal amount of bank and other debts at 31 December 2015 of HK\$287,603 million consist of 69% notes and bonds and 31% bank and other loans. Interest bearing loans from non-controlling shareholders, which are viewed as quasi-equity, totalled HK\$4,827 million at 31 December 2015.

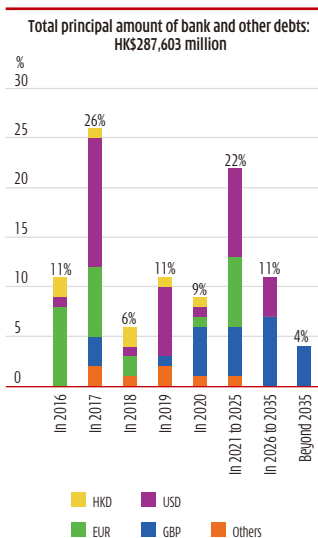
The maturity profile of the Group's total principal amount of bank and other debts at 31 December 2015 is set out below:

	HK\$	US\$	Euro	GBP	Others	Total
In 2016	2%	1%	8%	—	—	11%
In 2017	1%	13%	7%	3%	2%	26%
In 2018	2%	1%	2%	—	1%	6%
In 2019	1%	7%	—	1%	2%	11%
In 2020	1%	1%	1%	5%	1%	9%
In 2021 - 2025	—	9%	7%	5%	1%	22%
In 2026 - 2035	—	4%	—	7%	—	11%
Beyond 2035	—	—	—	4%	—	4%
<b>Total</b>	<b>7%</b>	<b>36%</b>	<b>25%</b>	<b>25%</b>	<b>7%</b>	<b>100%</b>

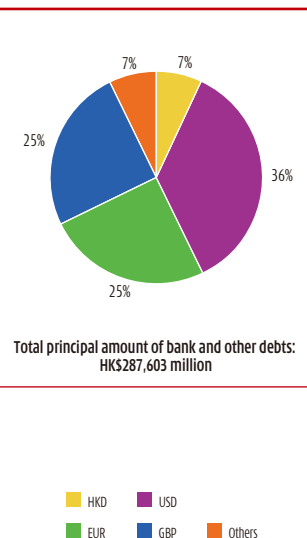
## Debt Maturity and Currency Profile (continued)

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 debt.

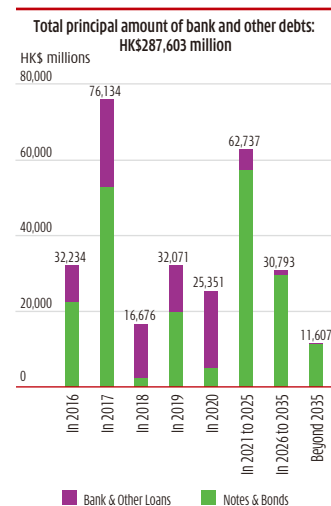
**Debt Maturity Profile by Year and Currency Denomination at 31 December 2015**



**Debt Profile by Currency Denomination at 31 December 2015**



**Debt Maturity Profile by Notes & Bonds and Bank & Other Loans at 31 December 2015**



## Secured Financing

At 31 December 2015, assets of the Group totalling HK\$28,828 million were pledged as security for bank and other debts.

## Borrowing Facilities Available

Committed borrowing facilities available to Group companies but not drawn at 31 December 2015 amounted to the equivalent of HK\$81,423 million, including £6,000 million facility available on completion of the acquisition of O<sub>2</sub> UK for a term of one year from drawdown.

## Contingent Liabilities

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