

## Financing

Following the adoption of HKFRS 16 “Leases”, lease liabilities were included in the balance sheet at 1st January 2019. Lease liabilities represent the present value of the remaining lease payments due by the lessees. Lease liabilities are shown separately as appropriate in this section.

### 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 2019 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		Lease liabilities HK\$M	Total 2019 HK\$M	2018 HK\$M
	due within one year HK\$M	due after one year HK\$M			
At 1st January					
as originally stated	11,528	60,251	–	71,779	78,586
adjustment on adoption of HKFRS 16	–	(4)	5,659	5,655	–
as restated	11,528	60,247	5,659	77,434	78,586
Loans drawn and refinancing	43	10,521	–	10,564	10,624
Repayment of loans and bonds	(12,062)	(2,073)	–	(14,135)	(17,571)
Principal elements of lease payments	–	–	(950)	(950)	–
New leases arranged during the year	–	–	763	763	–
Change in composition of the Group	–	–	–	–	45
Reclassification	12,062	(12,062)	–	–	–
Effect of exchange differences	(31)	(257)	(6)	(294)	(29)
Other non-cash movements	29	88	(91)	26	124
At 31st December	11,569	56,464	5,375	73,408	71,779

### Sources of Finance

#### Audited Financial Information

At 31st December 2019, committed loan facilities and debt securities amounted to HK\$86,835 million, of which HK\$18,686 million (22%) were undrawn. In addition, there were lease liabilities amounting to HK\$5,375 million. The Group had undrawn uncommitted facilities totalling HK\$7,829 million. Sources of gross borrowings at 31st December 2019 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M	Total undrawn HK\$M
<b>Committed facilities</b>					
Loans and bonds					
Fixed/floating rate bonds	46,394	46,394	–	–	–
Bank loans, overdrafts and other loans	40,441	21,755	9,403	9,283	18,686
<b>Total committed facilities</b>	<b>86,835</b>	<b>68,149</b>	<b>9,403</b>	<b>9,283</b>	<b>18,686</b>
<b>Uncommitted facilities</b>					
Bank loans, overdrafts and other loans	7,939	110	7,829	–	7,829
<b>Total</b>	<b>94,774</b>	<b>68,259</b>	<b>17,232</b>	<b>9,283</b>	<b>26,515</b>

Note: The figures above are stated before unamortised loan fees of HK\$226 million.

## i) Loans and Bonds

**Audited Financial Information**

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

	2019			2018		
	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	110	–	110	3,227	–	3,227
Long-term loans and bonds at amortised cost – unsecured	68,149	(226)	67,923	68,874	(322)	68,552
Less: amount due within one year included under current liabilities	(11,479)	20	(11,459)	(8,310)	9	(8,301)
	56,670	(206)	56,464	60,564	(313)	60,251

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

	2019 HK\$M	2018 HK\$M
Bank loans (unsecured)		
Repayable within one year	7,567	4,086
Repayable between one and two years	6,804	5,844
Repayable between two and five years	7,291	9,345
Repayable after five years	–	3
Other borrowings (unsecured)		
Repayable within one year	3,892	4,215
Repayable between one and two years	1,799	3,911
Repayable between two and five years	21,960	19,715
Repayable after five years	18,610	21,433
	67,923	68,552
Amount due within one year included under current liabilities	(11,459)	(8,301)
	56,464	60,251

	2019 HK\$M
The maturity of lease liabilities at 31st December 2019 is as follows:	
Within one year	858
Between one and two years	733
Between two and five years	1,096
Over five years	2,688
	5,375
Amount due within one year included under current liabilities	(858)
	4,517

## ii) Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK\$21,345 million at 31st December 2019 compared to HK\$9,112 million at 31st December 2018.

### Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2030 (2018: same).

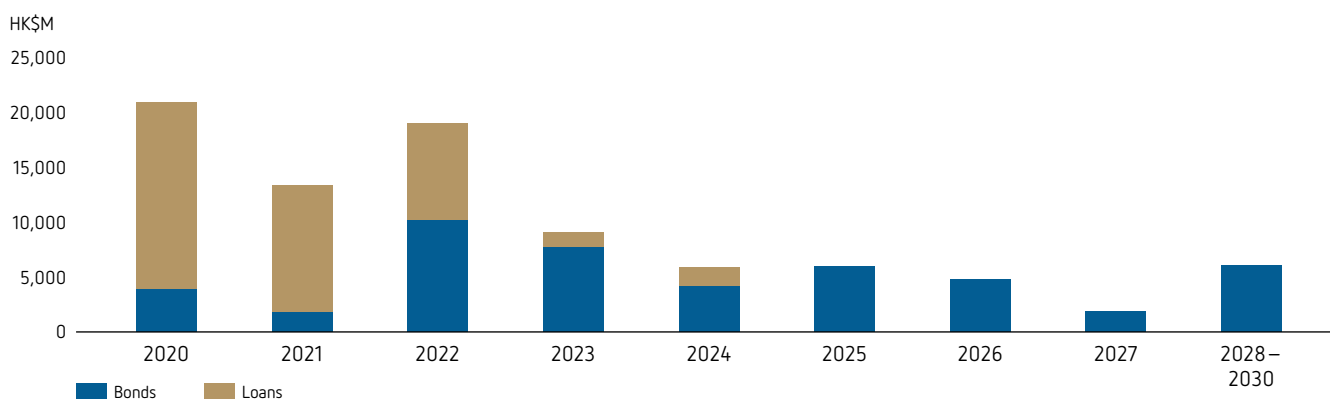
The weighted average term and cost of the Group's debt is:

	2019	2018
Weighted average term of debt	3.2 years	3.5 years
Weighted average cost of debt	3.6%	3.5%

(The weighted average cost of debt is stated on a gross debt basis.)

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

#### Total Available Committed Facilities by Maturity (at 31st December 2019)



## Currency Profile

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

Audited Financial Information							
	2019				2018		
	Loans and bonds HK\$M	%	Lease liabilities HK\$M	%	Total HK\$M	Loans and bonds HK\$M	%
<b>Currency</b>							
Hong Kong dollar	50,469	74%	3,425	64%	53,894	49,653	69%
United States dollar	16,190	24%	400	7%	16,590	20,566	29%
Renminbi	610	1%	1,036	19%	1,646	1,079	1%
Others	764	1%	514	10%	1,278	481	1%
<b>Total</b>	<b>68,033</b>	<b>100%</b>	<b>5,375</b>	<b>100%</b>	<b>73,408</b>	<b>71,779</b>	<b>100%</b>

## Finance Charges

### Audited Financial Information

At 31st December 2019, 73% of the Group's gross borrowings were on a fixed rate basis and 27% were on a floating rate basis (2018: 74% and 26%).

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	
<b>At 31st December 2019</b>	<b>18,232</b>	<b>5,494</b>	<b>25,697</b>	<b>18,610</b>	<b>68,033</b>
At 31st December 2018	18,638	4,527	27,178	21,436	71,779

**Audited Financial Information**

Interest charged and earned during the year was as follows:

	2019 HK\$M	2018 HK\$M
<b>Interest charged</b>		
Bank loans and overdrafts	597	639
Other loans and bonds	1,792	1,970
Fair value (gain)/loss on derivative instruments		
Cross-currency and interest rate swaps: cash flow hedges, transferred from other comprehensive income	(61)	(77)
Cross-currency and interest rate swaps not qualifying as hedges	(6)	2
Amortised loan fees – loans at amortised cost	120	124
	<b>2,442</b>	<b>2,658</b>
Lease liabilities	206	–
Fair value gain on put options over non-controlling interests in subsidiary companies	(3)	(23)
Fair value (gain)/loss on put options over other partners' interests in a joint venture company	(24)	15
Other financing costs	147	145
Capitalised on		
Investment properties	(242)	(265)
Properties for sale	(32)	(2)
Vessels	–	(3)
	<b>2,494</b>	<b>2,525</b>
<b>Less: interest income</b>		
Short-term deposits and bank balances	371	115
Other loans	81	86
	<b>452</b>	<b>201</b>
<b>Net finance charges</b>	<b>2,042</b>	<b>2,324</b>

The capitalised interest charges on loans and bonds borrowed for the development of investment properties, properties for sale, hotel and other properties and vessels were between 2.60% and 3.70% per annum (2018: 2.10% and 3.90% per annum).

The amount transferred from other comprehensive income in respect of cash flow hedges in 2019 included HK\$15 million relating to currency basis (2018: HK\$2 million).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$2,442 million (2018: HK\$2,658 million).

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

	2019				2018			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Short-term loans	–	–	–	0.81-2.55	2.35-2.75	–	4.35	0.80-2.45
Long-term loans and bonds	1.80-4.00	1.94-4.50	3.90-4.00	2.40	1.80-4.00	1.94-5.50	3.90-4.41	2.41

## Covenants and Credit Triggers

### Audited Financial Information

There are no specific covenants given by the Group in relation to 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	2019	2018
<b>Gearing</b>			
Consolidated borrowed money/consolidated net worth	≤200%	14.2%	19.3%
Consolidated borrowed money and lease liabilities/consolidated net worth	≤200%	15.8%	–
	HK\$M	HK\$M	HK\$M
<b>Maintenance of minimum consolidated tangible net worth</b>			
Consolidated tangible net worth	≥20,000	316,642	312,197

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) less short-term deposits and bank balances. Capital comprises total equity, as shown in the consolidated statement of financial position.

