

FINANCING

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Capital Structure

The Group aims to maintain a capital structure that is appropriate for long-term credit ratings of A3 to A1 on Moody's scale, A- to A+ on Standard & Poor's scale, and A- to A+ on Fitch's scale. Actual credit ratings may depart from these levels from time to time due to economic or other circumstances. At 31st December 2012 the Company's long-term credit ratings were A3 from Moody's, A- from Standard & Poor's, and A from Fitch and Swire Properties' long-term credit ratings were A2 from Moody's, A- from Standard & Poor's and A from Fitch.

Changes in Financing

Analysis of changes in financing during the year

<u>Audited Financial Information</u>	2012 HK\$M	2011 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	39,650	45,435
Loans drawn and refinancing	19,455	6,998
Repayment of loans and bonds	(9,129)	(13,078)
Changes in composition of Group	585	–
Other non-cash movements	103	295
	50,664	39,650
Overdrafts	4	1
At 31st December	50,668	39,651

During the year, the Group raised financing amounting to HK\$21,577 million. This principally comprised:

- the issue of a ten-year US dollar denominated medium-term note of US\$500 million, two ten-year medium-term notes totalling HK\$1,380 million and a fifteen-year medium term note of HK\$200 million under Swire Pacific's US\$3.5 billion medium-term note programme
- the issue of a five-year medium-term note of HK\$500 million, a seven-year medium-term note of HK\$300 million and a ten-year US dollar denominated medium-term note of US\$500 million under Swire Properties' newly established US\$3 billion medium-term note programme
- a five-year dual currency term and revolving credit facility of US\$100 million
- six three-year term and revolving credit facilities aggregating HK\$6,050 million
- a four-year term and revolving credit facility of HK\$2,000 million
- a five-year revolving credit facility of HK\$1,000 million
- a five-year term and revolving credit facility of HK\$500 million
- a five-year dual currency revolving credit facility of HK\$500 million
- an increase in the size of an existing two-year revolving credit facility from US\$60 million to US\$140 million

Significant debt repayments during the year were:

- HK\$6,950 million out of a HK\$10,000 million syndicated loan facility

Sources of Finance

At 31st December 2012, committed loan facilities and debt securities amounted to HK\$64,591 million, of which HK\$16,261 million (25%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$6,965 million. Sources of funds at 31st December 2012 comprised:

<u>Audited Financial Information</u>				
	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
Committed facilities				
Loans and bonds				
Fixed/floating rate bonds	26,629	26,629	–	–
Bank loans, overdrafts and other loans	35,637	19,376	2,093	14,168
Perpetual capital securities	2,325	2,325	–	–
Total committed facilities	64,591	48,330	2,093	14,168
Uncommitted facilities				
Bank loans, overdrafts and other loans	9,590	2,625	6,823	142
Total	74,181	50,955	8,916	14,310

i) Loans and Bonds

For accounting purposes, the loans and bonds are classified as follows:

<u>Audited Financial Information</u>	2012			2011		
	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Carrying value HK\$M	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Carrying value HK\$M
Bank overdrafts and short-term loans – unsecured	1,918	–	1,918	1,333	–	1,333
Long-term loans and bonds at amortised cost	46,712	(287)	46,425	36,144	(157)	35,987
Less: amount due within one year included under current liabilities	(5,510)	2	(5,508)	(8,759)	9	(8,750)
	41,202	(285)	40,917	27,385	(148)	27,237

ii) Perpetual Capital Securities

Audited Financial Information

Perpetual capital securities, amounting to US\$300 million and bearing cumulative interest at 8.84% per annum, were issued by a wholly-owned subsidiary (the "Issuer") on 13th May 1997. This issue has no scheduled maturity but is redeemable at the option of the Company or the Issuer either (i) at any time on or after 13th May 2017 or (ii) at any time upon amendment or imposition of certain taxes and, in any case, becomes due in the event of the Company's or the Issuer's winding up. The perpetual capital securities are unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company.

The perpetual capital securities are recorded in the statement of financial position at amortised cost. At 31st December 2012 the fair value was HK\$2,604 million (2011: HK\$2,471 million). The perpetual capital securities are listed on the Luxembourg Stock Exchange.

iii) Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK\$6,198 million at 31st December 2012 compared to HK\$3,880 million at 31st December 2011, excluding security deposits.

