

Financing

- Capital Structure
 - Changes in Financing
 - Sources of Finance
 - Loans and Bonds
 - Perpetual Capital Securities
 - Bank Balances and Short-term Deposits
 - Maturity Profile and Refinancing
 - Currency Profile
 - Finance Charges
 - Interest Cover and Gearing Ratios
 - Covenants and Credit Triggers
 - Capital Management
 - Key Credit Ratios
- Attributable Net Debt
 - Debt in Joint Venture and Associated Companies
 - Attributable Profit Correlation

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 2013 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

Audited Financial Information		
	2013 HK\$M	2012 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January		
as originally stated	50,664	39,650
impact of change in accounting policy	(294)	154
as restated	50,370	39,804
Loans drawn and refinancing, as restated	17,900	19,210
Repayment of loans and bonds, as restated	(6,743)	(9,332)
Changes in composition of Group	–	585
Other non-cash movements	317	103
	61,844	50,370
Overdrafts, as restated	–	27
At 31st December	61,844	50,397

During the year, the Group raised financing amounting to HK\$23,703 million. This principally comprised:

- the issue of a ten-year US dollar denominated medium-term note of US\$700 million, four ten-year medium-term notes totalling HK\$1,450 million and three ten-year medium term notes of RMB550 million under Swire Pacific's US\$5 billion medium-term note programme
- the issue of a seven-year US dollar denominated medium-term note of US\$500 million under Swire Properties' US\$3 billion medium term note programme
- four five-year term and revolving credit facilities aggregating HK\$4,100 million
- a three-year term loan facility of US\$13 million
- a three-year term and revolving loan facility of approximately RMB200 million
- a four-year term loan facility of US\$500 million
- a two-year revolving credit facility of US\$50 million
- a twenty one-year term loan facility of US\$69 million
- a two-year term loan facility of HK\$1,520 million
- a two-year term loan facility of US\$194 million

Significant debt repayments during the year were:

- three four-year medium-term notes totalling HK\$500 million and a seven-year medium term note of HK\$1,800 million
- bilateral revolving credit and term loan facilities aggregating HK\$2,550 million

Sources of Finance

At 31st December 2013, committed loan facilities and debt securities amounted to HK\$80,072 million, of which HK\$19,518 million (24%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$8,848 million. Sources of funds at 31st December 2013 comprised:

Audited Financial Information				
	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	35,794	35,794	–	–
Bank loans, overdrafts and other loans	41,952	22,434	1,005	18,513
Perpetual capital securities	2,326	2,326	–	–
Total committed facilities	80,072	60,554	1,005	18,513
Uncommitted facilities				
Bank loans, overdrafts and other loans	10,512	1,664	8,848	–
Total	90,584	62,218	9,853	18,513

(I) LOANS AND BONDS

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

Audited Financial Information							
	2013			2012			
	Drawn, before unamortised loan fees	Unamortised loan fees	Carrying value	Drawn, before unamortised loan fees (Restated)	Unamortised loan fees	Carrying value (Restated)	
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
Bank overdrafts and short-term loans							
– unsecured	1,547	–	1,547	1,891	–	1,891	
Long-term loans and bonds at amortised cost	58,345	(374)	57,971	46,468	(287)	46,181	
Less: amount due within one year included under current liabilities	(7,143)	13	(7,130)	(5,324)	2	(5,322)	
	51,202	(361)	50,841	41,144	(285)	40,859	

(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 2013 the fair value was HK\$2,559 million (2012: HK\$2,604 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\$11,288 million at 31st December 2013 compared to HK\$6,091 million, as restated, at 31st December 2012.

Maturity Profile and Refinancing

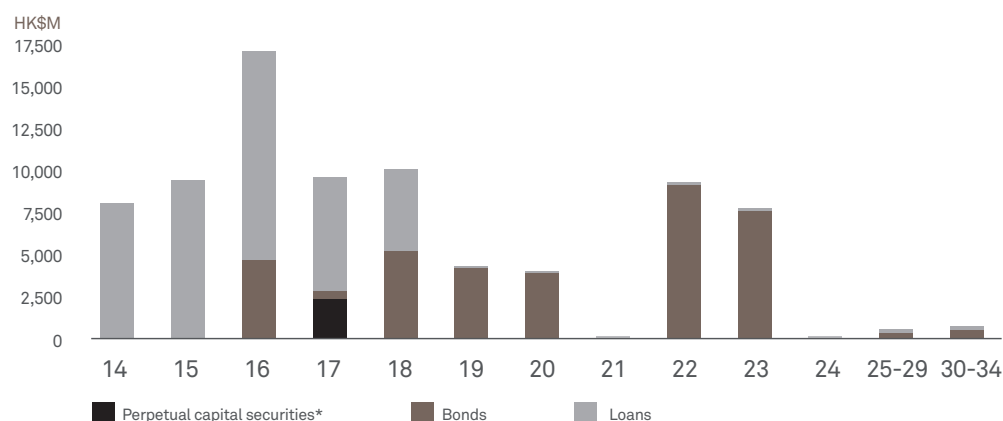
Bank loans and other borrowings are repayable on various dates up to 2034 (2012: 2030).

