

HONGKONG LAND HOLDINGS LIMITED

Preliminary Financial Statements

for the year ended 31st December 2008

Highlights

- Underlying earnings per share up 9% to US¢16.41
- Commercial property net rental income up 29%
- US\$140 million provision against value of Singapore residential developments
- Capital values of investment properties down 4% on the year

- Results

	2008	2007	Change
	US\$m	US\$m	%
Underlying profit attributable to shareholders †	375	345	9
(Loss)/profit attributable to shareholders	(109)	2,840	n/m
Shareholders' funds	11,313	11,833	(4)
Adjusted shareholders' funds *	13,308	14,041	(5)
Net debt	2,601	2,431	7
	US¢	US¢	%
Underlying earnings per share	16.41	15.02	9
(Loss)/earnings per share	(4.79)	123.72	n/m
Dividends per share	13.00	13.00	-
	US\$	US\$	%
Net asset value per share	5.03	5.16	(3)
Adjusted net asset value per share*	5.92	6.12	(3)

† The Group uses 'underlying business performance' in its internal financial reporting to distinguish between the underlying profits and non-trading items, as more fully described in Note 1(s) to the financial statements. Management considers this to be a key measure and has provided this analysis as additional information in order to provide greater understanding of the Group's underlying business performance.

* In preparing the Group's financial statements under International Financial Reporting Standards ('IFRS'), the fair value model for investment properties has been adopted. In accordance with this model, the Group's leasehold investment properties have been included at their open market value as determined by independent valuers. In the territories where the Group has significant leasehold investment properties, no capital gains tax would be payable on the sale of these properties. In relation to leasehold investment properties, however, IFRS require deferred tax on any revaluation amount to be calculated using income tax rates. This is in contrast to the treatment for the revaluation element of freehold properties where IFRS require capital gains tax rates to be used.

As Management considers that the Group's long leasehold properties have very similar characteristics to freehold property, the adjusted shareholders' funds and adjusted net asset value per share information is presented on the basis that would be applicable if the leasehold properties were freehold. The adjustments made add back the deferred tax provided in the financial statements that would not be payable if the properties were sold. See Note 25 to the financial statements.

HONGKONG LAND HOLDINGS LIMITED

Consolidated Profit and Loss Account

for the year ended 31st December 2008

	Note	2008			2007		
		Underlying business performance	Non- trading items	Total	Underlying business performance	Non- trading items	Total
		US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Revenue	5	1,022.3	-	1,022.3	933.2	-	933.2
Cost of sales	6	(574.3)	-	(574.3)	(442.2)	-	(442.2)
Gross profit		448.0	-	448.0	491.0	-	491.0
Other income		0.8	-	0.8	0.6	-	0.6
Administrative and other expenses		(53.0)	-	(53.0)	(52.2)	-	(52.2)
		395.8	-	395.8	439.4	-	439.4
(Decrease)/increase in fair value of investment properties	12	-	(698.9)	(698.9)	-	2,588.9	2,588.9
Asset impairment provisions, reversals and disposals	12	-	1.8	1.8	-	9.4	9.4
Operating (loss)/profit	7	395.8	(697.1)	(301.3)	439.4	2,598.3	3,037.7
Financing charges		(116.3)	-	(116.3)	(138.5)	-	(138.5)
Financing income		71.8	-	71.8	88.5	-	88.5
Net financing charges	8	(44.5)	-	(44.5)	(50.0)	-	(50.0)
Share of results of joint ventures	9	81.3	(16.4)	64.9	24.0	362.6	386.6
(Loss)/profit before tax		432.6	(713.5)	(280.9)	413.4	2,960.9	3,374.3
Tax	10	(81.1)	228.6	147.5	(56.2)	(463.2)	(519.4)
(Loss)/profit after tax		351.5	(484.9)	(133.4)	357.2	2,497.7	2,854.9
Attributable to:							
Shareholders of the Company		375.1	(484.5)	(109.4)	344.7	2,494.9	2,839.6
Minority interests		(23.6)	(0.4)	(24.0)	12.5	2.8	15.3
		351.5	(484.9)	(133.4)	357.2	2,497.7	2,854.9
				US¢			US¢
(Loss)/earnings per share	11						
- basic				(4.79)			123.72
- diluted				(4.79)			119.18

Consolidated Balance Sheet

at 31st December 2008

	Note	2008 US\$m	2007 US\$m
Net operating assets			
Tangible assets	13		
Investment properties		13,702.7	14,260.6
Others		14.8	12.3
		13,717.5	14,272.9
Joint ventures	14	1,797.5	1,653.9
Other investments	15	-	17.5
Deferred tax assets	16	4.5	2.6
Pension assets	17	6.1	17.3
Non-current debtors	19	101.9	36.7
Non-current assets		15,627.5	16,000.9
Properties for sale	18	838.9	895.0
Current debtors	19	289.2	414.2
Bank balances	20	1,119.0	1,104.0
Current assets		2,247.1	2,413.2
Current creditors	21	(668.8)	(659.2)
Current borrowings	22	(95.4)	(140.9)
Current tax liabilities		(58.2)	(43.2)
Current liabilities		(822.4)	(843.3)
Net current assets		1,424.7	1,569.9
Long-term borrowings	22	(3,624.1)	(3,393.9)
Deferred tax liabilities	16	(1,992.9)	(2,207.2)
Non-current creditors	21	(26.8)	(12.6)
		11,408.4	11,957.1
Total equity			
Share capital	23	224.9	229.5
Revenue and other reserves	24	11,088.4	11,603.5
Shareholders' funds		11,313.3	11,833.0
Minority interests		95.1	124.1
		11,408.4	11,957.1

Approved by the Board of Directors on 5th March 2009

A J L Nightingale

Y K Pang

Directors

Consolidated Statement of Recognised Income and Expense

for the year ended 31st December 2008

	2008	2007
	US\$m	US\$m
Net exchange translation differences	72.3	33.1
Actuarial (losses)/gains on defined benefit pension plans	(12.1)	2.8
Gains on revaluation of other investments	-	1.4
(Losses)/gains on cash flow hedges	(0.6)	7.1
Tax credit/(charge) on items taken directly to equity	3.8	(1.3)
	<hr/>	<hr/>
Net income recognised directly in equity	63.4	43.1
Revaluation gains of other investments transferred to consolidated profit and loss account	(6.1)	-
Transfer to consolidated profit and loss account in respect of cash flow hedges	(3.6)	5.5
(Loss)/profit after tax	(133.4)	2,854.9
	<hr/>	<hr/>
Total recognised income and expense for the year	(79.7)	2,903.5
	<hr/>	<hr/>
Attributable to:		
Shareholders of the Company	(55.7)	2,888.2
Minority interests	(24.0)	15.3
	<hr/>	<hr/>
	(79.7)	2,903.5
	<hr/>	<hr/>