Maturity Profile and Refinancing

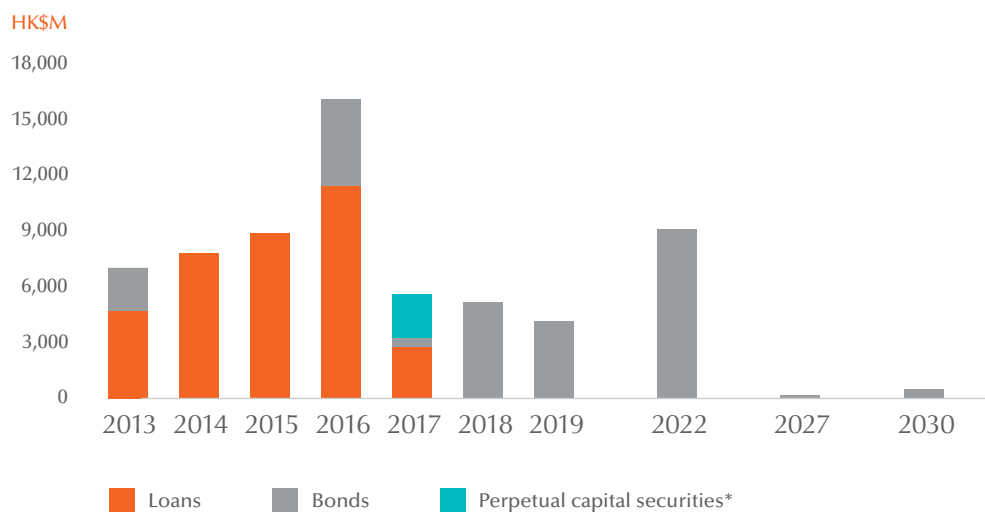
Bank loans and other borrowings are repayable on various dates up to 2030 (2011: same).

The weighted average term and cost of the Group's debt is:

	2012	2011
Weighted average term of debt	4.2 years	3.5 years
Weighted average term of debt (excluding perpetuals)	4.2 years	3.4 years
Weighted average cost of debt	4.3%	4.2%
Weighted average cost of debt (excluding perpetuals)	4.2%	3.9%

The maturity profile of the Group's available committed facilities is set out below:

TOTAL AVAILABLE COMMITTED FACILITIES BY MATURITY AT 31ST DECEMBER 2012



* The perpetual capital securities have no fixed maturity date. In the above graph their maturity has been presented as their first call date, 13th May 2017.

The maturity of long-term loans and bonds is as follows:

<u>Audited Financial Information</u>	2012 HK\$M	2011 HK\$M
Bank loans (secured):		
Repayable within one year	–	42
Bank loans (unsecured):		
Repayable within one year	3,209	8,708
Repayable between one and two years	6,962	296
Repayable between two and five years	9,738	10,456
Other borrowings (unsecured):		
Repayable within one year	2,299	–
Repayable between one and two years	–	2,299
Repayable between two and five years	5,142	4,653
Repayable after five years	19,075	9,533
	46,425	35,987
Amount due within one year included under current liabilities	(5,508)	(8,750)
	40,917	27,237

Currency Profile

An analysis of the carrying amounts of gross borrowings by currency (after cross-currency swaps) is shown below:

<u>Audited Financial Information</u>	2012		2011	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	35,337	70%	30,143	76%
Renminbi	8,219	16%	7,039	18%
United States dollar	6,441	13%	2,253	6%
New Taiwan dollar	579	1%	156	–
Others	92	–	60	–
Total	50,668	100%	39,651	100%

Finance Charges

At 31st December 2012, 57% of the Group's gross borrowings were on a fixed rate basis and 43% were on a floating rate basis (2011: 59% and 41% respectively).