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

	2013	2012 (Restated)
Weighted average term of debt	4.4 years	4.2 years
Weighted average term of debt (excluding perpetuals)	4.5 years	4.2 years
Weighted average cost of debt	4.7%	4.4%
Weighted average cost of debt (excluding perpetuals)	4.6%	4.2%

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

Total Available Committed Facilities by Maturity
(as 31st December 2013)



* 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:

Audited Financial Information	2013 HK\$M	2012 (Restated) HK\$M
Bank loans (secured):		
Repayable between two and five years	63	–
Repayable after five years	472	–
Bank loans (unsecured):		
Repayable within one year	7,130	3,022
Repayable between one and two years	3,882	6,962
Repayable between two and five years	10,819	9,681
Other borrowings (unsecured):		
Repayable within one year	–	2,300
Repayable between one and two years	–	–
Repayable between two and five years	10,311	5,142
Repayable after five years	25,294	19,074
	57,971	46,181
Amount due within one year included under current liabilities	(7,130)	(5,322)
	50,841	40,859

Currency Profile

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

Audited Financial Information	2013		2012	
	HK\$M		(Restated) HK\$M	
Currency				
Hong Kong dollar	38,458	62%	35,337	70%
Renminbi	8,484	14%	7,948	16%
United States dollar	14,812	24%	6,441	13%
New Taiwan dollar	65	–	579	1%
Others	25	–	92	–
Total	61,844	100%	50,397	100%

Finance Charges

At 31st December 2013, 66% of the Group's gross borrowings were on a fixed rate basis and 34% were on a floating rate basis (2012: 57% and 43% as restated respectively).

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

Audited Financial Information	Floating interest rate HK\$M	Fixed interest rate maturing in:			Total HK\$M
		1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	
At 31st December 2013	20,969	150	12,634	25,765	59,518
At 31st December 2012 (Restated)	21,520	2,186	5,291	19,075	48,072

Interest charged and earned during the year was as follows:

Audited Financial Information	2013		2012	
	HK\$M	HK\$M	(Restated) HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		(747)		(714)
Other loans, bonds and perpetual capital securities:				
Wholly repayable within five years	(811)		(574)	
Not wholly repayable within five years	(828)		(806)	
		(1,639)		(1,380)
Fair value gains on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income		109		19
Amortised loan fees – loans at amortised cost		(89)		(67)
Fair value loss on put options over non-controlling interests in subsidiary companies		(149)		(175)
Other financing costs		(98)		(113)
Capitalised on:				
Investment properties	63		95	
Properties for sale	256		244	
Hotel and other properties	8		43	
Vessels	127		55	
		454		437
		(2,159)		(1,993)
Interest income on:				
Short-term deposits and bank balances	70		47	
Fair value gain on put options over non-controlling interests in subsidiary companies	9		–	
Other loans	81		145	
		160		192
Net finance charges		(1,999)		(1,801)

The capitalised interest rates used on funds both borrowed generally and used for the development of investment properties, properties for sale and vessels were between 1.25% and 4.88% per annum (2012: 1.14% and 6.21% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,366 million (2012: HK\$2,142 million, as restated).