Consolidated Cash Flow Statement

for the year ended 31st December 2008

	<i>Note</i>	2008 US\$m	2007 US\$m
Operating activities			
Operating (loss)/profit		(301.3)	3,037.7
Depreciation	7	1.7	0.9
Provision on properties for sale		180.2	-
Decrease/(increase) in fair value of investment properties		698.9	(2,588.9)
Asset impairment provisions, reversals and disposals		(1.8)	(9.4)
Increase in properties for sale		(159.9)	(59.2)
Decrease/(increase) in debtors, prepayments and others		159.0	(197.9)
Increase in creditors and accruals		6.6	279.9
Interest received		68.8	88.8
Interest and other financing charges paid		(109.3)	(126.7)
Tax paid		(62.3)	(32.0)
Dividends received		50.4	11.1
Cash flows from operating activities		531.0	404.3
Investing activities			
Major renovations expenditure		(29.8)	(22.2)
Developments capital expenditure		(15.0)	(23.5)
Investments in and loans to joint ventures		(111.5)	(316.8)
Disposal of joint ventures and other investments		-	7.6
Disposal of investment and other properties		-	188.9
Cash flows from investing activities		(156.3)	(166.0)
Financing activities			
Drawdown of bank loans		391.5	407.5
Repayment of bank loans		(291.4)	(454.0)
Repurchase of shares		(119.7)	-
Capital contribution from minority shareholders		2.0	-
Dividends paid by the Company		(343.1)	(251.1)
Dividends paid to minority shareholders		(6.3)	(3.6)
Cash flows from financing activities		(367.0)	(301.2)
Effect of exchange rate changes		6.5	2.1
Net increase/(decrease) in cash and cash equivalents		14.2	(60.8)
Cash and cash equivalents at 1st January		1,102.9	1,163.7
Cash and cash equivalents at 31st December	27	1,117.1	1,102.9

Notes to the Financial Statements

1 Principal accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and Interpretations adopted by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Interpretations effective in 2008 which are relevant to the Group's operations

IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' provides guidance on whether share-based payment transactions involving treasury shares or involving entities within a group should be accounted for as equity-settled or cash-settled share-based transactions in the separate financial statements of the entities.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset under a defined benefit plan. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

The adoption of the above interpretations do not have a material impact on the Group's financial statements.

Standards, amendments and interpretations effective after 2008 which are relevant to the Group's operations but will have no material impact on the Group's accounting policies

IAS 23 'Borrowing Costs' (effective from 1st January 2009) supersedes IAS 23 (as revised in 1993) and requires the capitalisation of borrowing costs relating to qualifying assets.

Amendments to IFRS 2 'Vesting Conditions and Cancellations' (effective from 1st January 2009) restrict vesting conditions to service conditions and performance conditions, and specify that a failure to meet a non-vesting condition, whether by the entity or by the counterparty, should be treated as a cancellation.

IAS 16 (Amendment) 'Property, Plant and Equipment' and the consequential amendment to IAS 7 'Statement of Cash Flows' (effective from 1st January 2009) is part of the 2008 improvement project. It specifies that entities whose ordinary activities include renting and subsequently selling the same items of property, plant and equipment should recognise revenue from both renting and selling the assets. The cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

IAS 19 (Amendment) 'Employee Benefits' (effective from 1st January 2009) is part of the 2008 improvement project. It clarifies the distinction between curtailments and negative past service costs under a defined benefit plan.

IAS 38 (Amendment) 'Intangible Assets' (effective from 1st January 2009) is part of the 2008 improvement project. It clarifies that expenditure on advertising and other promotional activities must be recognised in the period in which the entity obtains the right to access the advertising or promotional material.

Amendment to IAS 39 'Eligible Hedged Items' (effective from 1st July 2009) clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRIC 15 'Agreements for the Construction of Real Estate' (effective from 1st January 2009) provides guidance in determining whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue'.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective from 1st October 2008) addresses the nature of the hedged risk and amount of the hedged item for which a hedging relationship may be designated in the consolidated financial statements of a parent entity.

IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective from 1st July 2009) requires that a non-cash dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. The dividend should be measured at the fair value of the net assets to be distributed. Any difference between the dividend paid and the carrying amount of the net assets distributed should be included in profit or loss.

1 Principal accounting policies continued

Standards, amendments and interpretations effective after 2008 which are relevant to the Group's operations and yet to be adopted

IFRS 3 'Business Combinations' (effective from 1st July 2009), which replaces IFRS 3 (as issued in 2004) and the related amendment to IAS 27 'Consolidated and Separate Financial Statements' (effective from 1st July 2009) provide guidance for applying the acquisition method for business combinations. The major changes from the existing standards include: the immediate expensing of all acquisition costs, the inclusion in the cost of acquisition of the fair value at acquisition date of any contingent purchase consideration, the removal of the requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating goodwill, and changes in a parent's ownership interest in a subsidiary that do not result in the loss of control should be accounted for as equity transactions. The Group will apply IFRS 3 and IAS 27 (as amended in 2008) from 1st January 2010 and will revise its accounting policy on business combinations accordingly.

IFRS 8 'Operating Segments' (effective from 1st January 2009) supersedes IAS 14 'Segment Reporting' and requires the reporting of financial and descriptive information about an entity's reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group will apply IFRS 8 from 1st January 2009. There will be no change in the Group's reportable segments as they are consistent with the internal reporting provided to management.

IAS 1 'Presentation of Financial Statements' (effective from 1st January 2009) replaces IAS 1 (as revised in 2003 and amended in 2005) and sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group will apply IAS 1 from 1st January 2009.

Amendments to IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective from 1st January 2009) remove the definition of the cost method from IAS 27 and allow an entity to recognise a dividend from subsidiary, jointly controlled entity or associate in profit and loss in its separate financial statements when its right to receive the dividend is established. The Group will apply amendments to IFRS 1 and IAS 27 from 1st January 2009. There will be no impact on the consolidated financial statements as the changes only affect the separate financial statements of the investing entity.

IFRS 5 (Amendment) 'Non-current Assets Held for Sale and Discontinued Operations' (effective from 1st July 2009) is part of the 2008 improvement project. It specifies that if a sale plan involving loss of control of a subsidiary meets the held-for-sale criteria, the assets and liabilities of the subsidiary should be reclassified and accounted for as a disposal group in accordance with IFRS 5. The Group will apply the amendment from 1st January 2010 and only the disclosure and presentation of financial information will be affected.

IAS 40 (Amendment) 'Investment Property' (effective from 1st January 2009) is part of the 2008 improvement project. It requires property that is being constructed or developed for future use as investment property should be classified as investment property. The Group will apply the amendment from 1st January 2009, but it is not expected to have any significant impact on the results of the Group.

IFRIC 13 'Customer Loyalty Programmes' (effective from 1st July 2008) addresses the accounting by entities that grant loyalty award credits to customers who buy goods or services. It requires that the consideration receivable from the customer is allocated between the separately identifiable components of the sale transaction using fair values. The Group will apply IFRIC 13 from 1st January 2009, but it is not expected to have any significant impact on the results of the Group.

The principal operating subsidiaries and joint ventures have different functional currencies in line with the economic environments of the locations in which they operate. The functional currency of the Company is United States Dollars. The consolidated financial statements are presented in United States Dollars.

The Group's reportable segments are set out in Note 4.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and joint ventures on the basis set out below.

Notes to the Financial Statements

1 Principal accounting policies continued

i) Subsidiaries

Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included or excluded from their effective dates of acquisition or disposal respectively.

All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

Minority interests represent the proportion of the results and net assets of subsidiaries and their joint ventures not attributable to the Group.

ii) Joint ventures

Joint ventures are entities where the Group has a contractual arrangement with third parties to undertake an economic activity which is subject to joint control.

Joint ventures are included on the equity basis of accounting. The results of joint ventures are included or excluded from their effective dates of acquisition or disposal respectively.

iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or joint venture at the effective date of acquisition, and, in respect of an increase in holding in subsidiary, the excess of the cost of acquisition over the carrying amount of the proportion of the minority interests acquired. If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interest acquired, the difference is recognised directly in the consolidated profit and loss account. Goodwill on acquisitions of joint ventures is included in investment in joint ventures. Goodwill is allocated to cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment losses.

The profit or loss on disposal of subsidiaries and joint ventures includes the carrying amount of goodwill relating to the entity sold.

