

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 2015 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	2015 HK\$M	2014 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	68,788	61,844
Loans drawn and refinancing	12,993	19,714
Repayment of loans and bonds	(12,979)	(12,697)
Change in composition of the Group	–	20
Currency adjustment	(291)	(200)
Other non-cash movements	106	107
At 31st December	68,617	68,788

During the year, the Group raised financing amounting to HK\$27,045 million. This principally comprised issues of medium-term notes aggregating HK\$6,771 million, and term and revolving loan facilities aggregating HK\$20,274 million.

The Group repaid early term loan facilities aggregating HK\$8,168 million during the year. Term and revolving loan facilities aggregating HK\$9,634 million expired during the year.

Sources of Finance

At 31st December 2015, committed loan facilities and debt securities amounted to HK\$90,526 million, of which HK\$22,140 million (24%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$9,387 million. Sources of funds at 31st December 2015 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	43,807	43,807	–	–
Bank loans, overdrafts and other loans	44,394	22,254	1,215	20,925
Perpetual capital securities	2,325	2,325	–	–
Total committed facilities	90,526	68,386	1,215	20,925
Uncommitted facilities				
Bank loans, overdrafts and other loans	10,056	669	9,387	–
Total	100,582	69,055	10,602	20,925

i) Loans and Bonds

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

Audited Financial Information	2015			2014		
	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	669	–	669	1,123	–	1,123
Long-term loans and bonds at amortised cost	66,061	(438)	65,623	65,682	(344)	65,338
Less: amount due within one year included under current liabilities	(6,847)	6	(6,841)	(4,828)	8	(4,820)
	59,214	(432)	58,782	60,854	(336)	60,518

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

Audited Financial Information	2015 HK\$M	2014 HK\$M
Bank loans (secured):		
Repayable between one and two years	–	3
Repayable between two and five years	–	89
Repayable after five years	–	443
Bank loans (unsecured):		
Repayable within one year	2,188	4,817
Repayable between one and two years	8,610	7,872
Repayable between two and five years	10,179	12,911
Repayable after five years	1,005	2,274
Other borrowings (unsecured):		
Repayable within one year	4,653	3
Repayable between one and two years	502	4,654
Repayable between two and five years	13,193	9,838
Repayable after five years	25,293	22,434
	65,623	65,338
Amount due within one year included under current liabilities	(6,841)	(4,820)
	58,782	60,518

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 2015 the fair value was HK\$2,575 million (2014: HK\$2,466 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\$8,985 million at 31st December 2015 compared to HK\$10,115 million at 31st December 2014.

Maturity Profile and Refinancing

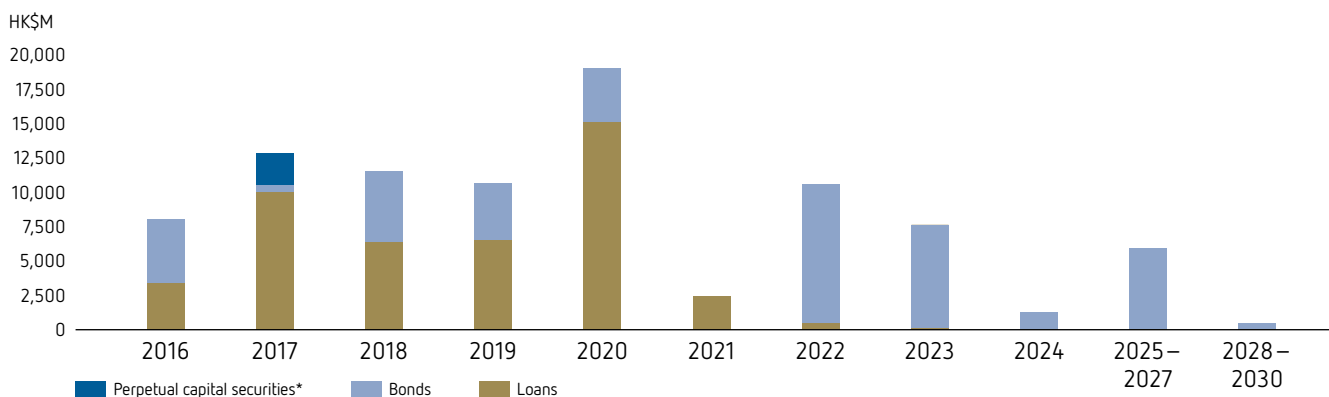
Bank loans and other borrowings are repayable on various dates up to 2030 (2014: 2034).

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

	2015	2014
Weighted average term of debt	4.3 years	4.1 years
Weighted average term of debt (excluding perpetuals)	4.4 years	4.2 years
Weighted average cost of debt	4.0%	4.1%
Weighted average cost of debt (excluding perpetuals)	3.8%	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 2015)



* 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.

Currency Profile

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

Audited Financial Information	2015		2014	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	43,829	64%	43,417	63%
Renminbi	4,507	7%	5,921	9%
United States dollar	20,019	29%	19,418	28%
Others	262	–	32	–
Total	68,617	100%	68,788	100%

Finance Charges

At 31st December 2015, 72% of the Group's gross borrowings were on a fixed rate basis and 28% were on a floating rate basis (2014: 63% and 37%).

