

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 2018 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		Total 2018 HK\$M	2017 HK\$M
	due within one year HK\$M	due after one year HK\$M		
Loans, bonds and perpetual capital securities				
At 1st January	9,412	69,174	78,586	70,570
Loans drawn and refinancing	4,387	6,237	10,624	20,312
Repayment of loans and bonds	(11,426)	(6,145)	(17,571)	(13,049)
Change in composition of Group	45	–	45	–
Reclassification	9,123	(9,123)	–	–
Currency adjustment	(38)	9	(29)	629
Other non-cash movements	25	99	124	124
At 31st December	11,528	60,251	71,779	78,586

Sources of Finance

Audited Financial Information

At 31st December 2018, committed loan facilities and debt securities amounted to HK\$97,520 million, of which HK\$25,676 million (26%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$8,450 million. Sources of funds at 31st December 2018 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	49,435	49,435	–	–
Bank loans, overdrafts and other loans	48,085	22,409	2,648	23,028
Total committed facilities	97,520	71,844	2,648	23,028
Uncommitted facilities				
Bank loans, overdrafts and other loans	8,707	257	8,450	–
Total	106,227	72,101	11,098	23,028

Note: The figures above are stated before unamortised loan fees of HK\$322 million.

i) Loans and Bonds

Audited Financial Information

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

	2018			2017		
	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	3,227	–	3,227	671	–	671
Long-term loans and bonds at amortised cost – unsecured	68,874	(322)	68,552	78,332	(417)	77,915
Less: amount due within one year included under current liabilities	(8,310)	9	(8,301)	(8,747)	6	(8,741)
	60,564	(313)	60,251	69,585	(411)	69,174

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

	2018 HK\$M	2017 HK\$M
Bank loans (unsecured)		
Repayable within one year	4,086	3,539
Repayable between one and two years	5,844	5,313
Repayable between two and five years	9,345	18,555
Repayable after five years	3	3
Other borrowings (unsecured)		
Repayable within one year	4,215	5,202
Repayable between one and two years	3,911	4,203
Repayable between two and five years	19,715	15,858
Repayable after five years	21,433	25,242
	68,552	77,915
Amount due within one year included under current liabilities	(8,301)	(8,741)
	60,251	69,174

ii) Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK\$9,112 million at 31st December 2018 compared to HK\$6,072 million at 31st December 2017.

Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2030 for the year ended 2018 and 2017.

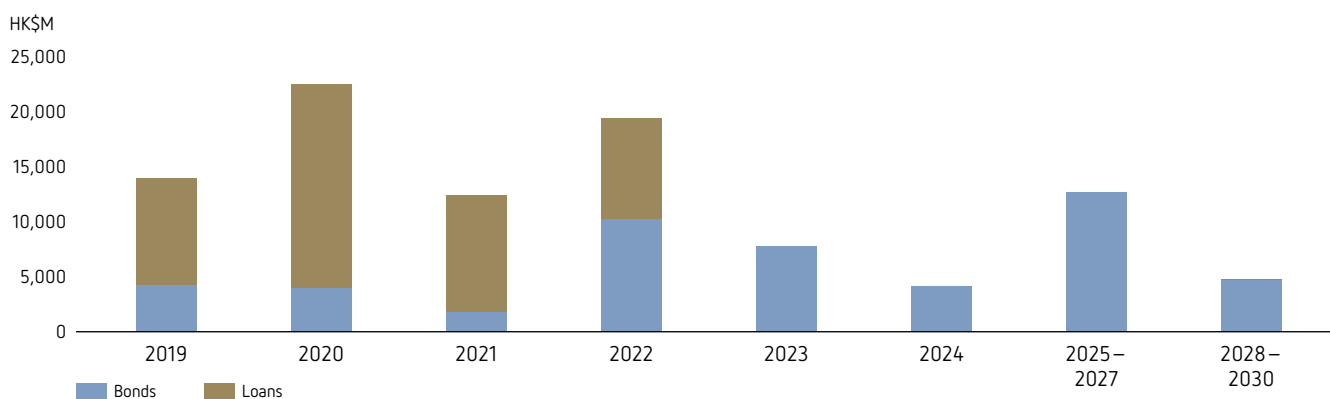
The weighted average term and cost of the Group's debt is:

	2018	2017
Weighted average term of debt	3.5 years	3.9 years
Weighted average cost of debt	3.5%	3.5%

(The weighted average cost of debt is stated on a gross debt basis. It was stated on a net debt basis in prior years.)