(c) Foreign currencies

Transactions in foreign currencies are accounted for at the exchange rates ruling at the transaction dates.

Assets and liabilities of subsidiaries and joint ventures together with all other monetary assets and liabilities expressed in currencies other than United States Dollars are translated into United States Dollars at the rates of exchange ruling at the year end. Results expressed in currencies other than United States Dollars are translated into United States Dollars at the average rates of exchange ruling during the year, which approximates the exchange rates at the dates of the transactions.

Exchange differences arising from the retranslation of the net investment in foreign subsidiaries and joint ventures, and of financial instruments which are designated as hedges of such investments, are taken directly to exchange reserve. On the disposal of these investments, such exchange differences are recognised in the consolidated profit and loss account as part of the profit or loss on disposal. Exchange differences on available-for-sale investments are dealt with in reserves as part of the gains and losses arising from changes in their fair value. All other exchange differences are dealt with in the consolidated profit and loss account.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1st January 2003 are treated as assets and liabilities of the foreign entity and translated into United States Dollars at the rate of exchange ruling at the year end.

(d) Impairment

Assets that have indefinite useful lives are not subject to amortisation, and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the units may be impaired. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flow.

1 Principal accounting policies continued

(e) Properties

i) Investment properties

Investment properties are properties held for long-term rental yields. Properties under operating leases which are held for long-term rental yields are classified and accounted for as investment properties. Investment properties are carried in the balance sheet at fair value, representing open market value determined annually by independent qualified valuers who have relevant experience in the location and category of the investment property being valued. The market value of each property is calculated on the net income allowing for reversionary potential. Changes in fair values are recorded in the consolidated profit and loss account.

The cost of maintenance, repairs and minor equipment is charged to income as incurred; the cost of major renovations and improvements is capitalised.

ii) Properties for sale

Properties for sale are stated at the lower of cost and net realisable value.

iii) Other properties

Other properties are stated at cost after deduction of depreciation set out in (g) below and provisions for impairment.

(f) Investments

Investments are classified by management as available for sale or held to maturity on initial recognition. Available-for-sale investments are shown at fair value. Gains and losses arising from changes in the fair value are dealt with in reserves. On the disposal of an investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in reserves is included in the consolidated profit and loss account. Held-to-maturity investments are shown at amortised cost. Investments are classified under non-current assets unless their maturities are within twelve months after the balance sheet date.

At each balance sheet date, the Group assesses whether there is objective evidence that an investment is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

Results of investments are included to the extent of dividends received when the right to receive such dividend is established.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the investments.

(g) Depreciation

Depreciation of tangible fixed assets is calculated on the straight line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The principal rates in use are as follows:

Building	2%
Other assets	10 – 33 1/3%

When the carrying amount of a tangible fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The profit or loss on disposal of tangible fixed assets is recognised by reference to their carrying amount.

(h) Debtors

Debtors are measured at amortised cost using the effective interest method except where the effect of discounting would be immaterial. Provision for impairment is established when there is objective evidence that the outstanding amounts will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the debtor is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated profit and loss account.

Notes to the Financial Statements

1 Principal accounting policies continued

Debtors with maturities greater than twelve months after the balance sheet date are classified under non-current assets.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise deposits with bank and financial institutions, and bank balances, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current borrowings.

(j) Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligations can be made.

(k) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated either at amortised cost using the effective yield method or adjusted for fair value when accounting for fair value hedges set out in (o) below applies.

On the issue of convertible bonds, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond; this amount is included in long-term borrowings on the amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' funds.

Borrowings are classified under non-current liabilities unless their maturities are within twelve months after the balance sheet date.

Borrowing costs relating to major development projects are capitalised until the asset is substantially completed. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. Capitalised borrowing costs are included as part of the cost of the asset. All other borrowing costs are expensed as incurred.

(l) Deferred tax

Deferred tax is provided, using the liability method, in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values.

Provision for deferred tax is made on the revaluation of certain non-current assets and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Deferred tax is provided on temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the near future. Deferred tax assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

(m) Employee pension obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in trustee administered funds.

1 Principal accounting policies continued

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the costs of providing pensions are charged to the consolidated profit and loss account spreading the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who carry out a full valuation of major plans every year. The pension obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability. Plan assets are measured at fair value. Actuarial gains and losses are recognised in full in the year in which they occur, outside the consolidated profit and loss account, in the consolidated statement of recognised income and expense.

The Group's total contributions to the defined contribution plans are charged to the consolidated profit and loss account in the year to which they relate.

(n) Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of a forecast transaction or of the foreign currency risk on a firm commitment (cash flow hedge), or a hedge of net investment in foreign entities.

i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the consolidated profit and loss account, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to the consolidated profit and loss account over the residual period to maturity.

ii) Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in the hedging reserve. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in the hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in the hedging reserve are transferred to the consolidated profit and loss account and classified as income or expense in the same periods during which the hedged firm commitment or forecast transaction affects the consolidated profit and loss account.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserve at that time remains in hedging reserve and is recognised when the committed or forecast transaction ultimately is recognised in the consolidated profit and loss account. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserve is immediately transferred to the consolidated profit and loss account.

iii) Hedges of net investments in foreign entities

Hedges of net investments in foreign entities are accounted for on a similar basis to that used for cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in exchange reserve; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the consolidated profit and loss account.

The fair values of derivatives, which are designated and qualify as effective hedges are classified as non-current assets or liabilities if the remaining maturities of the hedged assets or liabilities are greater than twelve months after the balance sheet date.

Notes to the Financial Statements

1 Principal accounting policies continued

(o) Financial guarantee contracts

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts. Provisions are recognised when it is probable that the Group has obligations under such guarantees and an outflow of resources embodying economic benefits will be required to settle the obligations.

(p) Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Receipts under operating leases are accounted for on an accrual basis over the lease terms. Revenue from the sale of properties is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the properties are delivered to customers. Revenue from the rendering of services is recognised when services are performed, provided that the amount can be measured reliably.

(r) Pre-operating costs

Pre-operating costs are expensed as they are incurred.

(s) Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading items include fair value gains or losses on revaluation of investment properties; gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

(t) Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders and on the weighted average number of shares in issue during the year. For the purpose of calculating diluted earnings per share, profit attributable to shareholders is adjusted for the effects of the conversion of dilutive potential ordinary shares, and the weighted average number of shares is adjusted for the number of shares which are deemed to be issued on the conversion of convertible bonds into ordinary shares.

2 Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury function co-ordinates, under the directions of the Board of Hongkong Land Limited, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates, and to minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps, caps and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the consolidated profit and loss account. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2008 are disclosed in Note 28.

i) Market risk

Foreign exchange risk

Entities within the Group are exposed to foreign exchange risk from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Group companies are required to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions entities in the Group use forward foreign exchange contracts in a consistent manner to hedge firm and anticipated foreign exchange commitments. The Group does not usually hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile and the hedging is cost effective. Foreign currency borrowings are required to be swapped into the entity's functional currency using cross currency swaps except where the foreign currency borrowings are repaid with cash flows generated in the same foreign currency. The purpose of these hedges is to mitigate the impact of movements in foreign exchange rates on assets and liabilities and the profit and loss account of the Group. At 31st December 2008, there are no significant monetary balances held by group companies that are denominated in a non-functional currency. Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency, differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through the use of derivative financial instruments such as interest rate swaps and caps. The Group monitors interest rate exposure on a monthly basis by currency and business unit taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain between 40% and 60% of its gross borrowings and bank balances in fixed rate instruments. At 31st December 2008, 51% of the Group's debt (2007: 48%) was hedged into fixed rate with an average fixed rate tenor of 2.5 years (2007: 3.2 years). 37% of the Group's cash (2007: 40%) was held in fixed rate with tenor of 1.2 years (2007: 1.6 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in Note 22.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. Borrowings at floating rates therefore expose the Group to cash flow interest rate risk. The Group manages this risk by using forward rate agreements to a maturity of one year, and by entering into interest rate swaps and caps for a maturity of up to five years. Forward rate agreements and interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate, and caps provide protection against a rise in floating rates above a pre-determined rates.

