

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 2017 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 and A from Fitch.

Changes in Financing

Analysis of Changes in Financing during the Year

Audited Financial Information	Loans and bonds		Perpetual capital securities HK\$M	Total 2017 HK\$M	2016 HK\$M
	due within one year HK\$M	due after one year HK\$M			
Loans, bonds and perpetual capital securities					
At 1st January	5,952	62,291	2,327	70,570	68,617
Loans drawn and refinancing	1,702	18,610	–	20,312	15,321
Repayment of loans and bonds	(8,798)	(1,910)	(2,341)	(13,049)	(13,195)
Reclassification	10,409	(10,409)	–	–	–
Currency adjustment	136	479	14	629	(276)
Other non-cash movements	11	113	–	124	103
At 31st December	9,412	69,174	–	78,586	70,570

Sources of Finance

Audited Financial Information

At 31st December 2017, committed loan facilities and debt securities amounted to HK\$99,639 million, of which HK\$21,307 million (21%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$11,851 million. Sources of funds at 31st December 2017 comprised:

	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	50,681	50,681	–	–
Bank loans, overdrafts and other loans	48,958	27,651	1,360	19,947
Total committed facilities	99,639	78,332	1,360	19,947
Uncommitted facilities				
Bank loans, overdrafts and other loans	12,522	671	11,851	–
Total	112,161	79,003	13,211	19,947

Note: The figures above are stated before unamortised loan fees of HK\$417 million.

i) Loans and Bonds

Audited Financial Information

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

	2017			2016		
	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	671	–	671	595	–	595
Long-term loans and bonds at amortised cost – unsecured	78,332	(417)	77,915	68,068	(420)	67,648
Less: amount due within one year included under current liabilities	(8,747)	6	(8,741)	(5,365)	8	(5,357)
	69,585	(411)	69,174	62,703	(412)	62,291

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

	2017 HK\$M	2016 HK\$M
Bank loans (unsecured)		
Repayable within one year	3,539	4,854
Repayable between one and two years	5,313	3,743
Repayable between two and five years	18,555	13,067
Repayable after five years	3	–
Other borrowings (unsecured)		
Repayable within one year	5,202	503
Repayable between one and two years	4,203	5,174
Repayable between two and five years	15,858	9,832
Repayable after five years	25,242	30,475
	77,915	67,648
Amount due within one year included under current liabilities	(8,741)	(5,357)
	69,174	62,291

ii) Perpetual Capital Securities

Audited Financial Information

Perpetual capital securities, amounting to US\$300 million and bearing interest at 8.84% per annum, were issued by a wholly-owned subsidiary of the Company ("the Issuer"), on 13th May 1997 and were listed on the Luxembourg Stock Exchange. The perpetual capital securities, which were unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company, were redeemed by the Issuer on 13th May 2017 and delisted from the Luxembourg Stock Exchange on 15th May 2017.

iii) Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK\$6,072 million at 31st December 2017 compared to HK\$6,477 million at 31st December 2016.