The exposure of the Group's loans and bonds to interest rate changes (after interest rate swaps) can be illustrated as follows:

<u>Audited Financial Information</u>	Fixed interest rate maturing in:				
	Floating interest rate HK\$M	1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	Total HK\$M
At 31st December 2012	21,791	2,186	5,291	19,075	48,343
At 31st December 2011	16,097	5,039	6,652	9,532	37,320

Interest charged and earned during the year was as follows:

<u>Audited Financial Information</u>				
	2012		2011	
	HK\$M	HK\$M	HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		(708)		(566)
Other loans, bonds and perpetual capital securities:				
Wholly repayable within five years	(572)		(391)	
Not wholly repayable within five years	(806)		(743)	
		(1,378)		(1,134)
Fair value gains/(losses) on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	19		(5)	
Interest rate swaps: fair value hedges	–		(3)	
		19		(8)
Adjustments to financial liabilities – fair value hedges		–		13
Amortised loan fees – loans at amortised cost		(67)		(66)
Fair value loss on put option over non-controlling interest in Sanlitun Village		(175)		(259)
Other financing costs		(116)		(58)
Capitalised on:				
Investment properties	95		197	
Properties for sale	244		155	
Hotel and other properties	43		24	
Vessels	55		15	
		437		391
		(1,988)		(1,687)
Interest income on:				
Short-term deposits and bank balances	44		40	
Other loans	147		37	
		191		77
Net finance charges		(1,797)		(1,610)
The capitalised interest rates used on funds both borrowed generally and used for the development of investment properties and properties for sale and vessels were between 1.14% and 6.21% per annum (2011: 1.53% and 6.20% per annum).				
The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,134 million (2011: HK\$1,761 million).				

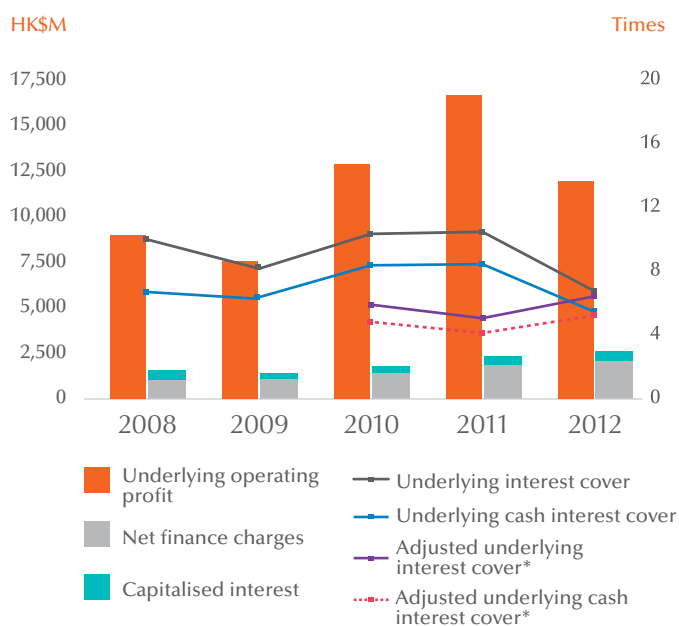
The interest rates per annum, before swaps, at the year-end date were as follows:

<u>Audited Financial Information</u>								
	2012				2011			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Bank overdrafts and short-term loans	0.50-2.70	2.16-3.00	3.14-6.27	0.71-2.23	2.17-3.90	2.82	3.14-7.93	0.75-0.85
Long-term loans and bonds	0.64-5.05	0.94-6.25	3.38-7.38	1.81	0.53-5.05	0.64-6.25	5.18-7.87	2.05
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

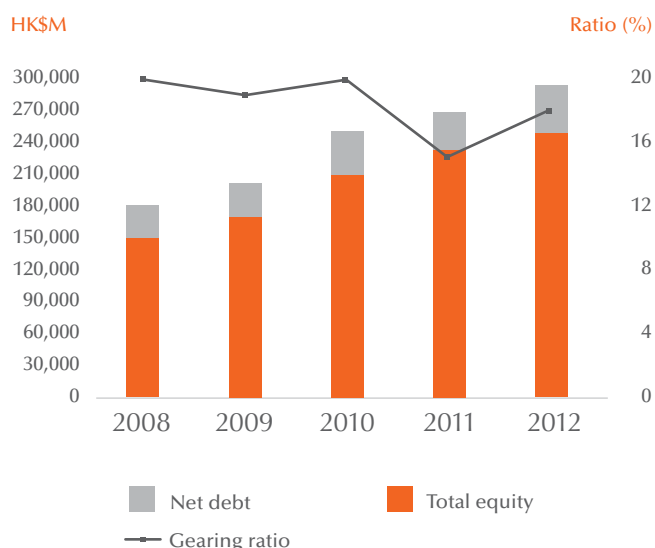
Interest Cover and Gearing Ratios

The following graphs illustrate the underlying interest cover and the gearing ratios for each of the last five years:

INTEREST COVER



GEARING RATIO



* Calculated using adjusted underlying operating profit which excludes the effect of capital profits less impairments.