Fair value interest rate risk is the risk that the value of a financial asset or liability and derivative financial instrument will fluctuate because of changes in market interest rates. The Group manages its fair value interest rate risk by entering into interest rate swaps which have the economic effect of converting borrowings from fixed rate to floating rate.

Notes to the Financial Statements

2 Financial Risk Management continued

At 31st December 2008, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US\$2 million (2007: US\$1 million) higher/lower and hedging reserve would have been US\$12 million (2007: US\$9 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant variation in the sensitivity analysis as a result of interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong and Singapore rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in fair value caused by interest rate movements balance out in the profit and loss account against changes in the fair value of the hedged item. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

ii) Credit risk

The Group's credit risk is primarily attributable to deposits with banks, credit exposures to customers and derivative financial instruments with a positive fair value. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings, capital adequacy ratios, and limiting the aggregate risk to any individual counterparty. The utilisation of credit limits is regularly monitored. At 31st December 2008, deposits with banks amounted to US\$1,119 million (2007: US\$1,104 million), of which 100% (2007: 100%) were made to financial institutions with credit ratings of no less than A3 (Moody's). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

In respect of credit exposures to customers, the Group has policies in place to ensure that investment properties are let principally to corporate companies with an appropriate credit history. Rental deposits in the form of cash or bank guarantee are usually received from tenants. The Group normally receives progress payments from sales of residential properties to individual customers prior to the completion of transactions. In the event of default by customers, Group companies undertake legal proceedings to recover the property. Amounts due from joint ventures are generally supported by the underlying assets.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group's exposure to credit risk arising from debtors is set out in Note 19 and totals US\$81 million (2007: US\$179 million). The Group's exposure to credit risk arising from exposure to derivative financial instruments with a positive fair value is disclosed in Note 19 as a component of other debtors and totals US\$110 million (2007: US\$36 million). The Group's exposure to credit risk arising from bank deposits is set out in Note 20 and totals US\$1,119 million (2007: US\$1,104 million).

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash, ensuring the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition long-term cash flows are projected to assist with the Group's long-term debt financing plans.

At 31st December 2008, total available borrowing facilities amounted to US\$4,953 million (2007: US\$4,786 million) of which US\$3,720 million (2007: US\$3,535 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled US\$994 million (2007: US\$1,111 million).

An ageing analysis of the Group's financial liabilities based on the remaining period at the balance sheet to the contractual maturity dates is included in Notes 21, 22 and 28.

2 Financial Risk Management continued

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst seeking to maximise benefits to shareholders and other stakeholders. Capital is equity as shown in the consolidated balance sheet plus net debt.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, purchase Group shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by total adjusted equity which excludes deferred tax provisions on revaluation surplus of investment properties. Net debt is calculated as total borrowings less bank balances. Interest cover is calculated as underlying business performance divided by net financing charges. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2007 and 2008 are as follows:

	<u>2008</u>	<u>2007</u>
Gearing ratio	19%	17%
Interest cover	10.7	9.3

The increase in gearing ratio as at 31st December 2008 is largely a result of lower investment properties valuations. The increase in interest cover for the year then ended as compared to 2007 is primarily due to strong cash flows generated by Group companies.

(c) Fair value estimation

The fair values of current debtors, bank balances, current creditors and current borrowings are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are based on market prices or are estimated using the expected future payments discounted at market interest rates.

The fair values of interest rate swaps and caps are calculated by reference to the present value of the estimated future cash flows, taking into account current interest rates as observed from the market. The fair value of forward foreign exchange contracts is determined using forward exchange market rates of the same remaining tenor at the balance sheet date.

3 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

i) Investment properties

The fair values of investment properties are determined annually by independent qualified valuers on an open market for existing use basis calculated on the net income allowing for reversionary potential.

In making the judgement, considerations have been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Notes to the Financial Statements

3 Critical accounting estimates and judgements continued

ii) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

As required by IFRS, provision for deferred tax is made on the revaluation of investment properties held under operating leases on the basis that their values would be recovered through use rather than through sale.

iv) Impairment of assets

The Group tests annually whether goodwill suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on the higher of its fair value less costs to sell and its value-in-use, calculated on the basis of management's assumptions and estimates. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value-in-use calculations.

In determining when an investment is other-than-temporarily impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

v) Acquisition of subsidiaries and joint ventures

The initial accounting on the acquisition of subsidiaries and joint ventures involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entity. The fair values of investment properties and development properties held for sale are determined by independent qualified valuers by reference to market prices or present value of expected net cash flows from the assets. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

vi) Non-trading items

The Group uses underlying business performance in its internal financial reporting to distinguish between the underlying profits and non-trading items. The identification of non-trading items requires judgement by management.

4 Segmental information

The Group's principal business activity is property, comprising investment, management and development for long-term investment and trading in Asia with a major portfolio in Hong Kong. Accordingly, its primary segment reporting format is by business segments.

	Revenue		Operating (loss)/profit		Underlying profit attributable to shareholders		Capital expenditure		Segment assets		Segment liabilities	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
By business												
Commercial property	676.2	535.6	(156.2)	3,008.4	570.5	438.0	44.5	36.4	13,775.4	14,374.1	(229.1)	(186.0)
Residential property	346.1	397.6	(101.7)	71.5	0.7	73.7	0.4	0.3	1,048.4	1,207.4	(350.1)	(407.5)
	1,022.3	933.2	(257.9)	3,079.9	571.2	511.7	44.9	36.7	14,823.8	15,581.5	(579.2)	(593.5)
Corporate, net financing charges and tax	-	-	(43.4)	(42.2)	(196.1)	(167.0)	3.9	1.6	-	-	-	-
	1,022.3	933.2	(301.3)	3,037.7	375.1	344.7	48.8	38.3	14,823.8	15,581.5	(579.2)	(593.5)
By geographical location												
Greater China	648.7	517.8	(167.4)	2,781.0	590.5	424.1	47.0	37.5	13,358.3	13,867.0	(277.6)	(285.6)
Southeast Asia and others	373.6	415.4	(90.5)	298.9	(19.3)	87.6	1.8	0.8	1,465.5	1,714.5	(301.6)	(307.9)
	1,022.3	933.2	(257.9)	3,079.9	571.2	511.7	48.8	38.3	14,823.8	15,581.5	(579.2)	(593.5)
Corporate, net financing charges and tax	-	-	(43.4)	(42.2)	(196.1)	(167.0)	-	-	-	-	-	-
	1,022.3	933.2	(301.3)	3,037.7	375.1	344.7	48.8	38.3	14,823.8	15,581.5	(579.2)	(593.5)
Operating (loss)/profit			(301.3)	3,037.7					14,823.8	15,581.5	(579.2)	(593.5)
Results of joint ventures			64.9	386.6					1,797.5	1,653.9	-	-
Net financing charges and tax			103.0	(569.4)					1,253.3	1,178.7	(5,887.0)	(5,863.5)
(Loss)/profit after tax			(133.4)	2,854.9					17,874.6	18,414.1	(6,466.2)	(6,457.0)

Capital expenditure comprises additions of intangible assets, tangible assets and investment properties, including those arising from acquisition of subsidiaries.

