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 2021 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				
	due within one year HK$M	due after one year HK$M	Lease liabilities HK$M	Total 2021 HK$M	2020 HK$M
At 1st January	6,929	61,235	5,152	73,316	73,408
Loans drawn and refinancing	1,130	3,749	–	4,879	14,525
Repayment of loans and bonds	(8,504)	(3,321)	–	(11,825)	(14,395)
Principal elements of lease payments	–	–	(971)	(971)	(935)
New leases arranged during the year	–	–	1,161	1,161	530
Change in composition of the Group	–	–	1	1	31
Reclassification	17,697	(17,697)	–	–	–
Effect of exchange differences	5	226	50	281	(46)
Transfer to liabilities associated with assets classified as held for sale	–	–	(3)	(3)	–
Other non-cash movements	26	74	(50)	50	198
At 31st December	17,283	44,266	5,340	66,889	73,316

Sources of Finance

Audited Financial Information

At 31st December 2021, committed loan facilities and debt securities amounted to HK$85,969 million, of which HK$24,219 million (28%) were undrawn. In addition, there were lease liabilities amounting to HK$5,340 million. The Group had undrawn uncommitted facilities totalling HK$8,296 million. Sources of gross borrowings at 31st December 2021 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
Committed facilities					
Loans and bonds					
Bonds	49,235	49,235	–	–	–
Bank loans, overdrafts and other loans	36,734	12,515	5,139	19,080	24,219
Total committed facilities	85,969	61,750	5,139	19,080	24,219
Uncommitted facilities					
Bank loans, overdrafts and other loans	8,322	26	8,296	–	8,296
Total	94,291	61,776	13,435	19,080	32,515

Note: The figures above are stated before unamortised loan fees of HK$227 million.

i) Loans and Bonds

Audited Financial Information

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

	2021			2020		
	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	26	–	26	105	–	105
Long-term loans and bonds at amortised cost – unsecured	61,750	(227)	61,523	68,366	(307)	68,059
Less: amount due within one year included under current liabilities	(17,269)	12	(17,257)	(6,833)	9	(6,824)
	44,481	(215)	44,266	61,533	(298)	61,235

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

	2021 HK$M	2020 HK$M
Bank loans (unsecured)		
Repayable within one year	7,078	5,024
Repayable between one and two years	1,791	7,658
Repayable between two and five years	2,612	4,997
Repayable after five years	944	1,048
Other borrowings (unsecured)		
Repayable within one year	10,179	1,800
Repayable between one and two years	7,768	10,125
Repayable between two and five years	15,066	18,003
Repayable after five years	16,085	19,404
	61,523	68,059
Amount due within one year included under current liabilities	(17,257)	(6,824)
	44,266	61,235

	2021 HK$M	2020 HK$M
The maturity of lease liabilities is as follows:		
Within one year	831	793
Between one and two years	651	669
Between two and five years	1,230	1,133
Over five years	2,628	2,557
	5,340	5,152
Amount due within one year included under current liabilities	(831)	(793)
	4,509	4,359

ii) Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK$22,894 million at 31st December 2021 compared to HK$29,264 million at 31st December 2020.

Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2031 (2020: 2030).

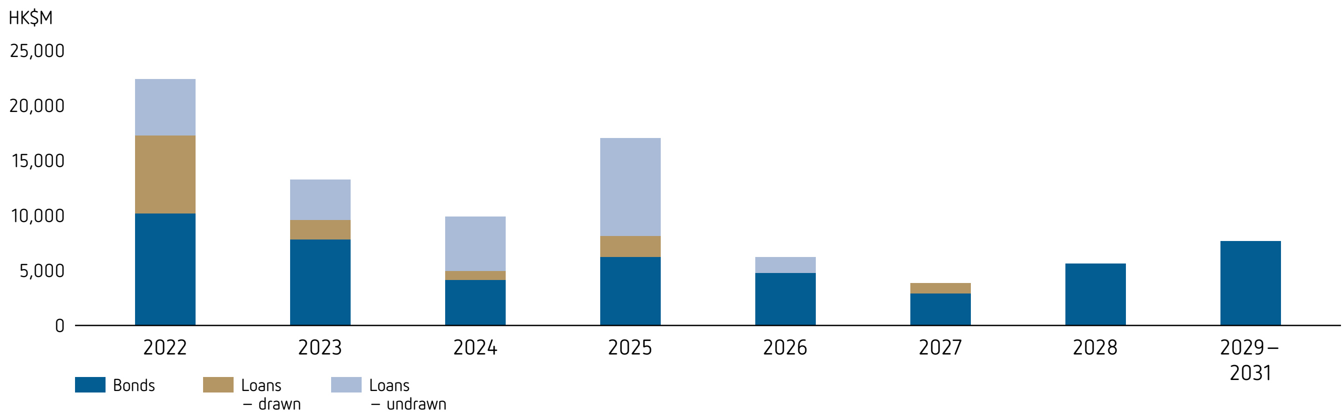
The weighted average term and cost of the Group's debt is:

	2021	2020
Weighted average term of debt	3.0 years	3.4 years
Weighted average cost of debt*	3.2%	3.2%

* 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 2021)



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

	2021					2020				
	Loans and bonds HK$M	%	Lease liabilities HK$M	%	Total HK$M	Loans and bonds HK$M	%	Lease liabilities HK$M	%	Total HK$M
Currency										
Hong Kong dollar	55,830	91%	2,955	55%	58,785	52,462	77%	3,169	62%	55,631
United States dollar	5,719	9%	350	7%	6,069	14,244	21%	411	8%	14,655
Renminbi	–	0%	1,163	22%	1,163	649	1%	1,057	20%	1,706
Others	–	0%	872	16%	872	809	1%	515	10%	1,324
Total	61,549	100%	5,340	100%	66,889	68,164	100%	5,152	100%	73,316

Finance Charges from Continuing Operations

Audited Financial Information

At 31st December 2021, 84% of the Group's gross borrowings were on a fixed rate basis and 16% were on a floating rate basis (2020: 78% and 22%).

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

		Fixed interest rate maturing in:			
	Floating interest rate HK$M	1 year or less HK$M	1 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31st December 2021	9,949	11,738	22,834	17,028	61,549
At 31st December 2020	14,851	3,186	29,675	20,452	68,164

Audited Financial Information

Interest charged and earned from continuing operations during the year was as follows:

	2021 HK$M	2020 HK$M (Note 1c)
Interest charged		
Bank loans and overdrafts	118	325
Other loans and bonds	1,774	1,731
Fair value loss/(gain) on derivative instruments		
Cross-currency and interest rate swaps: cash flow hedges, transferred from other comprehensive income	13	26
Cross-currency and interest rate swaps not qualifying as hedges	(2)	6
Amortised loan fees – loans at amortised cost	103	119
	2,006	2,207
Lease liabilities	188	201
Fair value loss/(gain) on put options over non-controlling interests in subsidiary companies	68	(60)
Fair value gain on put options over other shareholders' interests in a joint venture company	(1)	(20)
Other financing costs	138	41
Capitalised on		
Investment properties	(293)	(240)
Properties for sale	(49)	(39)
	2,057	2,090
Less: interest income		
Short-term deposits and bank balances	212	292
Other loans	103	78
	315	370
Net finance charges	1,742	1,720

The capitalised interest charges on loans and bonds borrowed for the development of investment properties and properties for sale were between 3.30% and 3.40% per annum (2020: 3.30% and 3.60% per annum).

The amount transferred from other comprehensive income in respect of cash flow hedges in 2021 included HK$22 million relating to currency basis (2020: HK$20 million).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK$2,006 million (2020: HK$2,207 million).

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

	2021				2020			
	HK$ %	US$ %	RMB %	Others %	HK$ %	US$ %	RMB %	Others %
Short-term loans	–	1.85	–	–	1.85	–	–	1.05
Long-term loans and bonds	0.60-4.00	0.79-4.50	3.90-4.00	0.48	0.57-4.00	0.84-4.50	3.90-4.00	0.48-0.90

Benchmark interest rates like LIBOR are being replaced. The cash flows of the Company and its subsidiaries primarily affected are those associated with US dollar denominated variable interest rate facilities and interest rate swaps which reference LIBOR. These facilities and swaps had principal and notional principal amounts equivalent in aggregate to HK$7,721 million at 31st December 2021. Most of the uncertainty arising from the Group's exposure to interbank offered rates will cease when affected facilities expire this year. Other variable interest rate facilities and interest rate swaps of the Company and its subsidiaries are not referenced to rates which are being replaced.

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	2021	2020
Gearing			
Consolidated borrowed money/consolidated net worth	≤200%	11.9%	12.2%
Consolidated borrowed money and lease liabilities/consolidated net worth	≤200%	13.6%	13.8%
	HK$M	HK$M	HK$M
Maintenance of minimum consolidated tangible net worth			
Consolidated tangible net worth	≥20,000	310,773	306,050

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.