	2012	2011
Gearing ratio		
Per accounts	17.8%	15.4%
Underlying	17.4%	15.0%
Interest cover – times		
Per accounts	13.0	19.5
Underlying	6.6	10.4
Cash interest cover – times		
Per accounts	10.4	15.7
Underlying	5.3	8.3

Covenants and Credit Triggers

Audited Financial Information

There are no specific covenants given by the Group for its debt facilities which would require debt repayment or termination of a facility should its credit rating be revised by the credit rating agencies.

The Company has entered into financial covenants in respect of gearing limits and maintenance of minimum consolidated net worth, to secure funding for itself and its subsidiaries. These covenants are set out below:

	Covenant limits	2012	2011
Gearing			
Consolidated borrowed money/adjusted consolidated net worth	≤ 200%	17.8%	15.4%
Secured consolidated borrowed money/adjusted consolidated net worth	≤ 100%	–	0.02%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth	≥ 20,000	244,825	228,206

These financial covenants, together with the long-term credit rating objective establish the framework within which the capital structure of the Group is determined.

To date, none of the covenants have been breached.

Capital Management

Audited Financial Information

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders, and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of its various investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising borrowings net of security deposits plus perpetual capital securities issued by the Group) less short-term deposits and bank balances and certain available-for-sale investments. Capital comprises total equity, as shown in the consolidated statement of financial position.

In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2012 and 31st December 2011 were as follows:

	2012 HK\$M	2011 HK\$M
Perpetual capital securities	2,325	2,331
Borrowings net of security deposits	48,343	37,278
Total borrowings	50,668	39,609
Less:		
Short-term deposits and bank balances (excluding security deposits)	(6,198)	(3,880)
Certain available-for-sale investments	(52)	(50)
	(6,250)	(3,930)
Net debt	44,418	35,679
Total equity	249,334	232,476
Gearing ratio	17.8%	15.4%
Cash interest cover – times	10.4	15.7
Underlying cash interest cover – times	5.3	8.3
Return on average equity attributable to the Company's shareholders	8.0%	14.9%

The increase in the gearing ratio during 2012 principally reflects the increase in net debt incurred to fund capital expenditure on property projects and the purchase of new vessels by SPO.

Key Credit Ratios

The table below sets out those credit ratios of the Group which are commonly assessed when determining credit ratings:

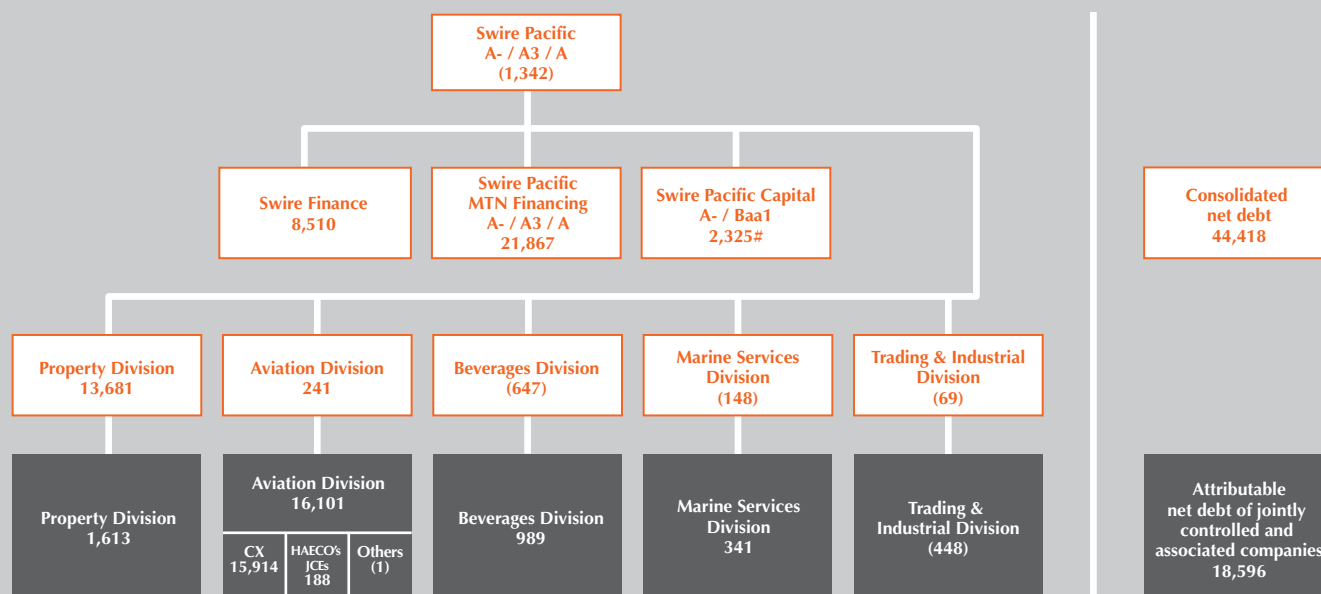
	Note	2008	2009	2010	2011	2012
Operating margin	2					
– per accounts		40.4%	90.9%	120.9%	91.2%	57.3%
– underlying		39.7%	34.0%	48.6%	50.5%	31.4%
EBIT/net interest expenses	1, 2					
– per accounts		8.2	18.7	22.8	17.2	11.2
– underlying		8.1	7.0	9.3	9.8	6.1
FFO + net finance charges/ net interest expenses	1					
– per accounts		8.2	7.2	6.1	5.7	5.8
FFO/net debt						
– per accounts		33.2%	24.4%	19.9%	27.5%	25.4%
Net debt/total equity plus net debt						
– per accounts		16.8%	15.7%	16.5%	13.3%	15.1%
Property rental income/ net interest expenses	1	4.1	5.0	4.1	3.5	3.3

