

# Financing

## 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 macro-economic or other circumstances. At 31st December 2014 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		
	2014 HK\$M	2013 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	<b>61,844</b>	50,370
Loans drawn and refinancing	<b>19,714</b>	17,900
Repayment of loans and bonds	<b>(12,697)</b>	(6,743)
Change in composition of the Group	<b>20</b>	–
Other non-cash movements	<b>(93)</b>	317
At 31st December	<b>68,788</b>	61,844

During the year, the Group raised financing amounting to HK\$14,379 million. This principally comprised:

- the issue of a ten-year medium-term note of HK\$700 million under Swire Pacific's US\$5 billion medium-term note programme
- the issue of two ten-year medium-term notes totalling HK\$600 million under Swire Properties' US\$3 billion medium-term note programme
- a three-year term loan facility of RMB2,440 million, which replaced an expired RMB2,700 million facility
- five five-year term and revolving loan facilities aggregating HK\$3,750 million
- a ten-year bilateral term loan facility of RMB2,597 million, which replaced an expired RMB2,650 million facility
- two five-year term loan facilities totalling US\$200 million
- two one-year revolving credit facilities totalling US\$79 million
- a three-year term loan facility of HK\$500 million

The following debt repayments were made during the year:

- partial early repayment of approximately RMB1,300 million under a RMB2,440 million term loan facility
- partial early repayment of US\$155 million under a US\$194 million term loan facility
- partial early repayment of HK\$951 million under a HK\$1,520 million term loan facility
- early repayment of other term loan facilities totalling HK\$596 million

## Sources of Finance

At 31st December 2014, committed loan facilities and debt securities amounted to HK\$81,778 million, of which HK\$13,761 million (17%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$9,634 million. Sources of funds at 31st December 2014 comprised:

Audited Financial Information				
	Available	Drawn	Undrawn expiring within one year	Undrawn expiring beyond one year
	HK\$M	HK\$M	HK\$M	HK\$M
<b>Committed facilities</b>				
Loans and bonds				
Fixed/floating rate bonds	37,084	37,084	–	–
Bank loans, overdrafts and other loans	42,367	28,606	1,986	11,775
Perpetual capital securities	2,327	2,327	–	–
<b>Total committed facilities</b>	<b>81,778</b>	<b>68,017</b>	<b>1,986</b>	<b>11,775</b>
<b>Uncommitted facilities</b>				
Bank loans, overdrafts and other loans	10,749	1,115	9,634	–
<b>Total</b>	<b>92,527</b>	<b>69,132</b>	<b>11,620</b>	<b>11,775</b>

## I) LOANS AND BONDS

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

Audited Financial Information						
	2014			2013		
	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
Short-term loans – unsecured	1,123	–	1,123	1,547	–	1,547
Long-term loans and bonds at amortised cost	65,682	(344)	65,338	58,345	(374)	57,971
Less: amount due within one year included under current liabilities	(4,828)	8	(4,820)	(7,143)	13	(7,130)
	<b>60,854</b>	<b>(336)</b>	<b>60,518</b>	<b>51,202</b>	<b>(361)</b>	<b>50,841</b>

## 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 2014 the fair value was HK\$2,466 million (2013: HK\$2,559 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\$10,115 million at 31st December 2014 compared to HK\$11,288 million at 31st December 2013.

### Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2034 (2013: same).

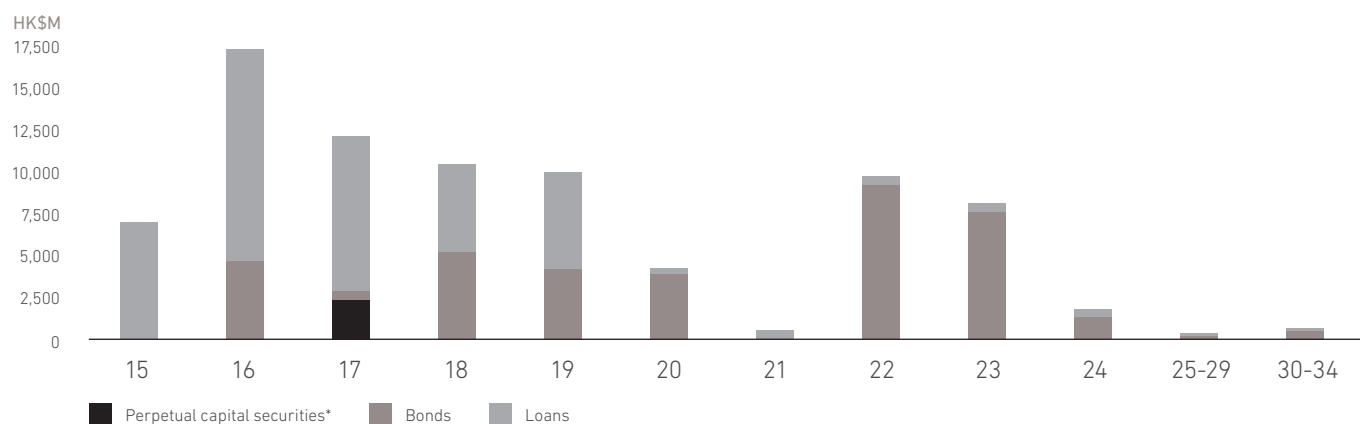
The weighted average term and cost of the Group's debt is:

	2014	2013
Weighted average term of debt	<b>4.1 years</b>	4.4 years
Weighted average term of debt (excluding perpetuals)	<b>4.2 years</b>	4.5 years
Weighted average cost of debt	<b>4.1%</b>	4.7%
Weighted average cost of debt (excluding perpetuals)	<b>3.9%</b>	4.6%

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

### Total Available Committed Facilities by Maturity

(at 31st December 2014)



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

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

Audited Financial Information		2014 HK\$M	2013 HK\$M
<b>Bank loans (secured):</b>			
Repayable between one and two years		<b>3</b>	–
Repayable between two and five years		<b>89</b>	63
Repayable after five years		<b>443</b>	472
<b>Bank loans (unsecured):</b>			
Repayable within one year		<b>4,817</b>	7,130
Repayable between one and two years		<b>7,872</b>	3,882
Repayable between two and five years		<b>12,911</b>	10,819
Repayable after five years		<b>2,274</b>	–
<b>Other borrowings (unsecured):</b>			
Repayable within one year		<b>3</b>	–
Repayable between one and two years		<b>4,654</b>	–
Repayable between two and five years		<b>9,838</b>	10,311
Repayable after five years		<b>22,434</b>	25,294
<b>Amount due within one year included under current liabilities</b>		<b>(4,820)</b>	(7,130)
		<b>60,518</b>	50,841

## Currency Profile

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

Audited Financial Information		2014		2013	
		HK\$M		HK\$M	
<b>Currency</b>					
Hong Kong dollar		<b>43,417</b>	<b>63%</b>	38,458	62%
Renminbi		<b>5,921</b>	<b>9%</b>	8,484	14%
United States dollar		<b>19,418</b>	<b>28%</b>	14,812	24%
New Taiwan dollar		–	–	65	–
Others		<b>32</b>	–	25	–
<b>Total</b>		<b>68,788</b>	<b>100%</b>	61,844	100%

## Finance Charges

At 31st December 2014, 63% of the Group's gross borrowings were on a fixed rate basis and 37% were on a floating rate basis (2013: 66% and 34%).

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		Fixed interest rate maturing in:				
	Floating interest rate	1 year or less	1 to 5 years	Over 5 years	Total	
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	
<b>At 31st December 2014</b>	<b>25,603</b>	<b>3</b>	<b>17,978</b>	<b>22,877</b>	<b>66,461</b>	
At 31st December 2013	20,969	150	12,634	25,765	59,518	

Interest charged and earned during the year was as follows:

Audited Financial Information	2014		2013	
	HK\$M	HK\$M	HK\$M	HK\$M
<b>Interest charged:</b>				
Bank loans and overdrafts		<b>(753)</b>		(747)
Other loans, bonds and perpetual capital securities:				
Wholly repayable within five years	<b>(1,025)</b>		(811)	
Not wholly repayable within five years	<b>(864)</b>		(828)	
		<b>(1,889)</b>		(1,639)
Fair value gains on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income		<b>95</b>		109
Amortised loan fees – loans at amortised cost		<b>(107)</b>		(89)
Fair value loss on put options over non-controlling interests in subsidiary companies		<b>(29)</b>		(149)
Other financing costs		<b>(117)</b>		(98)
Capitalised on:				
Investment properties	<b>185</b>		63	
Properties for sale	<b>221</b>		256	
Hotel and other properties	<b>7</b>		8	
Vessels	<b>100</b>		127	
		<b>513</b>		454
		<b>(2,287)</b>		(2,159)
<b>Interest income:</b>				
Short-term deposits and bank balances	<b>149</b>		70	
Fair value gain on put options over non-controlling interests in subsidiary companies	<b>1</b>		9	
Other loans	<b>112</b>		81	
		<b>262</b>		160
<b>Net finance charges</b>		<b>(2,025)</b>		(1,999)

The capitalised interest rates on funds borrowed generally and used for the development of investment properties, properties for sale and vessels were between 1.40% and 4.19% per annum (2013: 1.25% and 4.88% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,654 million (2013: HK\$2,366 million).