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 2015	19,059	4,653	17,288	25,292	66,292
At 31st December 2014	25,603	3	17,978	22,877	66,461

Interest charged and earned during the year was as follows:

Audited Financial Information	2015 HK\$M	2014 HK\$M
Interest charged:		
Bank loans and overdrafts	642	753
Other loans, bonds and perpetual capital securities	1,988	1,889
Fair value gains on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(93)	(95)
Interest rate swaps not qualifying as hedges	(30)	–
Amortised loan fees – loans at amortised cost	106	107
	2,613	2,654
Fair value loss on put options over non-controlling interests in subsidiary companies	18	29
Other financing costs	136	117
Capitalised on:		
Investment properties	(199)	(185)
Properties for sale	(150)	(221)
Hotel and other properties	(16)	(7)
Vessels	(29)	(100)
	2,373	2,287
Less interest income:		
Short-term deposits and bank balances	107	149
Fair value gain on put options over non-controlling interests in subsidiary companies	–	1
Other loans	120	112
	227	262
Net finance charges	2,146	2,025

The capitalised interest rates on funds borrowed generally and used for the development of investment properties, properties for sale and vessels were between 1.43% and 4.18% per annum (2014: 1.40% and 4.19% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,613 million (2014: HK\$2,654 million).

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

Audited Financial Information	2015				2014			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Short-term loans	–	2.20-2.27	3.83	1.79-2.84	0.88-2.70	1.48-2.80	5.04	1.21-2.23
Long-term loans and bonds	1.00-5.05	1.15-6.25	3.90-5.23	1.64	0.77-5.05	0.89-6.25	3.90-6.77	–
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

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	2015	2014
Gearing			
Consolidated borrowed money/adjusted consolidated net worth	≤ 200%	22.6%	22.4%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth	≥ 20,000	256,609	254,688

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.

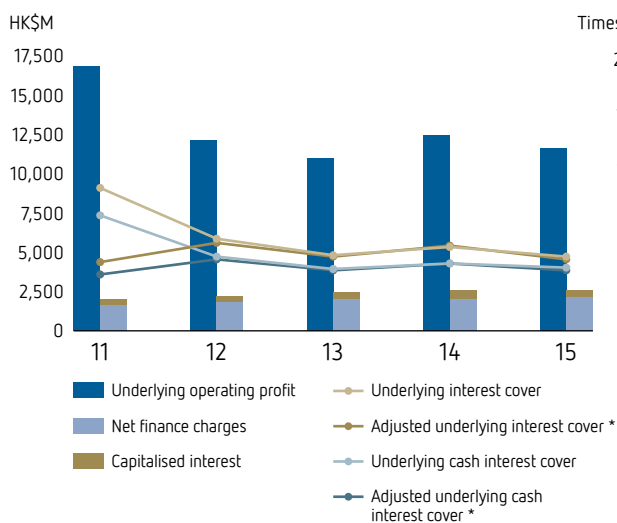
The Group considers a number of factors in monitoring its capital structure, principally the gearing ratio, cash interest cover and the return cycle of its investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising borrowings net of security deposits 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 2015 and 31st December 2014 were as follows:

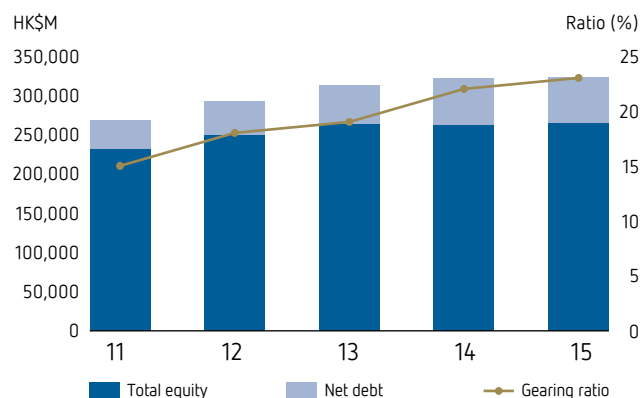
	2015 HK\$M	2014 HK\$M
Total borrowings	68,617	68,788
Less: Short-term deposits, bank balances and certain available-for-sale investments	(9,033)	(10,164)
Net debt	59,584	58,624
Total equity	263,986	262,130
Gearing ratio	22.6%	22.4%
Interest cover – times	7.7	6.8
Cash interest cover – times	6.5	5.4
Underlying cash interest cover – times	4.6	4.9
Return on average equity attributable to the Company's shareholders	6.1%	5.0%

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.

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 2015 and 2014:

	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	
	2015 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M
Property Division	13,653	11,327	5,836	4,792	3,271	1,477
Aviation Division						
Cathay Pacific group	42,458	43,998	19,106	19,799	–	–
HAECO group	2,098	1,375	342	184	–	–
Others	6	3	3	1	–	–
Beverages Division	1,282	1,335	453	440	–	–
Marine Services Division	833	822	416	411	500	500
Trading & Industrial Division	(3,527)	(3,215)	(1,188)	(1,077)	–	–
	56,803	55,645	24,968	24,550	3,771	1,977

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 32.0%.