

FINANCING

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Capital Structure

The Group aims to maintain a capital structure that is appropriate for long-term credit ratings of A3 to A1 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 economic circumstances. At 31st December 2010 the Company's long-term credit ratings were A3 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		
	2010 HK\$M	2009 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	34,502	35,272
Loans drawn and refinancing	13,302	8,263
Repayment of loans and bonds	(3,717)	(9,077)
Changes in composition of Group	1,324	–
Other non-cash movements	24	44
	45,435	34,502
Overdrafts	19	–
At 31st December	45,454	34,502

During the year, the Group raised HK\$17,175 million. This included:

- the issue of a twenty-year medium-term note of HK\$500 million
- a one-year bilateral term loan facility of HK\$9,437 million, which was arranged specifically to finance the acquisition of additional shares in HAECO. HK\$4,219 million of this facility was cancelled following the closing of the general offer for HAECO
- a two-and-a-half-year bilateral revolving credit facility of HK\$1,000 million
- five three-year bilateral revolving credit facilities totalling HK\$2,800 million
- four five-year bilateral revolving credit facilities totalling HK\$2,500 million
- a RMB650 million increase of an existing five-year bilateral term loan facility to RMB2,650 million
- a US\$22 million increase of an existing two-year bilateral revolving credit facility to US\$60 million

Significant debt repayments during the year included the prepayment of a HK\$1,318 million bilateral term loan facility.

Sources of Finance

At 31st December 2010, committed loan facilities and debt securities amounted to HK\$56,446 million, of which HK\$12,313 million (22%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$5,303 million. Sources of funds at 31st December 2010 comprised:

AUDITED FINANCIAL INFORMATION				
	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	17,247	17,247	–	–
Bank loans, overdrafts and other loans	36,867	24,554	1,718	10,595
Perpetual capital securities	2,332	2,332	–	–
Total committed facilities	56,446	44,133	1,718	10,595
Uncommitted facilities				
Bank loans, overdrafts and other loans	6,799	1,496	5,075	228
Total	63,245	45,629	6,793	10,823

i) Loans and Bonds

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

AUDITED FINANCIAL INFORMATION						
	2010			2009		
	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
Group						
Bank overdrafts and short-term loans – unsecured	5,290	(7)	5,283	1,083	–	1,083
Long-term loans and bonds at amortised cost	38,007	(168)	37,839	31,190	(97)	31,093
Less: amount due within one year included under current liabilities	(9,106)	5	(9,101)	(1,469)	–	(1,469)
	28,901	(163)	28,738	29,721	(97)	29,624
	2010			2009		
	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
Company						
Bank overdrafts and short-term loans – unsecured	3,900	(7)	3,893	–	–	–

ii) Perpetual Capital Securities

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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. At 31st December 2010 the fair value was HK\$2,565 million (2009: HK\$2,327 million). 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\$4,010 million at 31st December 2010, excluding security deposits, compared to HK\$2,395 million at 31st December 2009.

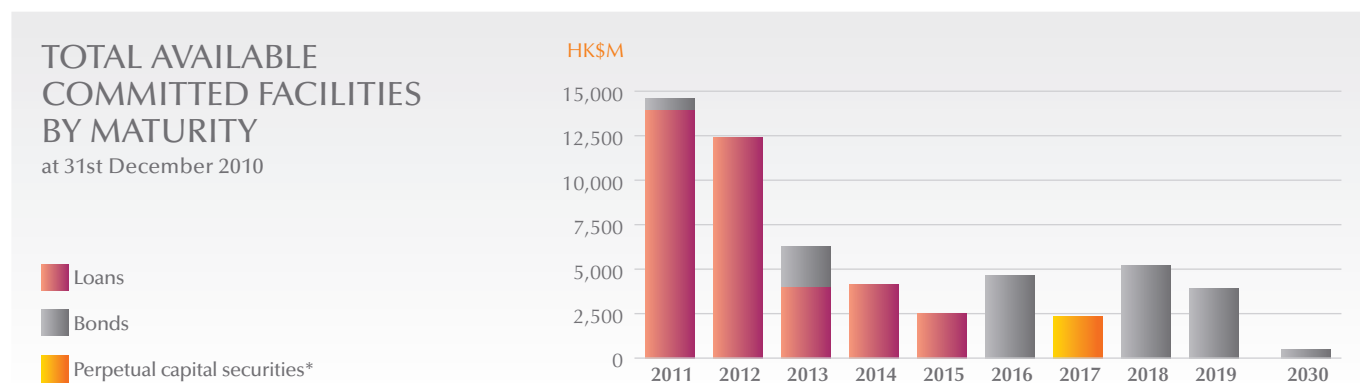
Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2030 (2009: up to 2019).