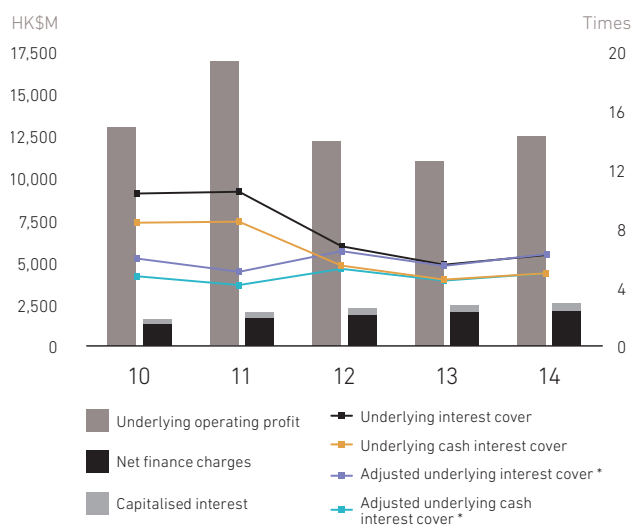
The interest rates per annum, before swaps, at the year-end date were as follows:

Audited Financial Information	2014				2013			
	HK\$	US\$	RMB	Others	HK\$	US\$	RMB	Others
	%	%	%	%	%	%	%	%
Short-term loans	<b>0.88-2.70</b>	<b>1.48-2.80</b>	<b>5.04</b>	<b>1.21-2.23</b>	0.86-3.53	1.85-3.50	5.04-5.60	0.75-2.20
Long-term loans and bonds	<b>0.77-5.05</b>	<b>0.89-6.25</b>	<b>3.90-6.77</b>	–	0.73-5.05	0.89-6.25	3.90-6.77	–
Perpetual capital securities	–	<b>8.84</b>	–	–	–	8.84	–	–

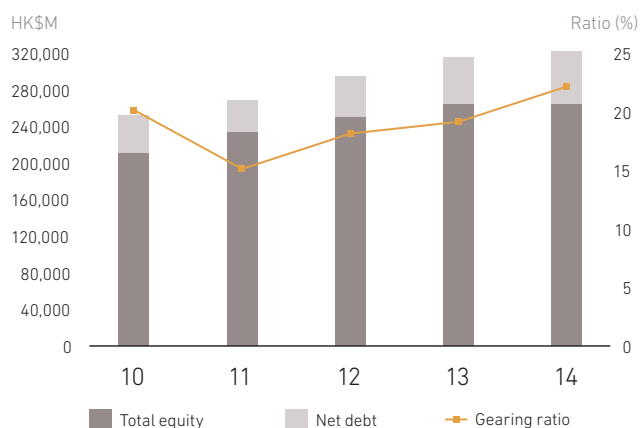
## Interest Cover and Gearing Ratios

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

### Underlying Interest Cover



### Gearing Ratio



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

	2014	2013
<b>Gearing ratio</b>		
Per accounts	<b>22.4%</b>	19.2%
Underlying	<b>21.6%</b>	18.7%
<b>Interest cover – times</b>		
Per accounts	<b>6.8</b>	8.3
Underlying	<b>6.1</b>	5.5
<b>Cash interest cover – times</b>		
Per accounts	<b>5.4</b>	6.8
Underlying	<b>4.9</b>	4.5

## 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	2014	2013
<b>Gearing</b>			
Consolidated borrowed money/adjusted consolidated net worth	≤ 200%	<b>22.4%</b>	19.2%
	HK\$M	HK\$M	HK\$M
<b>Maintenance of minimum adjusted consolidated tangible net worth</b>			
Adjusted consolidated tangible net worth	≥ 20,000	<b>254,688</b>	257,874

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.

