

## Financing

### Capital Structure

The Group aims to maintain a capital structure that is appropriate for long-term credit ratings of A1 to A3 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 2016 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	2016 HK\$M	2015 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	68,617	68,788
Loans drawn and refinancing	15,321	12,993
Repayment of loans and bonds	(13,195)	(12,979)
Currency adjustment	(276)	(291)
Other non-cash movements	103	106
At 31st December	70,570	68,617

### Sources of Finance

At 31st December 2016, committed loan facilities and debt securities amounted to HK\$94,059 million, of which HK\$23,664 million (25%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$9,027 million. Sources of funds at 31st December 2016 comprised:

Audited Financial Information	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
<b>Committed facilities</b>				
Loans and bonds				
Fixed/floating rate bonds	46,147	46,147	–	–
Bank loans, overdrafts and other loans	45,585	21,921	1,831	21,833
Perpetual capital securities	2,327	2,327	–	–
<b>Total committed facilities</b>	94,059	70,395	1,831	21,833
<b>Uncommitted facilities</b>				
Bank loans, overdrafts and other loans	9,622	595	8,804	223
<b>Total</b>	103,681	70,990	10,635	22,056

Note: The figures above are stated before unamortised loan fees of HK\$420 million.

### i) Loans and Bonds

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

Audited Financial Information	2016			2015		
	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	595	–	595	669	–
Long-term loans and bonds at amortised cost	68,068	(420)	67,648	66,061	(438)	65,623
Less: amount due within one year included under current liabilities	(5,365)	8	(5,357)	(6,847)	6	(6,841)
	62,703	(412)	62,291	59,214	(432)	58,782

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

Audited Financial Information	2016 HK\$M	2015 HK\$M
Bank loans (unsecured)		
Repayable within one year	4,854	2,188
Repayable between one and two years	3,743	8,610
Repayable between two and five years	13,067	10,179
Repayable after five years	–	1,005
Other borrowings (unsecured)		
Repayable within one year	503	4,653
Repayable between one and two years	5,174	502
Repayable between two and five years	9,832	13,193
Repayable after five years	30,475	25,293
	67,648	65,623
Amount due within one year included under current liabilities	(5,357)	(6,841)
	62,291	58,782

## 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. The Issuer has given notice of its intention to redeem the perpetual capital securities at par on 13th May 2017. 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\$6,477 million at 31st December 2016 compared to HK\$8,985 million at 31st December 2015.

### Maturity Profile and Refinancing

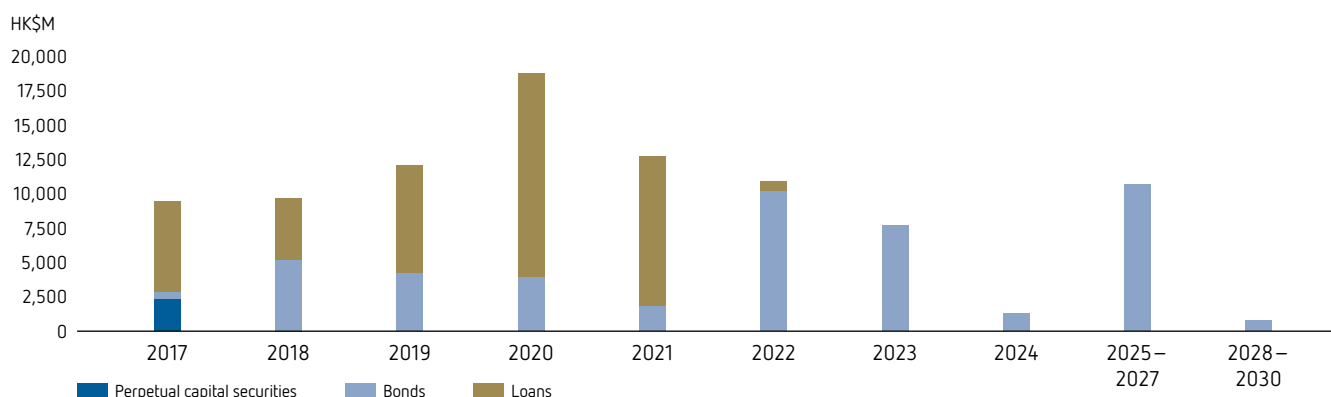
Bank loans and other borrowings are repayable on various dates up to 2030 (2015: same).

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

	2016	2015
Weighted average term of debt	4.2 years	4.3 years
Weighted average term of debt (excluding perpetuals)	4.3 years	4.4 years
Weighted average cost of debt	4.0%	4.0%
Weighted average cost of debt (excluding perpetuals)	3.8%	3.8%

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

### Total Available Committed Facilities by Maturity (at 31st December 2016)



## Currency Profile

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

Audited Financial Information	2016		2015	
	HK\$M		HK\$M	
<b>Currency</b>				
Hong Kong dollar	46,184	66%	43,829	64%
Renminbi	3,296	5%	4,507	7%
United States dollar	20,779	29%	20,019	29%
Others	311	–	262	–
<b>Total</b>	<b>70,570</b>	<b>100%</b>	<b>68,617</b>	<b>100%</b>

## Finance Charges

At 31st December 2016, 73% of the Group's gross borrowings were on a fixed rate basis and 27% were on a floating rate basis (2015: 72% and 28%).