Notes:

- Net interest expenses include capitalised interest.
- Underlying credit ratios are calculated by adjusting for the impact of revaluation movements on investment properties and the associated deferred tax in Mainland China and for deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.

ATTRIBUTABLE NET DEBT

The chart below illustrates, by entity, the Group's attributable net debt (in HK\$M):



Represents US\$300 million perpetual capital securities.

Debt in Jointly Controlled and Associated Companies

In accordance with Hong Kong Financial Reporting Standards, the net debt of Swire Pacific reported in the consolidated statement of financial position does not include the net debt of its jointly controlled and associated companies. These companies had the following net debt positions at the end of 2012 and 2011:

	Total net debt/(cash) of jointly controlled and associated companies		Portion of net debt/(cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2012 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M
Property Division	3,264	3,018	1,613	1,783	467	474
Aviation Division						
Cathay Pacific group	35,363	23,739	15,914	10,675	–	–
HAECO group	1,043	558	188	92	68	55
Other Aviation Division companies	(2)	(4)	(1)	(2)	–	–
Beverages Division	2,914	2,847	989	1,003	–	–
Marine Services Division	682	736	341	368	500	500
Trading & Industrial Division	(1,391)	(1,324)	(448)	(428)	72	–
	41,873	29,570	18,596	13,491	1,107	1,029

If the attributable portion of the net debt in jointly controlled and associated companies were to be added to the Group's net debt, gearing would rise to 25.3% and underlying gearing would rise to 24.7%.

Attributable Profit Correlation

Swire Pacific's attributable profits comprise earnings from a diverse range of businesses. An analysis of the degree of correlation between these earnings over the last ten years has been carried out. The correlation table below illustrates that most of the attributable profits received from different businesses are not strongly correlated. This demonstrates the relative stability of the earnings for the Group as a whole.

	Property Division	Aviation Division	Marine Services Division	Beverages and Trading & Industrial Divisions	Divisions combined, excluding Property Division
Underlying attributable profit 2012 (HK\$M)	5,551	1,050	975	789	2,814
Correlation coefficient:					
Property Division	1.000	0.207	-0.115	0.110	0.202
Aviation Division	0.207	1.000	-0.474	0.328	-0.297
Marine Services Division	-0.115	-0.474	1.000	0.371	-0.437
Beverages and Trading & Industrial Divisions	0.110	0.328	0.371	1.000	0.431
Divisions combined, excluding Property Division	0.202	-0.297	-0.437	0.431	1.000

Correlation key: 1 Highly correlated; 0 Uncorrelated; -1 Highly negatively correlated.