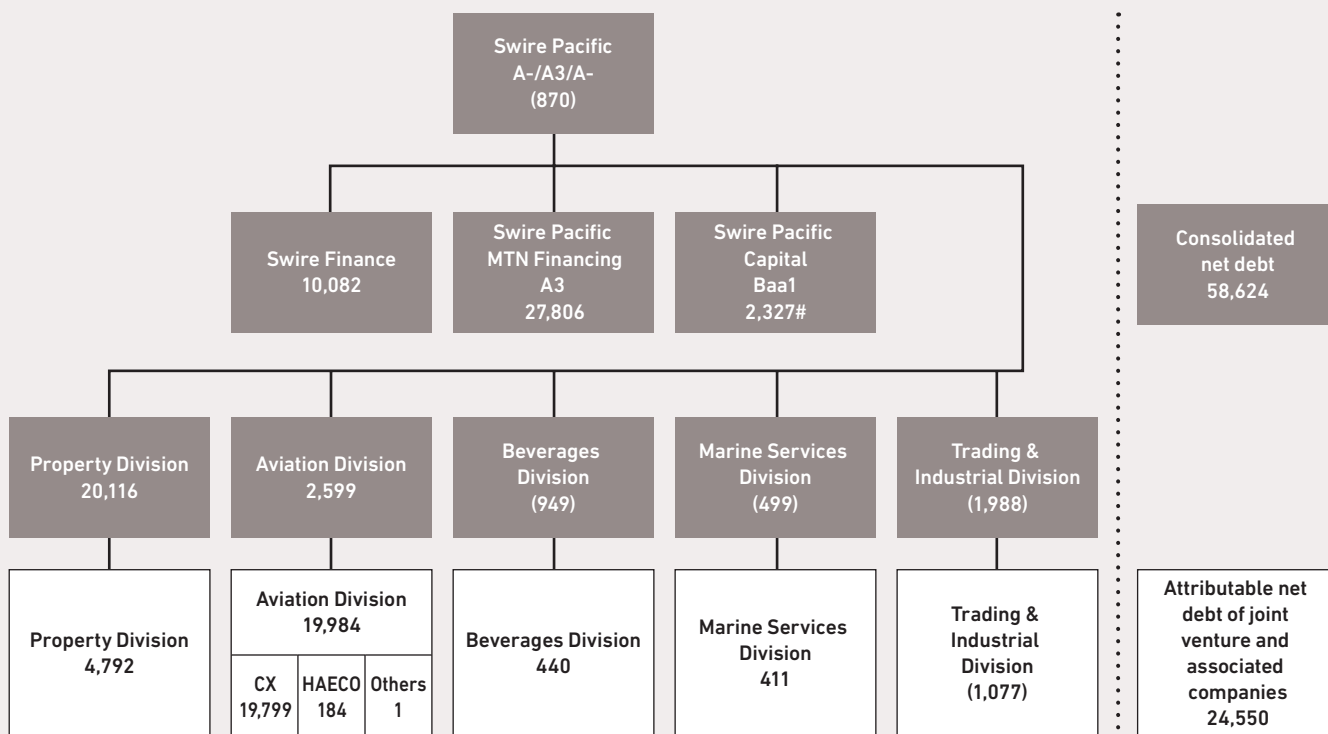
In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2014 and 31st December 2013 were as follows:

	2014	2013
	HK\$M	HK\$M
Total borrowings	<b>68,788</b>	61,844
Less:		
Short-term deposits, bank balances and certain available-for-sale investments	<b>(10,164)</b>	(11,339)
Net debt	<b>58,624</b>	50,505
Total equity	<b>262,130</b>	262,508
Gearing ratio	<b>22.4%</b>	19.2%
Cash interest cover – times	<b>5.4</b>	6.8
Underlying cash interest cover – times	<b>4.9</b>	4.5
Return on average equity attributable to the Company's shareholders	<b>5.0%</b>	6.2%

The increase in the gearing ratio during 2014 principally reflects the increase in net debt incurred to fund capital expenditure on property projects, new vessels and investments in subsidiary and joint venture companies.

### 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 2014 and 2013:

	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	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Property Division	11,327	7,817	4,792	3,252	1,477	496
Aviation Division						
Cathay Pacific group	43,998	39,316	19,799	17,693	–	–
HAECO group	1,375	1,484	184	222	–	66
Others	3	–	1	–	–	–
Beverages Division	1,335	2,224	440	785	–	–
Marine Services Division	822	834	411	417	500	500
Trading & Industrial Division	(3,215)	(2,316)	(1,077)	(739)	–	69
	55,645	49,359	24,550	21,630	1,977	1,131

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 31.7% and underlying gearing would rise to 30.7%.



## 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 suggests that most of the attributable profits received from different businesses are not strongly correlated.

	Property Division	Aviation Division	Marine Services Division	Beverages and Trading & Industrial Divisions	Divisions combined, excluding Property Division
Underlying attributable profit 2014 (HK\$M)	<b>5,841</b>	<b>1,822</b>	<b>1,072</b>	<b>1,277</b>	<b>4,171</b>
<b>Correlation coefficient:</b>					
Property Division	<b>1.000</b>	<b>0.193</b>	<b>-0.283</b>	<b>0.001</b>	<b>0.155</b>
Aviation Division	<b>0.193</b>	<b>1.000</b>	<b>-0.591</b>	<b>0.271</b>	<b>-0.458</b>
Marine Services Division	<b>-0.283</b>	<b>-0.591</b>	<b>1.000</b>	<b>-0.019</b>	<b>-0.580</b>
Beverages and Trading & Industrial Divisions	<b>0.001</b>	<b>0.271</b>	<b>-0.019</b>	<b>1.000</b>	<b>0.295</b>
Divisions combined, excluding Property Division	<b>0.155</b>	<b>-0.458</b>	<b>-0.580</b>	<b>0.295</b>	<b>1.000</b>

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