Unallocated assets and liabilities include tax assets and liabilities, bank balances and borrowings.

Greater China includes Hong Kong, Macau, Mainland China and Taiwan.

Notes to the Financial Statements

5 Revenue

	2008	2007
	US\$m	US\$m
Rental income	574.1	440.5
Service income	104.6	97.7
Sales of trading properties	343.6	395.0
	<u>1,022.3</u>	<u>933.2</u>

Service income includes service and management charges and hospitality service income.

Total contingent rents included in rental income amounted to US\$7.8 million (2007: US\$7.1 million).

	2008	2007
	US\$m	US\$m
The future minimum rental payments receivable under non-cancellable leases are as follows:		
Within one year	550.9	443.8
Between one and two years	371.2	295.7
Between two and five years	240.1	173.3
Beyond five years	13.4	24.5
	<u>1,175.6</u>	<u>937.3</u>

Generally the Group's operating leases are for terms of three years or more.

6 Cost of sales

	2008	2007
	US\$m	US\$m
Investment properties' direct operating expenses	136.0	115.9
Cost of properties sold	438.3	326.3
	<u>574.3</u>	<u>442.2</u>

Included in cost of properties sold was US\$180.2 million write-down on development properties held for sales.

Notes to the Financial Statements

7 Operating profit

	2008	2007
	US\$m	US\$m
	<u> </u>	<u> </u>
The following items have been charged/(credited) in arriving at operating profit:		
Depreciation of tangible assets (see Note 13)	1.7	0.9
Staff costs		
- salaries and benefits in kind	59.2	60.4
- defined contribution pension plan	2.0	1.9
- defined benefit pension plan (see Note 17)	(0.4)	(0.2)
	60.8	62.1
	<u> </u>	<u> </u>

The number of employees at 31st December 2008 was 1,086 (2007: 1,053).

8 Net financing charges

	2008	2007
	US\$m	US\$m
	<u> </u>	<u> </u>
Interest expenses		
Bank loans and overdrafts	(51.1)	(59.7)
Other borrowings	(74.5)	(88.0)
	<u> </u>	<u> </u>
Total interest expenses	(125.6)	(147.7)
Interest capitalised	12.4	13.8
	<u> </u>	<u> </u>
	(113.2)	(133.9)
Commitment and other fees	(3.1)	(4.6)
	<u> </u>	<u> </u>
Financing charges	(116.3)	(138.5)
Financing income	71.8	88.5
	<u> </u>	<u> </u>
	(44.5)	(50.0)
	<u> </u>	<u> </u>

Financing charges and financing income are stated after taking into account hedging gains or losses.

9 Share of results of joint ventures

	2008	2007
	US\$m	US\$m
By business		
Commercial property	17.8	6.5
Residential property	63.5	17.5
	81.3	24.0
(Decrease)/increase in fair value of investment properties		
- Commercial property	(9.8)	352.8
- Residential property	(6.3)	9.0
	(16.1)	361.8
Asset impairment provisions, reversals and disposals	(0.3)	0.8
	64.9	386.6

Results are shown after tax and minority interests. The share of revenue of joint ventures was US\$362.3 million (2007: US\$128.7 million).

10 Tax

	2008	2007
	US\$m	US\$m
Current tax	(79.7)	(49.8)
Deferred tax		
- changes in fair value of investment properties	228.6	(463.2)
- other temporary differences	(1.4)	(6.4)
	227.2	(469.6)
	147.5	(519.4)
Reconciliation between tax credit/(expense) and tax at the applicable tax rate		
Tax at applicable tax rate	60.9	(521.7)
Change in Hong Kong profits tax rate	123.6	-
Changes in fair value of investment properties not (deductible)/taxable in determining taxable profit	(1.8)	0.8
Asset impairment provisions, reversals and disposals not taxable in determining taxable profit	0.6	1.7
Expenses not deductible in determining taxable profit	(39.3)	(4.3)
Other income not subject to tax	2.9	2.3
Utilisation of previously unrecognised tax losses	1.1	0.6
Overprovision in prior years	0.5	1.5
Losses not recognised	(1.0)	(0.3)
	147.5	(519.4)

The applicable tax rate for the year was 17.6% (2007: 17.5%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The increase in the applicable tax rate is caused by a change in the profitability of the Group's subsidiaries in the respective territories.

Share of tax of joint ventures of US\$18.6 million (2007: US\$90.5 million) are included in share of results of joint ventures.

Notes to the Financial Statements

11 Earnings per share

Basic loss/earnings per share are calculated on loss attributable to shareholders of US\$109.4 million (2007: profit of US\$2,839.6 million) and on the weighted average number of 2,285.9 million (2007: 2,295.2 million) shares in issue during the year.

Diluted loss/earnings per share are calculated on loss attributable to shareholders of US\$89.3 million (2007: profit of US\$2,859.3 million), which is after adjusting for the effects of the conversion of convertible bonds, and on the weighted average number of 2,389.8 million (2007: 2,399.1 million) shares in issue during the year. The weighted average number of shares for basic and diluted loss/earnings per share is reconciled as follows:

	Ordinary shares in millions	
	2008	2007
Weighted average number of shares in issue	2,285.9	2,295.2
Adjustment for shares to be issued on conversion of convertible bonds	103.9	103.9
Weighted average number of shares for diluted earnings per share calculation	2,389.8	2,399.1

Earnings per share are additionally calculated based on underlying profit attributable to shareholders. The difference between underlying profit attributable to shareholders and (loss)/profit attributable to shareholders is reconciled as follows:

	2008			2007		
	Basic earnings per share		Diluted earnings per share	Basic earnings per share		Diluted earnings per share
	US\$m	US¢	US¢	US\$m	US¢	US¢
Underlying profit attributable to shareholders	375.1	16.41		344.7	15.02	
Non-trading items (see Note 12)	(484.5)			2,494.9		
(Loss)/profit attributable to shareholders	(109.4)	(4.79)		2,839.6	123.72	
Interest expense on convertible bonds (net of tax)	20.1			19.7		
(Loss)/profit for calculation of diluted earnings per share	(89.3)	(4.79)		2,859.3		119.18

12 Non-trading items

	2008	2007
	US\$m	US\$m
Revaluation (deficits)/surpluses of investment properties	(698.9)	2,588.9
Deferred tax credit/(charges) on revaluation deficits/surpluses of investment properties	228.6	(463.2)
Share of revaluation (deficits)/surpluses of investment properties of joint ventures (net of deferred tax)	(16.1)	361.8
Asset impairment provisions, reversals and disposals	1.8	9.4
Share of (loss)/gain on asset disposals of joint ventures	(0.3)	0.8
Minority interests	0.4	(2.8)
	(484.5)	2,494.9

13 Tangible assets

	Investment properties US\$m	Other properties US\$m	Other assets US\$m	Total US\$m
2008				
Cost or valuation	14,260.6	10.5	11.9	14,283.0
Cumulative depreciation	-	(2.4)	(7.7)	(10.1)
Net book value at 1st January	14,260.6	8.1	4.2	14,272.9
Exchange rate adjustments	96.5	-	-	96.5
Additions	44.5	0.4	3.9	48.8
Depreciation	-	(0.2)	(1.5)	(1.7)
Disposals	-	-	(0.1)	(0.1)
Net revaluation deficit	(698.9)	-	-	(698.9)
Net book value at 31st December	13,702.7	8.3	6.5	13,717.5
Cost or valuation	13,702.7	10.9	15.3	13,728.9
Cumulative depreciation	-	(2.6)	(8.8)	(11.4)
	13,702.7	8.3	6.5	13,717.5
2007				
Cost or valuation	11,650.7	11.9	11.0	11,673.6
Cumulative depreciation	-	(2.8)	(7.0)	(9.8)
Net book value at 1st January	11,650.7	9.1	4.0	11,663.8
Exchange rate adjustments	(4.2)	-	0.1	(4.1)
Additions	35.9	0.2	2.2	38.3
Depreciation	-	(0.1)	(0.8)	(0.9)
Disposals	(10.7)	(1.1)	(1.3)	(13.1)
Net revaluation surplus	2,588.9	-	-	2,588.9
Net book value at 31st December	14,260.6	8.1	4.2	14,272.9
Cost or valuation	14,260.6	10.5	11.9	14,283.0
Cumulative depreciation	-	(2.4)	(7.7)	(10.1)
	14,260.6	8.1	4.2	14,272.9

The Group's investment properties were revalued at 31st December 2008 by independent qualified valuers. As a result, a net deficit of US\$698.9 million (2007: surplus of US\$2,588.9 million) has been taken to the consolidated profit and loss account.