Maturity Profile and Refinancing

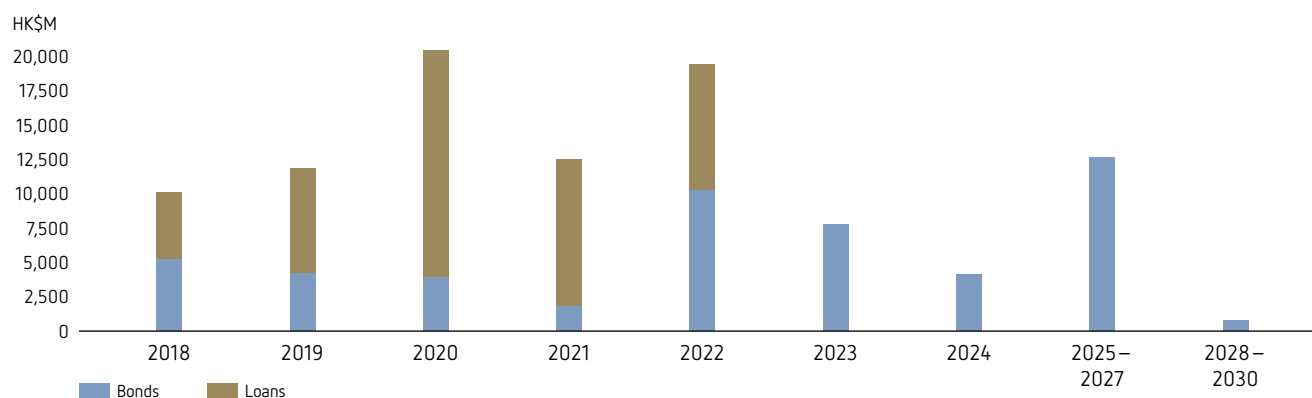
Bank loans and other borrowings are repayable on various dates up to 2030 (2016: same).

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

	2017	2016
Weighted average term of debt	3.9 years	4.2 years
Weighted average term of debt (excluding perpetuals)	N/A	4.3 years
Weighted average cost of debt	3.7%	4.0%
Weighted average cost of debt (excluding perpetuals)	3.6%	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 2017)



Currency Profile

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

Audited Financial Information				
	2017		2016	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	55,025	70%	46,184	66%
United States dollar	20,640	26%	20,779	29%
Renminbi	2,480	3%	3,296	5%
Others	441	1%	311	–
Total	78,586	100%	70,570	100%

Finance Charges

Audited Financial Information

At 31st December 2017, 71% of the Group's gross borrowings were on a fixed rate basis and 29% were on a floating rate basis (2016: 73% and 27%).

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

	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 2017	22,701	5,986	24,653	25,246	78,586
At 31st December 2016	18,762	503	18,502	30,476	68,243

Audited Financial Information

Interest charged and earned during the year was as follows:

	2017 HK\$M	2016 HK\$M
Interest charged		
Bank loans and overdrafts	520	503
Other loans, bonds and perpetual capital securities	2,041	2,109
Fair value gains on derivative instruments		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(74)	(92)
Interest rate swaps not qualifying as hedges	(1)	–
Amortised loan fees – loans at amortised cost	114	117
	2,600	2,637
Fair value loss on put options over non-controlling interests in subsidiary companies	34	116
Fair value loss on put options over other partners' interests in a joint venture company	30	–
Other financing costs	124	137
Capitalised on		
Investment properties	(212)	(248)
Properties under development and for sale	–	(140)
Hotel, other properties and equipment	(167)	(31)
Vessels	(10)	(13)
	2,399	2,458
Less: interest income		
Short-term deposits and bank balances	70	66
Other loans	90	95
	160	161
Net finance charges	2,239	2,297

The capitalised interest charges on funds borrowed for the development of investment properties, properties under development and for sale, hotel and other properties and vessels were between 1.40% and 4.00% per annum (2016: 1.30% and 4.30% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,600 million (2016: HK\$2,637 million).

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

	2017				2016			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Short-term loans	1.77	3.40	4.13-4.35	0.83-1.81	0.93	2.80	3.83	0.72-1.52
Long-term loans and bonds	1.29-5.05	2.03-6.25	3.90-4.41	1.72-1.98	1.15-5.05	1.22-6.25	3.90-4.41	1.37
Perpetual capital securities	–	–	–	–	–	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	2017	2016
Gearing			
Consolidated borrowed money/adjusted consolidated net worth	≤200%	23.7%	23.5%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth	≥20,000	292,608	262,973