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

	2010	2009
Weighted average term of debt	3.4 years	4.3 years
Weighted average term of debt (excluding perpetuals)	3.3 years	4.1 years
Weighted average cost of debt	4.0%	4.1%
Weighted average cost of debt (excluding perpetuals)	3.7%	3.8%

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



* The perpetual capital securities have no fixed maturity date. In the above graph their maturity has been presented as their first call date, 13th May 2017.

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

AUDITED FINANCIAL INFORMATION		
	2010 HK\$M	2009 HK\$M
Bank loans (secured):		
Repayable within one year	170	169
Repayable between one and two years	42	169
Repayable between two and five years	–	42
Bank loans (unsecured):		
Repayable within one year	8,218	1,300
Repayable between one and two years	8,897	5,290
Repayable between two and five years	3,315	7,445
Other borrowings (unsecured):		
Repayable within one year	713	–
Repayable between one and two years	–	725
Repayable between two and five years	2,298	2,297
Repayable after five years	14,186	13,656
	37,839	31,093
Amount due within one year included under current liabilities	(9,101)	(1,469)
	28,738	29,624

Currency Profile

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

AUDITED FINANCIAL INFORMATION				
	2010		2009	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	37,481	82%	28,983	84%
United States dollar	2,268	5%	1,238	3%
Renminbi	5,521	12%	4,107	12%
New Taiwan dollar	124	1%	111	1%
Others	60	–	63	–
Total	45,454	100%	34,502	100%

Finance Charges

At 31st December 2010, 56% of the Group's gross borrowings were on a fixed rate basis and 44% were on a floating rate basis (2009: 68% and 32% respectively).

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					
	Fixed interest rate maturing in:				
	Floating interest rate	1 year or less	1 to 5 years	Over 5 years	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 31st December 2010	20,138	1,269	7,529	14,186	43,122
At 31st December 2009	10,953	169	7,397	13,657	32,176

Interest charged and earned during the year was as follows:

AUDITED FINANCIAL INFORMATION				
	2010		2009	
	HK\$M	HK\$M	HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		(392)		(340)
Other loans and bonds:				
Wholly repayable within five years	(134)		(144)	
Not wholly repayable within five years	(985)		(846)	
		(1,119)		(990)
Fair value (losses)/gains on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(12)		(20)	
Interest rate swaps: fair value hedges	5		15	
		(7)		(5)
Adjustments to financial liabilities – fair value hedges		13		–
Amortised loan fees – loans at amortised cost		(56)		(26)
Other financing costs		(55)		(45)
Deferred into properties under development for sale		101		32
Capitalised on:				
Investment properties	180		190	
Hotel and other properties	18		43	
Vessels	–		5	
		198		238
		(1,317)		(1,136)
Interest income on:				
Short-term deposits and bank balances	22		11	
Other loans	24		78	
Fair value gain on put option over non-controlling interest in Sanlitun Village	12		107	
		58		196
Net finance charges		(1,259)		(940)
<p>The capitalised interest rates used on funds both borrowed generally and used for the development of investment properties and properties for sale were between 3.68% and 5.60% per annum (2009: 3.38% and 5.15% per annum).</p> <p>The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$1,505 million (2009: HK\$1,335 million).</p>				

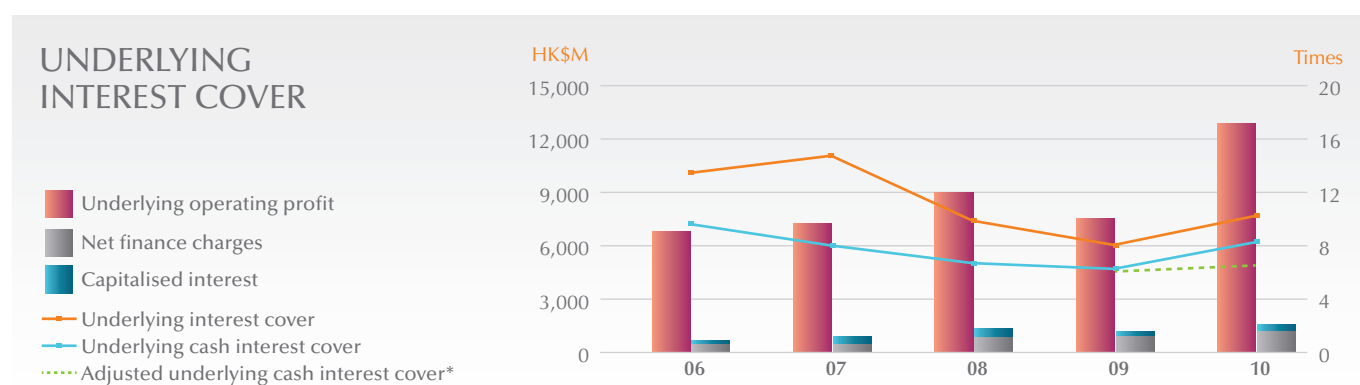
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The interest rates per annum, before swaps, at the year-end date were as follows:

	2010				2009			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Bank overdrafts and short-term loans	0.60-2.66	1.24-3.31	3.02-5.10	0.56-0.65	–	–	3.11-6.11	0.90
Long-term loans and bonds	0.49-5.05	1.11-6.25	4.37-5.94	1.89	0.22-5.05	2.55-6.25	4.86-5.94	1.41
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

Interest Cover and Gearing Ratios

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



* Calculated using adjusted underlying operating profit which excludes the effect of the large non-cash item in 2010, namely the remeasurement gain on the previously held interest in HAECO (HK\$2,547 million).



	2010	2009 (Restated)
Gearing ratio*		
Per accounts	19.7%	18.7%
Underlying	19.3%	18.2%
Interest cover – times*		
Per accounts	27.0	23.1
Underlying	10.2	8.0
Cash interest cover – times*		
Per accounts	21.8	18.0
Underlying	8.3	6.3

* Refer to Glossary on page 196 for definition.

Covenants and Credit Triggers

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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 limits	2010	2009 (Restated)
Gearing			
Consolidated borrowed money*/adjusted consolidated net worth*	≤ 200%	19.7%	18.7%
Secured consolidated borrowed money/adjusted consolidated net worth	≤ 100%	0.1%	0.2%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth*	≥ 20,000	204,616	169,349

* Refer to Glossary on page 196 for definition.

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

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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 benefits to other stakeholders, and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of its various 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 2010 and 31st December 2009 were as follows:

	2010 HK\$M	2009 HK\$M (Restated)
Perpetual capital securities	2,332	2,326
Borrowings net of security deposits	42,910	31,796
Total borrowings	45,242	34,122
Less:		
Short-term deposits and bank balances (excluding security deposits)	(4,010)	(2,395)
Certain available-for-sale investments	(51)	(46)
	(4,061)	(2,441)
Net debt	41,181	31,681
Total equity	209,051	169,725
Gearing ratio	19.7%	18.7%

The increase in the gearing ratio during 2010 principally reflects the effect of the increase in net debt which more than offset the effects of net investment property valuation gains and non-recurring gains.

Key Credit Ratios

The table below sets out those credit ratios of the Group which are commonly assessed when determining credit ratings:

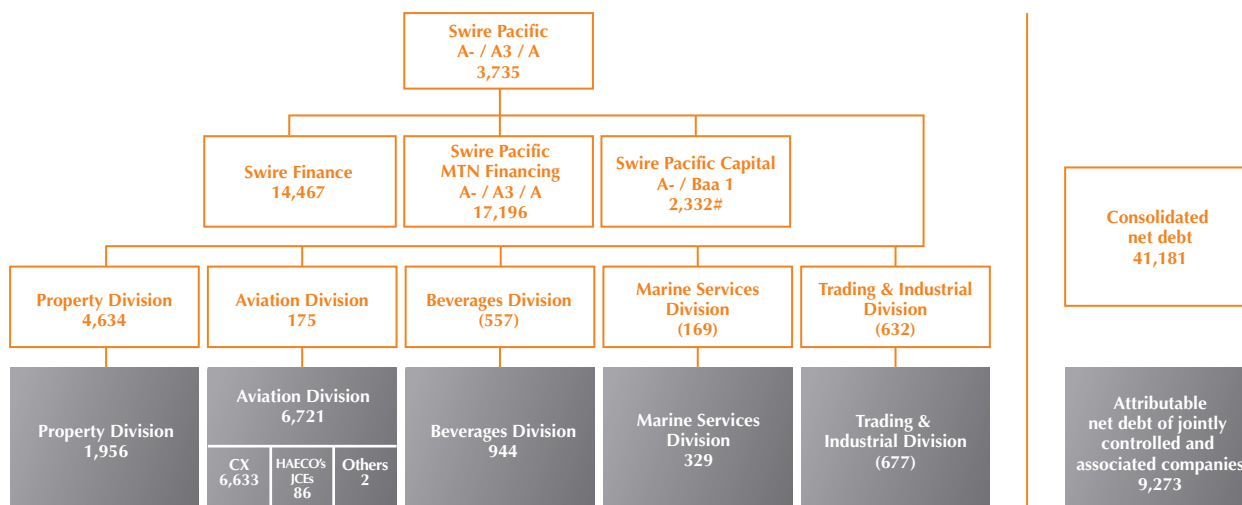
	Note	2006 (Restated)	2007 (Restated)	2008 (Restated)	2009 (Restated)	2010
Operating margin	1,5					
– per accounts		126.2%	126.7%	40.4%	90.9%	120.9%
– underlying		38.6%	37.1%	39.7%	34.0%	48.6%
EBIT/net interest expenses	2,4,5					
– per accounts		36.8	31.5	8.2	18.7	22.8
– underlying		13.1	10.2	8.1	7.0	9.3
FFO + net finance charges/net interest expenses	3,4					
– per accounts		12.5	10.0	8.2	7.2	6.1
FFO/net debt	3					
– per accounts		69.5%	38.3%	33.2%	24.4%	19.9%
Net debt/total equity plus net debt						
– per accounts		8.6%	12.9%	16.8%	15.7%	16.5%
Property rental income/net interest expenses	4	5.4	5.0	4.1	5.0	4.1