All the Group's investment properties in Hong Kong and Singapore are held under leases with unexpired lease terms of more than 20 years except for The Hong Kong Club Building in Hong Kong, which is held under a sub-lease. Details concerning the Group's investment properties are set out on page [].

Notes to the Financial Statements

14 Joint ventures

	2008	2007
	US\$m	US\$m
Share of unlisted joint ventures' net assets	1,769.4	1,625.6
Goodwill on acquisition	28.1	28.3
	<u>1,797.5</u>	<u>1,653.9</u>

The Group's share of assets, liabilities, capital commitments and contingent liabilities of joint ventures are summarised below:

Tangible assets	1,159.0	1,027.0
Other non-current assets	43.4	15.7
Current assets	1,441.1	1,420.0
Current liabilities	(523.5)	(488.5)
Non-current liabilities	(350.5)	(347.8)
Minority interests	(0.1)	(0.8)
	<u>1,769.4</u>	<u>1,625.6</u>
Capital commitments	283.9	272.0
Contingent liabilities	43.7	54.4

15 Other investments

	2008	2007
	US\$m	US\$m
Unlisted equity	-	17.5

The Group's other investments were available-for-sale financial assets and were shown at fair value by reference to the underlying investments.

16 Deferred tax assets and liabilities

	Tax losses US\$m	Accelerated capital allowances US\$m	Revaluation surpluses of investment properties US\$m	Other temporary differences US\$m	Total US\$m
2008					
At 1st January	0.1	(33.0)	(2,168.2)	(3.5)	(2,204.6)
Exchange rate adjustments	-	(0.2)	(14.2)	(0.4)	(14.8)
Credited to equity	-	-	-	3.8	3.8
(Charged)/credited to the consolidated profit and loss account	(0.1)	(2.7)	228.6	1.4	227.2
At 31st December	-	(35.9)	(1,953.8)	1.3	(1,988.4)
Deferred tax assets	-	1.1	-	3.4	4.5
Deferred tax liabilities	-	(37.0)	(1,953.8)	(2.1)	(1,992.9)
	-	(35.9)	(1,953.8)	1.3	(1,988.4)
2007					
At 1st January	0.5	(29.3)	(1,708.1)	(2.2)	(1,739.1)
Exchange rate adjustments	-	2.5	3.1	(0.2)	5.4
Charged to equity	-	-	-	(1.3)	(1.3)
(Charged)/credited to the consolidated profit and loss account	(0.4)	(6.2)	(463.2)	0.2	(469.6)
At 31st December	0.1	(33.0)	(2,168.2)	(3.5)	(2,204.6)
Deferred tax assets	0.1	1.2	-	1.3	2.6
Deferred tax liabilities	-	(34.2)	(2,168.2)	(4.8)	(2,207.2)
	0.1	(33.0)	(2,168.2)	(3.5)	(2,204.6)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

Deferred tax assets of US\$2.2 million (2007: US\$2.5 million) arising from unused tax losses of US\$12.8 million (2007: US\$13.9 million) have not been recognised in the financial statements. Unused tax losses have no expiry date.

Notes to the Financial Statements

17 Pension plans

The Group has a number of defined benefit pension plans, covering all the main territories in which it operates with the major plans relating to employees in Hong Kong. Most of the pension plans are final salary defined benefit plans and are funded. The assets of the plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent qualified actuaries annually using the projected unit credit method.

The principal actuarial assumptions used for accounting purposes at 31st December are as follows:

	2008	2007
	Weighted average	Weighted average
	%	%
Discount rate applied to pension obligations	6.0	4.9
Expected return on plan assets	7.5	7.5
Future salary increases	5.0	5.0

The expected return on plan assets is determined on the basis of long-term average returns on global equities of 6.5% to 10.0% per annum and global bonds of 3.5% to 6.0% per annum, and the long-term benchmark allocation of assets between equities and bonds in the plan.

The amounts recognised in the consolidated profit and loss account are as follows:

	2008	2007
	US\$m	US\$m
Current service cost	1.5	1.5
Interest cost	1.0	0.8
Expected return on plan assets	(2.9)	(2.5)
Income recognised	(0.4)	(0.2)
Actual return on plan assets in the year	(11.7)	5.0

The above amounts are all recognised in arriving at operating profit and are included in cost of sales and administrative expenses.

17 Pension plans continued

The amounts recognised in the consolidated balance sheet are as follows:

	2008 US\$m	2007 US\$m
Fair value of plan assets	25.1	38.2
Present value of pension obligations	(19.0)	(20.9)
Pension assets	6.1	17.3

Movements in the fair value of plan assets:

At 1st January	38.2	33.2
Exchange differences	0.1	-
Expected return	2.9	2.5
Contributions	0.5	0.5
Benefits paid	(2.1)	(0.5)
Actuarial (losses)/gains	(14.5)	2.5
At 31st December	25.1	38.2

Movements in the present value of pension obligations:

At 1st January	20.9	19.3
Exchange difference	0.1	-
Interest cost	1.0	0.8
Current service cost	1.5	1.5
Benefits paid	(2.1)	(0.5)
Actuarial gains	(2.4)	(0.2)
At 31st December	19.0	20.9

The analysis of the plan assets at 31st December are as follows:

	2008 %	Fair value of assets	2007 %
Equity instruments	45		62
Debt instruments	27		19
Other assets	28		19
	100		100

It is estimated that the Group will make contributions of US\$0.5 million to the pension plan in 2009.

Notes to the Financial Statements

17 Pension plans continued

The five year history of experience adjustments is as follows:

	2008	2007	2006	2005	2004
	US\$m	US\$m	US\$m	US\$m	US\$m
Fair value of plan assets	25.1	38.2	33.2	29.1	26.8
Present value of pension obligations	(19.0)	(20.9)	(19.3)	(18.3)	(17.1)
Surplus	6.1	17.3	13.9	10.8	9.7
Experience adjustments on plan assets	(14.5)	2.5	3.4	1.1	1.9
Percentage of plan assets (%)	58	7	10	4	7
Experience adjustments on pension obligations	-	(0.1)	-	0.3	0.8
Percentage of pension obligations (%)	-	-	-	2	5

18 Properties for sale

	2008	2007
	US\$m	US\$m
Properties under development		
- land and development costs	955.1	818.9
- interest and other expenses capitalised	64.0	76.1
	1,019.1	895.0
Provision	(180.2)	-
	838.9	895.0

At 31st December 2008, properties for sale of US\$296.6 million (2007: US\$325.8 million) were pledged as security for borrowing of US\$258.9 million (2007: US\$182.8 million) as shown in Note 22.