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	
<b>At 31st December 2016</b>	<b>18,762</b>	<b>503</b>	<b>18,502</b>	<b>30,476</b>	<b>68,243</b>
At 31st December 2015	19,059	4,653	17,288	25,292	66,292

Interest charged and earned during the year was as follows:

<b>Audited Financial Information</b>			2016 HK\$M	2015 HK\$M
Interest charged				
Bank loans and overdrafts			503	642
Other loans, bonds and perpetual capital securities			2,109	1,988
Fair value gains on derivative instruments				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income			(92)	(93)
Interest rate swaps not qualifying as hedges			–	(30)
Amortised loan fees – loans at amortised cost			117	106
			2,637	2,613
Fair value loss on put options over non-controlling interests in subsidiary companies			116	18
Other financing costs			137	136
Capitalised on				
Investment properties			(248)	(199)
Properties under development and for sale			(140)	(150)
Hotels and other properties			(31)	(16)
Vessels			(13)	(29)
			2,458	2,373
Less: interest income				
Short-term deposits and bank balances			66	107
Other loans			95	120
			161	227
<b>Net finance charges</b>			<b>2,297</b>	<b>2,146</b>

The capitalised interest charges on funds borrowed for the development of investment properties, properties under development and for sale, hotels and other properties and vessels were between 1.30% and 4.30% per annum (2015: 1.43% and 4.18% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,637 million (2015: HK\$2,613 million).

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

<b>Audited Financial Information</b>								
	2016				2015			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Short-term loans	0.93	2.80	3.83	0.72-1.52	–	2.20-2.27	3.83	1.79-2.84
Long-term loans and bonds	1.15-5.05	1.22-6.25	3.90-4.41	1.37	1.00-5.05	1.15-6.25	3.90-5.23	1.64
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 requirements	2016	2015
<b>Gearing</b>			
Consolidated borrowed money/adjusted consolidated net worth	≤ 200%	23.5%	22.6%
	HK\$M	HK\$M	HK\$M
<b>Maintenance of minimum adjusted consolidated tangible net worth</b>			
Adjusted consolidated tangible net worth	≥ 20,000	262,973	256,609

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.

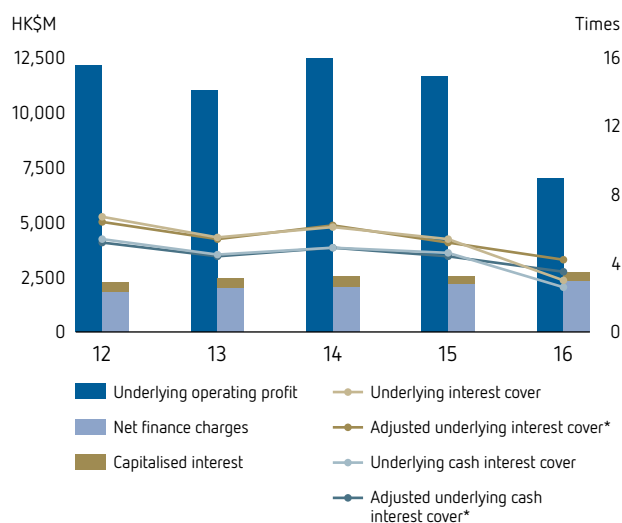
The Group considers a number of factors in monitoring its capital structure, principally the gearing ratio, cash interest cover and the return cycle of its investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising borrowings net of security deposits 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 2016 and 31st December 2015 were as follows:

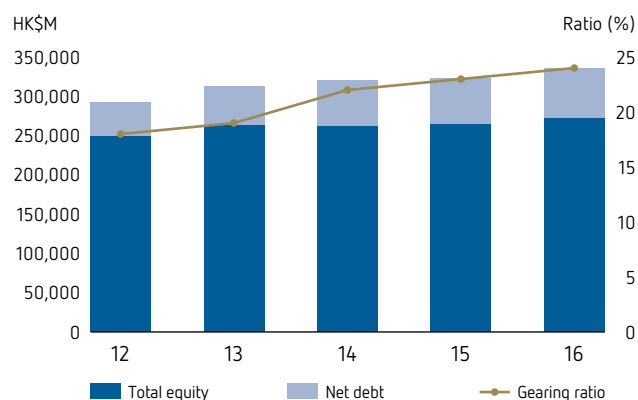
	2016 HK\$M	2015 HK\$M
Total borrowings	70,570	68,617
Less: Short-term deposits, bank balances and certain available-for-sale investments	(6,524)	(9,033)
Net debt	64,046	59,584
Total equity	272,168	263,986
Gearing ratio	23.5%	22.6%
Interest cover – times	6.7	7.7
Cash interest cover – times	5.6	6.5
Underlying cash interest cover – times	2.6	4.6
Return on average equity attributable to the Company's shareholders	4.4%	6.1%

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 2016 and 2015:

	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	
	2016 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M
Property Division	15,887	13,653	6,568	5,836	1,459	3,271
Aviation Division						
Cathay Pacific group	49,879	42,458	22,445	19,106	–	–
HAECO group	473	2,098	207	342	–	–
Others	3	6	1	3	–	–
Beverages Division	388	1,282	116	453	–	–
Marine Services Division	795	833	398	416	500	500
Trading & Industrial Division	(3,090)	(3,527)	(1,102)	(1,188)	1	–
	64,335	56,803	28,633	24,968	1,960	3,771

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 34.1%.