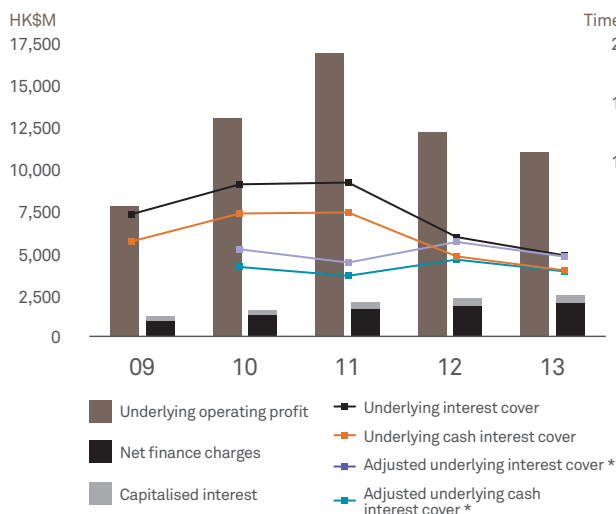
The interest rates per annum, before swaps, at the year-end date were as follows:

Audited Financial Information	2013				2012			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Bank overdrafts and short-term loans	0.86-3.53	1.85-3.50	5.04-5.60	0.75-2.20	0.50-2.70	2.16-3.00	5.60-6.27	0.71-2.23
Long-term loans and bonds	0.73-5.05	0.89-6.25	3.90-6.77	–	0.64-5.05	0.94-6.25	5.76-7.38	1.81
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

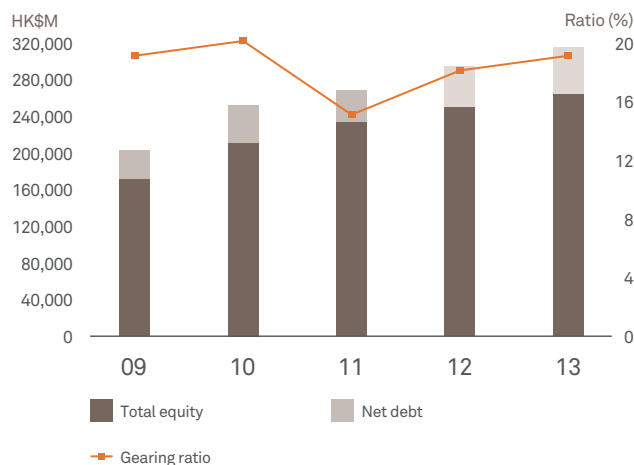
Interest Cover and Gearing Ratios

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.

	2013	2012 (Restated)
Gearing ratio		
Per accounts	19.2%	17.8%
Underlying	18.7%	17.3%
Interest cover – times		
Per accounts	8.3	13.0
Underlying	5.5	6.7
Cash interest cover – times		
Per accounts	6.8	10.5
Underlying	4.5	5.4

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	2013	2012 (Restated)
Gearing			
Consolidated borrowed money/adjusted consolidated net worth	≤ 200%	19.2%	17.8%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth	≥ 20,000	257,874	243,770

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 2013 and 31st December 2012 were as follows:

	2013	2012
	HK\$M	(Restated) HK\$M
Perpetual capital securities	2,326	2,325
Borrowings	59,518	48,072
Total borrowings	61,844	50,397
Less:		
Short-term deposits and bank balances	(11,288)	(6,091)
Certain available-for-sale investments	(51)	(52)
	(11,339)	(6,143)
Net debt	50,505	44,254
Total equity	262,508	248,382
Gearing ratio	19.2%	17.8%
Cash interest cover – times	6.8	10.5
Underlying cash interest cover – times	4.5	5.4
Return on average equity attributable to the Company's shareholders	6.2%	8.0%

The increase in the gearing ratio during 2013 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:

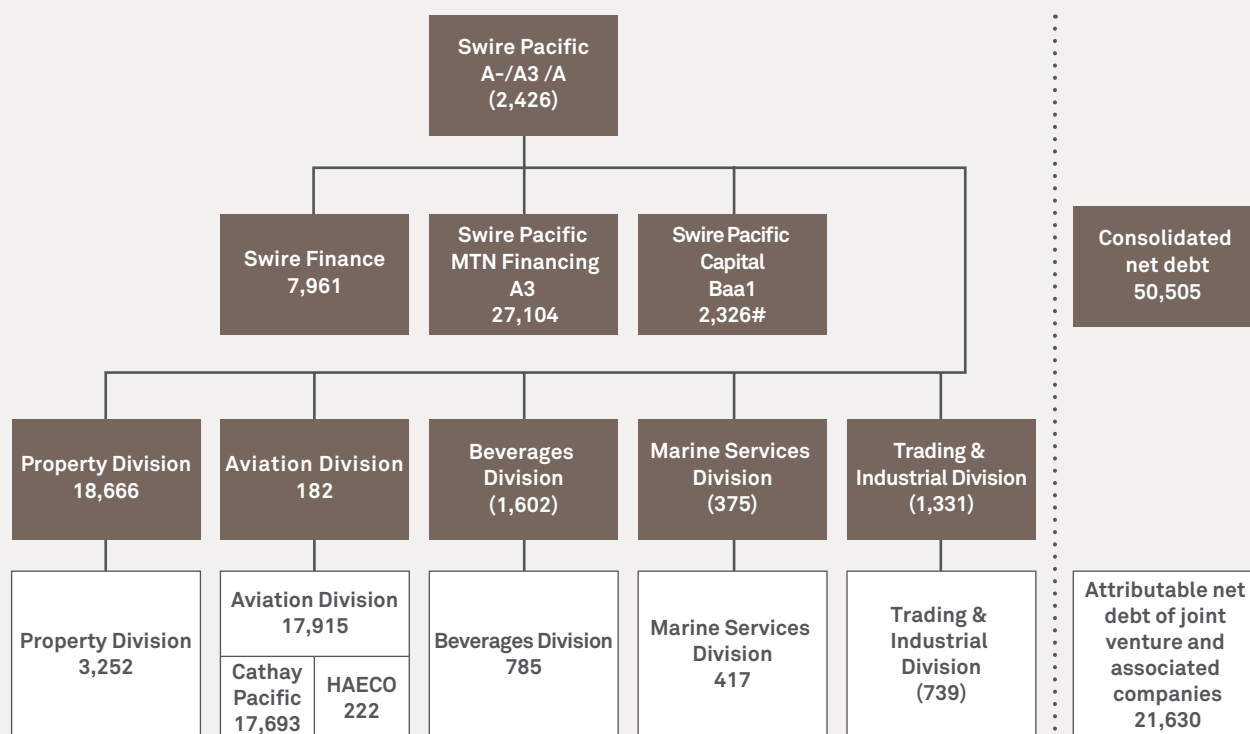
	Note	2009	2010	2011	2012	2013
		(Restated)	(Restated)	(Restated)	(Restated)	
Operating margin	2					
– per accounts		81.7%	108.2%	81.2%	52.0%	37.3%
– underlying		31.2%	43.9%	45.3%	28.9%	26.1%
EBIT/net interest expenses	1, 2					
– per accounts		18.9	22.9	17.2	11.3	7.4
– underlying		7.2	9.4	9.9	6.3	5.0
FFO + net finance charges/net interest expenses	1					
– per accounts		7.4	6.2	5.8	6.1	5.3
FFO/net debt						
– per accounts		25.3%	20.3%	28.1%	26.7%	21.7%
Net debt/total equity plus net debt						
– per accounts		15.6%	16.4%	13.4%	15.1%	16.1%
Property rental income/net interest expenses	1	5.0	4.1	3.5	3.3	3.2

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 Joint Venture 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 joint venture and associated companies. These companies had the following net debt positions at the end of 2013 and 2012:

	Total net debt/(cash) of joint venture and associated companies		Portion of net debt/(cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2013 HK\$M	2012 (Restated) HK\$M	2013 HK\$M	2012 (Restated) HK\$M	2013 HK\$M	2012 (Restated) HK\$M
Property Division	7,817	3,264	3,252	1,613	496	467
Aviation Division						
Cathay Pacific group	39,317	35,364	17,693	15,914	–	–
HAECO group	1,484	1,043	222	188	66	68
Others	–	(2)	–	(1)	–	–
Beverages Division	2,224	3,070	785	1,127	–	–
Marine Services Division	834	682	417	341	500	500
Trading & Industrial Division	(2,316)	(1,391)	(739)	(448)	69	72
	49,360	42,030	21,630	18,734	1,131	1,107

If the attributable portion of the net debt in joint venture and associated companies were to be added to the Group's net debt, gearing would rise to 27.5% and underlying gearing would rise to 26.7%.

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 2013 (HK\$M)	5,091	1,627	1,307	1,039	3,973
Correlation coefficient:					
Property Division	1.000	0.174	-0.183	0.044	0.154
Aviation Division	0.174	1.000	-0.581	0.282	-0.446
Marine Services Division	-0.183	-0.581	1.000	0.209	-0.559
Beverages and Trading & Industrial Divisions	0.044	0.282	0.209	1.000	0.354
Divisions combined, excluding Property Division	0.154	-0.446	-0.559	0.354	1.000

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