19 Debtors

	2008	2007
	US\$m	US\$m
Trade debtors	80.6	178.6
Other debtors		
- third parties	217.3	164.7
- joint ventures	93.2	107.6
	391.1	450.9
Non-current	101.9	36.7
Current	289.2	414.2
	391.1	450.9
By geographical area of operation		
Greater China	214.0	134.0
Southeast Asia and others	177.1	316.9
	391.1	450.9
Fair value		
Trade debtors	80.6	178.6
Other debtors	310.5	272.3
	391.1	450.9

At 31st December 2008 and 2007, no trade debtors were impaired.

At 31st December 2008, trade debtors of US\$7.8 million (2007: US\$7.6 million) were past due but not impaired. The ageing analysis of these trade debtors is as follows:

	2008	2007
	US\$m	US\$m
Below 30 days	5.7	6.4
Between 31 and 60 days	1.6	1.0
Between 61 and 90 days	0.3	0.1
Over 90 days	0.2	0.1
	7.8	7.6

The risk of trade debtors that are neither past due nor impaired at 31st December 2008 becoming impaired is low as most of the balances have been settled subsequent to the year end.

Other debtors are further analysed as follows:

	2008	2007
	US\$m	US\$m
Prepayments	65.4	76.3
Interest rate swaps, cross currency swaps and forward foreign exchange contracts	109.6	36.1
Amounts due from joint ventures	93.2	107.6
Others	42.3	52.3
	310.5	272.3

The amounts due from joint ventures are repayable on demand.

Notes to the Financial Statements

20 Bank balances

	2008 US\$m	2007 US\$m
By geographical area of operation		
Greater China	39.4	58.5
Southeast Asia and others	1,079.6	1,045.5
	1,119.0	1,104.0

Bank balances of certain subsidiaries amounting to US\$58.3 million (2007: US\$73.0 million) are held under the Housing Developers (Project Account) Rules in Singapore, withdrawals from which are subject to the provision of these Rules.

The weighted average fixed interest rate on bank balances of US\$415.0 million (2007: US\$445.0 million) is 4.7% (2007: 5.1%) per annum.

21 Creditors

	2008 US\$m	2007 US\$m
Trade creditors	202.2	202.3
Amounts due to joint ventures	23.9	35.7
Tenants' deposits	139.1	115.6
Others	56.8	50.9
	422.0	404.5
Rent received in advance	7.4	4.5
Progress billings received	249.3	256.5
Derivative financial instruments	16.9	6.3
	695.6	671.8
Non-current	26.8	12.6
Current	668.8	659.2
	695.6	671.8
By geographical area of operation		
Greater China	367.7	338.6
Southeast Asia and others	327.9	333.2
	695.6	671.8

The remaining contractual maturities of creditors, excluding rent received in advance, progress billings received and derivative financial instruments, are analysed as follows:

Within one year	257.2	232.3
Between one and two years	95.9	33.4
Between two and five years	50.1	125.8
Beyond five years	18.8	13.0
	422.0	404.5

The fair value of creditors approximate their carrying amounts.

22 Borrowings

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	US\$m	US\$m	US\$m	US\$m
Current				
Bank overdrafts	1.9	1.9	1.1	1.1
Short-term borrowings	9.0	9.0	94.7	94.7
Current portion of long-term borrowings	84.5	84.5	45.1	45.1
	95.4	95.4	140.9	140.9
Long-term borrowings				
Bank loans	1,587.8	1,587.8	1,442.2	1,442.2
7% United States Dollar bonds due 2011	629.1	652.0	618.3	621.6
5.5% United States Dollar bonds due 2014	555.2	555.2	501.4	501.4
3.01% Singapore Dollar notes due 2010	229.4	229.8	224.2	224.2
3.65% Singapore Dollar notes due 2015	264.2	275.5	258.5	256.5
2.75% United States Dollar convertible bonds due 2012	358.4	355.2	349.3	344.5
	3,624.1	3,655.5	3,393.9	3,390.4
	3,719.5	3,750.9	3,534.8	3,531.3

The fair values are based on market prices or are estimated using the expected future payments discounted at market interest rates ranging from 0.8% to 5.6% (2007: 2.8% to 5.9%) per annum. The fair values of current borrowings approximate their carrying amount, as the impact of discounting is not significant.

	2008	2007
	US\$m	US\$m
Secured	258.9	182.8
Unsecured	3,460.6	3,352.0
	3,719.5	3,534.8

Secured borrowings at 31st December 2008 were certain subsidiaries' bank borrowings which were secured against its properties for sale.

The 7% bonds with nominal value of US\$600 million due on 3rd May 2011 issued by a wholly-owned subsidiary are listed on the Luxembourg Stock Exchange.

The 5.5% bonds with nominal value of US\$500 million due on 28th April 2014 issued by a wholly-owned subsidiary are listed on the Singapore Exchange.

The 3.01% notes due on 4th October 2010 and 3.65% notes due on 5th October 2015 with nominal value of S\$325 million and S\$375 million respectively, were issued by a wholly-owned subsidiary and are listed on the Singapore Exchange.

The 2.75% convertible bonds with nominal value of US\$400 million due on 21st December 2012 are convertible up to and including 11th December 2012 into fully paid ordinary shares of the Company at a conversion price of US\$3.85 per ordinary share, which is subject to adjustment for subdivision or consolidation of shares, bonus issues, right issues and other dilutive events. The fair value of the liability component is calculated using a market interest rate for an equivalent non-convertible bond at the time of issue, and is recorded as long-term borrowings on the amortised cost basis, until extinguished on conversion or maturity of the bonds. The residual amount, representing the value of the equity conversion component determined on issue of the bonds, is included in shareholders' funds.

Notes to the Financial Statements

22 Borrowings continued

The convertible bonds are recognised in the consolidated balance sheet as follows:

	2008	2007
	US\$m	US\$m
Liability component at 1st January	349.3	340.6
Interest expense at effective interest rate	20.1	19.7
Interest expense at coupon rate	(11.0)	(11.0)
Liability component at 31st December	358.4	349.3

The borrowings are further summarised as follows:

	<u>Fixed rate borrowings</u>			Floating rate borrowings	Total
	Weighted average interest rates %	Weighted average period outstanding Years	US\$m		
By currency					
2008					
Hong Kong Dollar	3.6	1.8	900.6	1,091.9	1,992.5
Singapore Dollar	2.4	2.7	651.9	714.0	1,365.9
United States Dollar	5.5	4.0	358.6	2.5	361.1
			1,911.1	1,808.4	3,719.5
2007					
Hong Kong Dollar	4.8	2.1	798.7	1,058.7	1,857.4
Singapore Dollar	3.1	3.7	534.7	790.0	1,324.7
United States Dollar	5.5	5.0	349.3	3.1	352.4
Vietnamese Dong	9.1	-	-	0.3	0.3
			1,682.7	1,852.1	3,534.8

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions.

The remaining contractual maturities of the borrowings, including the contractual interest payments, are analysed as follows:

	2008	2007
	US\$m	US\$m
Within one year	219.7	291.5
Between one and two years	572.3	275.8
Between two and five years	2,545.9	2,404.1
Beyond five years	786.2	1,253.1
	4,124.1	4,224.5

23 Share capital

	Ordinary shares in millions		2008	2007
	2008	2007	US\$m	US\$m
Authorised				
Shares of US\$0.10 each	4,000.0	4,000.0	400.0	400.0
Issued and fully paid				
At 1st January	2,295.2	2,295.2	229.5	229.5
Repurchased and cancelled	(45.9)	-	(4.6)	-
At 31st December	2,249.3	2,295.2	224.9	229.5

In 2008, the Company repurchased 45.9 million ordinary shares from the stock market at a total cost of US\$119.7 million which was dealt with by charging US\$4.6 million to share capital and US\$115.1 million to revenue reserves.