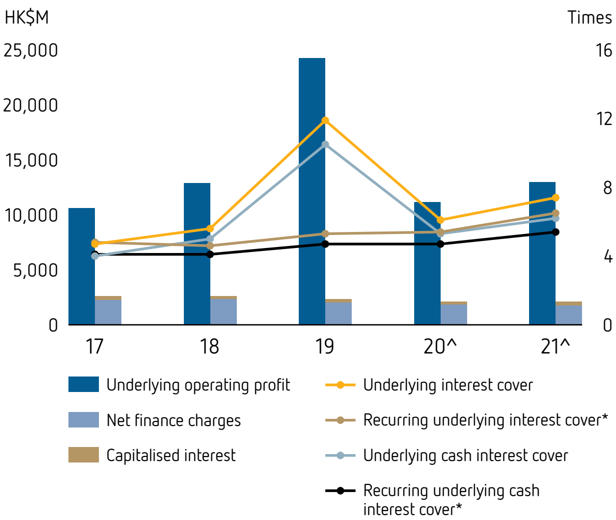
In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2021 and 31st December 2020 were as follows:

	2021 HK$M	2020 HK$M
Total borrowings	61,549	68,164
Less: Short-term deposits and bank balances	(22,894)	(29,264)
Net debt	38,655	38,900
Total equity	324,168	319,146
Gearing ratio	11.9%	12.2%
Gearing ratio-including lease liabilities#	13.6%	13.8%
Interest cover – times	6.0	1.5
Cash interest cover – times	5.0	1.3
Underlying cash interest cover – times	6.2	5.3
Return on average equity attributable to the Company's shareholders	1.3%	-4.1%

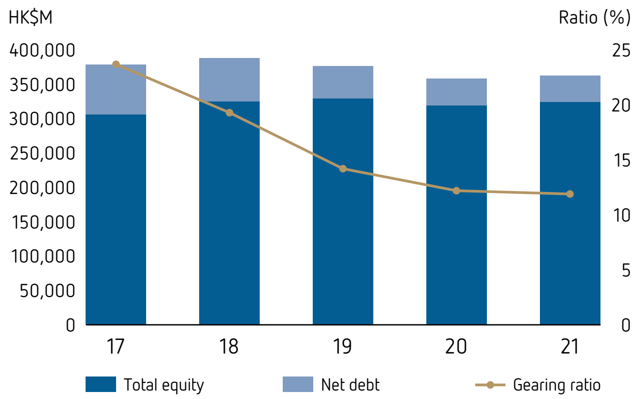
Lease liabilities amounted to HK$5,340 million at 31st December 2021 compared to HK$5,152 million at 31st December 2020 (refer to note 31 to the financial statements).

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

Underlying Interest Cover



Gearing Ratio



* Calculated using recurring underlying operating profit.
^ Included continuing operations and discontinued operations.

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 2021 and 2020:

	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	
	2021 HK$M	2020 HK$M	2021 HK$M	2020 HK$M	2021 HK$M	2020 HK$M
Property	26,761	29,868	9,536	10,236	3,643	2,736
Beverages	(2,417)	(1,565)	(1,020)	(677)	75	55
Aviation						
Cathay Pacific group	35,838	36,154	24,902	25,045	–	–
HAECO group	(127)	283	43	217	–	–
Trading & Industrial	(33)	(118)	(13)	(56)	–	–
Marine Services	–	1,397	–	677	–	500
Head Office and Swire Investments	1,366	(4)	285	(1)	–	–
	61,338	66,015	33,733	35,441	3,718	3,291

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 22.3% at 31st December 2021 (2020: 23.3%).

The lease liabilities of these companies at the end of 2021 and 2020 were as follows:

	Total lease liabilities of joint venture and associated companies		Portion of lease liabilities shared by the Group	
	2021 HK$M	2020 HK$M	2021 HK$M	2020 HK$M
Property	218	222	89	90
Beverages	257	277	111	120
Aviation				
Cathay Pacific group	34,732	37,634	15,630	16,935
HAECO group	28	36	14	18
Marine Services	–	1	–	–
Head Office and Swire Investments	42	–	9	–
	35,277	38,170	15,853	17,163

Financial Risk Management

Audited Financial Information

Structure and Policies

In the normal course of business the Group is exposed to financial risks attributable to interest rates, currencies, credit, commodities and liquidity.

The Finance Committee oversees the management of the Group's financial risks, including setting the Group's financial risk profile and related risk management policies and procedures, within an agreed framework authorised by the Board. These policies and procedures are implemented by the head office treasury department and divisional finance functions. The Finance Committee consists of the Finance Director, Divisional Finance Directors and other senior finance executives. The Finance Committee meets quarterly to review financial risks at Group and divisional levels. In 2021, the Finance Committee met four times.