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

Total Available Committed Facilities by Maturity (at 31st December 2018)



Currency Profile

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

Audited Financial Information				
	2018		2017	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	49,653	69%	55,025	70%
United States dollar	20,566	29%	20,640	26%
Renminbi	1,079	1%	2,480	3%
Others	481	1%	441	1%
Total	71,779	100%	78,586	100%

Finance Charges

Audited Financial Information					
At 31st December 2018, 74% of the Group's gross borrowings were on a fixed rate basis and 26% were on a floating rate basis (2017: 71% and 29%).					
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 2018	18,638	4,527	27,178	21,436	71,779
At 31st December 2017	22,701	5,986	24,653	25,246	78,586

Audited Financial Information

Interest charged and earned during the year was as follows:

	2018 HK\$M	2017 HK\$M
Interest charged		
Bank loans and overdrafts	639	520
Other loans, bonds and perpetual capital securities	1,970	2,041
Fair value (gain)/loss on derivative instruments		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(77)	(74)
Interest rate swaps not qualifying as hedges	2	(1)
Amortised loan fees – loans at amortised cost	124	114
	2,658	2,600
Fair value (gain)/loss on put options over non-controlling interests in subsidiary companies	(23)	34
Fair value loss on put options over other partners' interests in a joint venture company	15	30
Other financing costs	145	124
Capitalised on		
Investment properties	(265)	(212)
Properties under development and for sale	(2)	–
Hotel and other properties and equipment	–	(167)
Vessels	(3)	(10)
	2,525	2,399
Less: interest income		
Short-term deposits and bank balances	115	70
Other loans	86	90
	201	160
Net finance charges	2,324	2,239

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 2.10% and 3.90% per annum (2017: 1.40% and 4.00% per annum).

The amount transferred from other comprehensive income in respect of cash flow hedges in 2018 included HK\$2 million relating to currency basis.

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,658 million (2017: HK\$2,600 million).

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

	2018				2017			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Short-term loans	2.35-2.75	–	4.35	0.80-2.45	1.77	3.40	4.13-4.35	0.83-1.81
Long-term loans and bonds	1.80-4.00	1.94-5.50	3.90-4.41	2.41	1.29-5.05	2.03-6.25	3.90-4.41	1.72-1.98

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 given 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	2018	2017
Gearing			
Consolidated borrowed money/consolidated net worth	≤200%	19.3%	23.7%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum consolidated tangible net worth			
Consolidated tangible net worth	≥20,000	312,197	292,608

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.

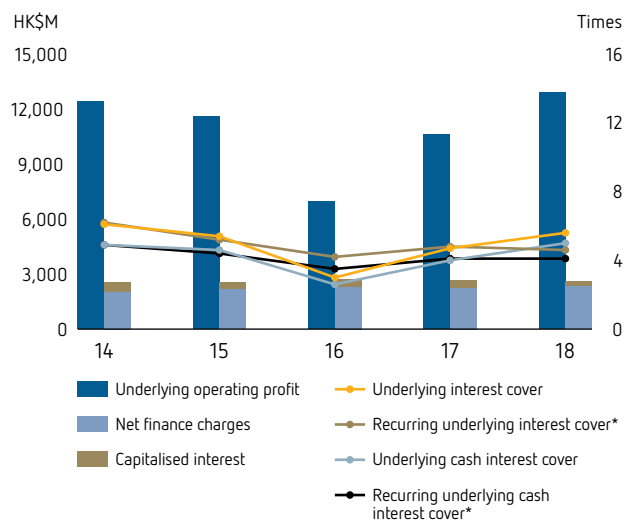
The Group considers a number of factors in monitoring its capital structure, principally the gearing ratio, cash interest cover and the return cycle of its investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising borrowings net of security deposits 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 2018 and 31st December 2017 were as follows:

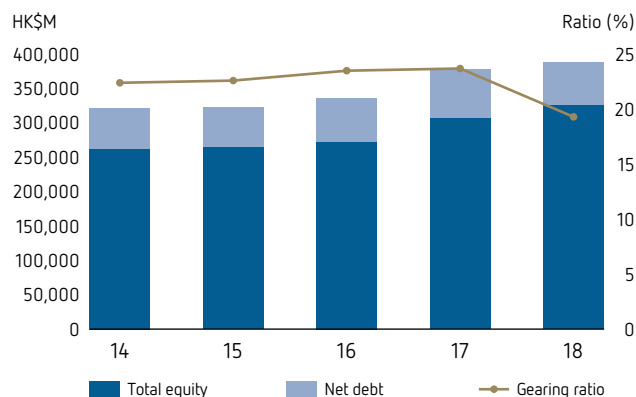
	2018 HK\$M	2017 HK\$M
Total borrowings	71,779	78,586
Less: Short-term deposits, bank balances and certain available-for-sale investments	(9,112)	(6,072)
Net debt	62,667	72,514
Total equity	325,115	306,094
Gearing ratio	19.3%	23.7%
Interest cover – times	13.3	16.0
Cash interest cover – times	11.9	13.6
Underlying cash interest cover – times	5.0	4.0
Return on equity	9.0%	10.9%

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 recurring underlying operating profit.

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 2018 and 2017:

	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	
	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M
Property Division	17,024	17,334	6,765	7,058	1,771	1,483
Aviation Division						
Cathay Pacific group	58,580	59,300	26,361	26,685	–	–
HAECO group	105	527	118	240	–	–
Others	–	1	–	1	–	–
Beverages Division	(747)	(392)	(343)	(221)	–	–
Marine Services Division	775	841	388	420	500	500
Trading & Industrial Division	(245)	(3,221)	(99)	(1,086)	14	29
	75,492	74,390	33,190	33,097	2,285	2,012

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 29.5%.