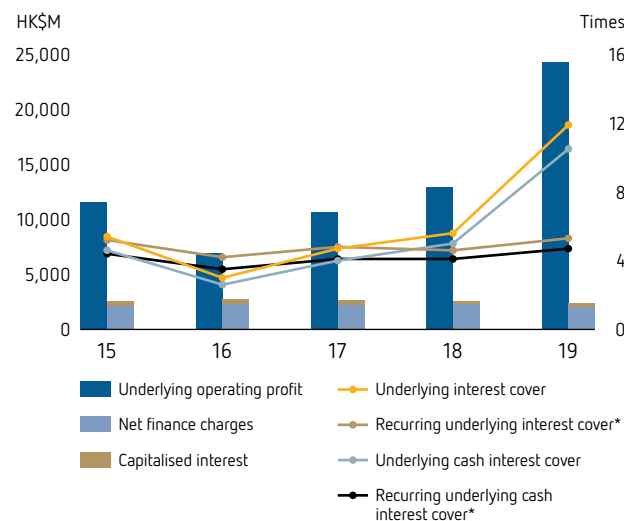
In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2019 and 31st December 2018 were as follows:

	2019 HK\$M	2018 HK\$M
Total borrowings	68,033	71,779
Less: Short-term deposits and bank balances	(21,345)	(9,112)
Net debt	46,688	62,667
Total equity	329,494	325,115
Gearing ratio	14.2%	19.3%
Gearing ratio – including lease liabilities <sup>#</sup>	15.8%	–
Interest cover – times	6.8	13.3
Cash interest cover – times	6.0	11.9
Underlying cash interest cover – times	10.5	5.0
Return on average equity attributable to the Company's shareholders	3.3%	9.0%

<sup>#</sup> Lease liabilities amounted to HK\$5,375 million at 31st December 2019. (refer to note 31 to the financial statements).

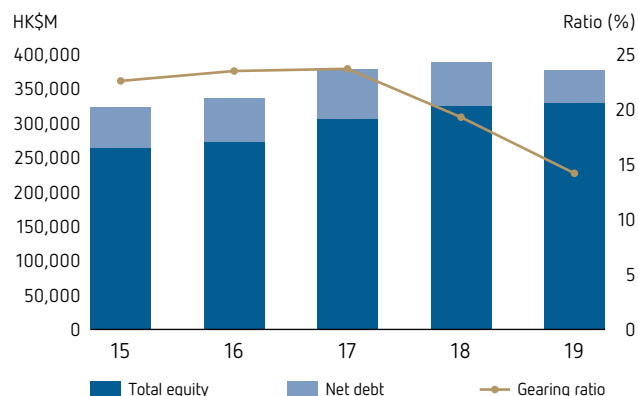
The following graphs illustrate the underlying interest cover and the gearing ratios for each of the last five years:

### Underlying Interest Cover



\* Calculated using recurring underlying operating profit.

### Gearing Ratio



### 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 share of net debt in its joint venture and associated companies. These companies had the following net debt positions at the end of 2019 and 2018:

	Total net debt/(cash) of joint venture and associated companies		Portion of net debt/(cash) shared by the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2019 HK\$M	2018 HK\$M	2019 HK\$M	2018 HK\$M	2019 HK\$M	2018 HK\$M
Property Division	18,512	17,024	7,307	6,765	1,878	1,771
Aviation Division						
Cathay Pacific group	41,904	58,580	18,857	26,361	–	–
HAECO group	461	105	318	118	–	–
Beverages Division	(1,241)	(747)	(545)	(343)	3	–
Marine Services Division	721	775	361	388	500	500
Trading & Industrial Division	(62)	(245)	(27)	(99)	–	14
	60,295	75,492	26,271	33,190	2,381	2,285

If the share of net debt in joint venture and associated companies were to be added to the Group's net debt, gearing would rise to 22.1% at 31st December 2019 (2018: 29.5%).

The net debt position and lease liabilities at 31st December 2019 were as follows:

	Total net debt/(cash) and lease liabilities of joint venture and associated companies			Portion of net debt/(cash) and lease liabilities shared by the Group		
	31st December 2019			31st December 2019		
	Net debt HK\$M	Lease liabilities HK\$M	Total HK\$M	Net debt HK\$M	Lease liabilities HK\$M	Total HK\$M
Property Division	18,512	241	18,753	7,307	98	7,405
Aviation Division						
Cathay Pacific group	41,904	40,492	82,396	18,857	18,221	37,078
HAECO group	461	62	523	318	30	348
Beverages Division	(1,241)	245	(996)	(545)	106	(439)
Marine Services Division	721	1	722	361	–	361
Trading & Industrial Division	(62)	–	(62)	(27)	–	(27)
	60,295	41,041	101,336	26,271	18,455	44,726