The treasury department manages the funding needs of the Group's non-listed subsidiaries, as well as resulting interest rate, currency, credit and liquidity risks. Operating subsidiaries manage currency, credit and commodity exposures that are specific to their trading transactions.

It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk and the Group minimises its exposure to market risk by applying hedge accounting for derivative instruments. By applying hedge accounting, gains and losses on derivatives offset the losses and gains on the assets, liabilities or transactions being hedged. Accounting for derivative financial instruments and hedging activities is discussed on pages 170 and 171.

The Group's listed subsidiary (Swire Properties Limited) and the Group's joint venture and associated companies arrange their financial and treasury affairs on a stand-alone basis. The Company may provide financial support by way of guarantees to its non-listed joint venture and associated companies in cases where significant cost savings are available and risks are acceptable.

Interest Rate Exposure

The Group's interest rate risk arises primarily from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group earns interest income on cash deposits.

The Group maintains a significant proportion of debt on a fixed rate basis with a view to increasing certainty of funding costs. The level of fixed rate debt for the Group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the expected cash flows of the Group's businesses and investments. The Group uses interest rate swaps to manage its long-term interest rate exposure. The Finance Directors of the Group and Swire Properties Limited approve all interest rate hedges prior to implementation.

Financial Risk Management (continued)

Audited Financial Information (continued)

On a quarterly basis, the treasury department calculates the effect of the Group's exposure to interest rate fluctuations on forecast earnings and cash flows by performing sensitivity testing with varying forecast interest rates. The treasury department reports the results of this testing to the Finance Committee. Refer to page 129 for details of the sensitivity testing performed at 31st December 2021.

Currency Exposure
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Chinese Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group's policy is to hedge in full all highly probable transactions in each major currency where their value or time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or other derivative contract is not prohibitively expensive having regard to the underlying exposure.

Exposure to movements in exchange rates on transactions is minimised by using appropriate hedging instruments where active markets for the relevant currencies exist. At 31st December 2021, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts and cross-currency swaps.

Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency.

Foreign currency funding and deposit exposure is monitored by the treasury department on a continuous basis. The Finance Directors of the Group and Swire Properties Limited approve all foreign currency hedges prior to implementation.

Refer to page 130 for a sensitivity analysis of the Group's exposure to currency risk arising from recognised financial assets or financial liabilities denominated in a currency other than the functional currency at 31st December 2021.

Credit Exposure
The Group's credit risk is primarily attributable to trade and other receivables with wholesale customers, derivative financial instruments, receivables from joint venture companies and associated companies and cash and deposits with banks and financial institutions. Individual operating entities are responsible for setting credit terms appropriate to their industry and assessing the credit profile of individual customers.

Standard settlement terms within the Beverages Division and the HAECO group are 30 days from the date of invoice. In accordance with the provisions of Swire Properties' standard tenancy agreements, rentals and other charges are due on the first day of each calendar month. Typically sales to retail customers within Swire Resources are made by cash or major credit cards. The Group has no significant credit risk with any one customer.

When depositing surplus funds or entering into derivative contracts, the Group controls its exposure to non-performance by counterparties by dealing with investment grade counterparties to the extent possible, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are proposed by the treasury department and approved by the Finance Director. The treasury department monitors the counterparties' credit ratings and issues an approved list of counterparties with their limits on a quarterly basis to all subsidiaries. Group companies require prior approval from the Group's treasurer to deal with banks not on the approved list. In addition, the Group and the Company monitor the exposure to credit risk in respect of the financial assistance provided to subsidiaries, joint venture companies and associated companies through exercising control or significant influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

The Group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of derivatives. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

The maximum credit risk in respect of contingencies is disclosed in note 39 to the financial statements.

Financial Risk Management (continued)

Audited Financial Information (continued)

Liquidity Risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits in order to reduce liquidity risk further and to allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its refinancing for the following nine months on a rolling basis and capital commitments for the following 12 months on a rolling basis.

The treasury departments of Swire Pacific and its listed subsidiary (Swire Properties Limited) produce a forecast funding plan for the Group on a quarterly basis and a summary forecast on a monthly basis, in order to assess committed and probable funding requirements. The plan includes an analysis of debt refinancing by year and by source of funds. The Group's treasurer presents the forecast funding plan together with funding proposals to the Finance Director on a regular basis, and to the Finance Committee. Refer to page 131 for details of the Group's contractual obligations at 31st December 2021.

Price Risk

The Group is exposed to price risk in relation to listed equity securities held as equity investments at fair value. Management regularly reviews the expected returns from holding such investments, on an individual basis.