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

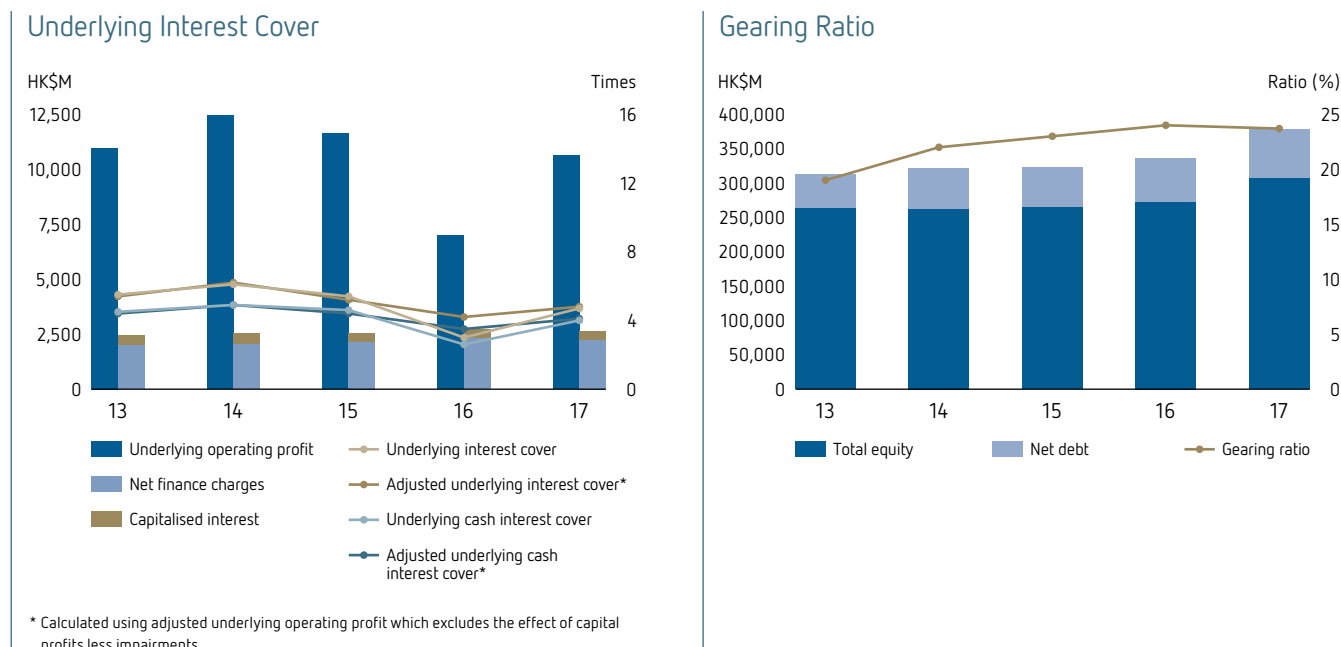
The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders, and to secure access to finance at a reasonable cost.

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 2017 and 31st December 2016 were as follows:

	2017 HK\$M	2016 HK\$M
Total borrowings	78,586	70,570
Less: Short-term deposits, bank balances and certain available-for-sale investments	(6,072)	(6,524)
Net debt	72,514	64,046
Total equity	306,094	272,168
Gearing ratio	23.7%	23.5%
Interest cover – times	16.0	6.7
Cash interest cover – times	13.6	5.6
Underlying cash interest cover – times	4.0	2.6
Return on average equity attributable to the Company's shareholders	10.9%	4.4%

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



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 2017 and 2016:

	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	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Property Division	17,334	15,887	7,058	6,568	1,483	1,459
Aviation Division						
Cathay Pacific group	59,300	49,879	26,685	22,445	—	—
HAECO group	527	473	240	207	—	—
Others	1	3	1	1	—	—
Beverages Division	(392)	388	(221)	116	—	—
Marine Services Division	841	795	420	398	500	500
Trading & Industrial Division	(3,221)	(3,090)	(1,086)	(1,102)	29	1
	74,390	64,335	33,097	28,633	2,012	1,960

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 34.5%.