Notes:

- 1 Operating margin = Operating profit before depreciation and amortisation/turnover.
- 2 EBIT = Operating profit plus dividends received from jointly controlled and associated companies.
- 3 FFO (Funds from operations) = Operating profit (excluding profit or loss on sale of investment properties and property, plant and equipment) less net finance charges less change in fair value of investment properties less tax paid less non-recurring items plus depreciation and amortisation plus dividends from jointly controlled companies and associated companies plus non-cash items.
- 4 Net interest expenses include capitalised interest.
- 5 Underlying credit ratios are calculated by adjusting for the impact of HKAS 40 on investment properties.

Attributable Net Debt

The chart below illustrates, by entity, the Group's attributable net debt and undertakings given to third parties (in HK\$M):



Represents US\$300 million perpetual capital securities.

Debt in Jointly Controlled 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 jointly controlled and associated companies. These companies had the following net debt positions at the end of 2010 and 2009:

	Total net debt/(cash) of jointly controlled and associated companies		Portion of net debt/(cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M	2010 HK\$M	2009 HK\$M
Property Division	4,332	4,123	1,956	1,181	481	486
Aviation Division						
Cathay Pacific group	15,436	26,131	6,633	10,967	–	–
HAECO group	403	143	86	75	–	–
Hactl	–	724	–	145	–	–
Other Aviation Division companies	5	7	2	4	–	–
Beverages Division	2,521	1,389	944	442	–	–
Marine Services Division	659	802	329	401	500	500
Trading & Industrial Division	(1,792)	(2,284)	(677)	(883)	–	–
	21,564	31,035	9,273	12,332	981	986

If the attributable portion of the net debt in jointly controlled and associated companies were to be added to the Group's net debt, gearing would rise to 24.1% and underlying gearing would rise to 23.7%.

Attributable Profit Correlation

Swire Pacific's attributable profits comprise earnings from a diverse range of businesses. An analysis of the degree of correlation between these earnings over the last ten years has been carried out. The correlation table below illustrates that most of the attributable profits received from different businesses are not strongly correlated. This demonstrates the relative stability of the earnings for the Group as a whole.

	Property Division	Aviation Division	Marine Services Division	Beverages and Trading & Industrial Divisions	Divisions combined, excluding Property Division
Underlying attributable profit 2010* (HK\$M)	4,862	5,529	791	1,126	7,446
Correlation coefficient:					
Property Division	1.000	0.333	0.403	0.692	0.497
Aviation Division	0.333	1.000	-0.370	0.283	0.959
Marine Services Division	0.403	-0.370	1.000	0.540	-0.102
Beverages and Trading & Industrial Divisions	0.692	0.283	0.540	1.000	0.511
Divisions combined, excluding Property Division	0.497	0.959	-0.102	0.511	1.000

* The underlying attributable profit has been adjusted to remove the impact of disposals of interests in subsidiary and jointly controlled companies.

Correlation key: 1 Highly correlated; 0 Uncorrelated; -1 Highly negatively correlated.