24 Revenue and other reserves

	Revenue reserves	Capital reserves	Hedging reserve	Exchange reserve	Total
	US\$m	US\$m	US\$m	US\$m	US\$m
2008					
At 1st January	11,486.7	63.4	3.8	49.6	11,603.5
Net exchange translation differences					
- amount arising in the year	-	-	-	72.3	72.3
Defined benefit pension plans					
- actuarial losses	(12.1)	-	-	-	(12.1)
- deferred tax	2.2	-	-	-	2.2
Revaluation of other investments					
- transfer to consolidated profit and loss account	(6.1)	-	-	-	(6.1)
Cash flow hedges					
- fair value losses	-	-	(0.6)	-	(0.6)
- transfer to consolidated profit and loss account	-	-	(3.6)	-	(3.6)
- deferred tax	-	-	1.6	-	1.6
Loss attributable to shareholders	(109.4)	-	-	-	(109.4)
Dividends (see Note 26)	(344.3)	-	-	-	(344.3)
Repurchase of ordinary shares	(115.1)	-	-	-	(115.1)
At 31st December	10,901.9	63.4	1.2	121.9	11,088.4
of which:					
Joint ventures	457.0	-	-	2.5	459.5

Notes to the Financial Statements

24 Revenue and other reserves continued

	Revenue reserves US\$m	Capital reserves US\$m	Hedging reserve US\$m	Exchange reserve US\$m	Total US\$m
2007					
At 1st January	8,895.9	63.4	(8.0)	16.5	8,967.8
Net exchange translation differences					
- amount arising in the year	-	-	-	33.1	33.1
Defined benefit pension plans					
- actuarial gains	2.8	-	-	-	2.8
- deferred tax	(0.5)	-	-	-	(0.5)
Revaluation of other investments					
- fair value gains	1.4	-	-	-	1.4
Cash flow hedges					
- fair value gains	-	-	7.1	-	7.1
- transfer to consolidated profit and loss account	-	-	5.5	-	5.5
- deferred tax	-	-	(0.8)	-	(0.8)
Profit attributable to shareholders	2,839.6	-	-	-	2,839.6
Dividends (see Note 26)	(252.5)	-	-	-	(252.5)
At 31st December	11,486.7	63.4	3.8	49.6	11,603.5
of which:					
Joint ventures	459.4	-	-	0.5	459.9

Revenue reserves include actuarial losses on pension plans net of deferred tax of US\$2.7 million (2007: actuarial gains net of deferred tax of US\$7.2 million).

The analysis of the Company's reserves is shown in Note 32.

25 Net asset value per share

Net asset value per share is calculated on shareholders' funds of US\$11,313.3 million (2007: US\$11,833.0 million) and on 2,249.3 million (2007: 2,295.2 million) shares issued at the year end.

Net asset value per share is additionally calculated based on adjusted shareholders' funds. The difference between adjusted shareholders' funds and shareholders' funds is reconciled as follows:

	2008		2007	
	US\$m	Net asset value per share US\$	US\$m	Net asset value per share US\$
Shareholders' funds	11,313.3	5.03	11,833.0	5.16
Deferred tax on revaluation surpluses of investment properties	1,951.7		2,165.4	
Share of deferred tax on revaluation surpluses of investment properties of joint ventures	43.1		42.6	
Adjusted shareholders' funds	13,308.1	5.92	14,041.0	6.12

26 Dividends

	2008	2007
	US\$m	US\$m
Final dividend in respect of 2007 of US¢9.00 (2006: US¢7.00) per share	206.6	160.7
Interim dividend in respect of 2008 of US¢6.00 (2007: US¢4.00) per share	137.7	91.8
	344.3	252.5

A final dividend in respect of 2008 of US¢7.00 (2007: US¢9.00) per share amounting to a total of US\$157.5 million (2007: US\$206.6 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2009.

27 Cash and cash equivalents

	2008	2007
	US\$m	US\$m
Bank balances	1,119.0	1,104.0
Bank overdrafts (see Note 22)	(1.9)	(1.1)
	1,117.1	1,102.9

28 Derivative financial instruments

The fair values of derivative financial instruments at 31st December are as follows:

	2008		2007	
	Positive fair value US\$m	Negative fair value US\$m	Positive fair value US\$m	Negative fair value US\$m
Designated as cash flow hedges				
- interest rate swaps	13.8	16.9	8.2	5.0
- cross currency swaps	7.6	-	10.3	-
Designated as fair value hedges				
- interest rate swaps	7.8	-	-	1.3
- cross currency swaps	78.0	-	16.5	-
Designated as net investment hedges				
- forward foreign exchange contracts	-	-	1.1	-
Not qualified as hedges				
- interest rate swaps	0.1	-	-	-
- cross currency swaps	2.3	-	-	-

Notes to the Financial Statements

28 Derivative financial instruments continued

The remaining contractual maturities of net settled and gross settled derivative financial instruments, based on their undiscounted cash outflows, are analysed as follows:

	Within one year US\$m	Between one and two years US\$m	Between two and five years US\$m	Beyond five years US\$m
2008				
Net settled				
- interest rate swaps and caps	(9.8)	(4.8)	0.3	1.8
Gross settled				
- cross currency swaps	(33.3)	(33.3)	(636.8)	(505.8)
	<u>(43.1)</u>	<u>(38.1)</u>	<u>(636.5)</u>	<u>(504.0)</u>
2007				
Net settled				
- interest rate swaps and caps	(3.3)	(1.3)	0.5	0.9
Gross settled				
- forward foreign exchange contracts	(99.6)	-	-	-
- cross currency swaps	(52.0)	(51.8)	(703.5)	(527.3)
	<u>(154.9)</u>	<u>(53.1)</u>	<u>(703.0)</u>	<u>(526.4)</u>

Forward foreign exchange contracts

There were no outstanding forward foreign exchange contracts at 31st December 2008 (2007: US\$101.4 million).

Interest rate swaps and caps

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2008 were US\$1,491.5 million (2007: US\$1,385.5 million).

At 31st December 2008, the fixed interest rates relating to interest rate swaps and caps vary from 1.90% to 5.16% (2007: 2.59% to 5.25%).

The fair values of interest rate swaps and caps are based on the estimated cash flows discounted at market rates ranging from 0.95% to 1.99% (2007: 2.5% to 4.0%) per annum.

Cross currency swaps

The contract amounts of the outstanding cross currency swap contracts at 31st December 2008 were US\$1,100 million (2007: US\$1,100.0 million).

29 Commitments

	2008	2007
	US\$m	US\$m
Capital commitments		
Authorised not contracted	131.0	445.5
Contracted not provided	24.4	17.5
	155.4	463.0
Contribution to joint ventures	744.4	953.5
Operating lease commitments		
Due within one year	0.7	0.2
Due between one and two years	0.5	0.1
Due between two and three years	0.5	-
Due between three and four years	0.3	-
	2.0	0.3

30 Contingent liabilities

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provisions have been made in the financial statements.

31 Related party transactions

In the normal course of business, the Group has entered into a variety of transactions with the subsidiary undertakings of Jardine Matheson Holdings Limited ("Jardine Matheson group members"). The more significant of these transactions are described below:

Management fee

The management fee payable by the Group, under an agreement entered into in 1995, to Jardine Matheson Limited was US\$1.9 million (2007: US\$1.7 million), being 0.5% per annum of the Group's underlying profit in consideration for management consultancy services provided by Jardine Matheson Limited, a wholly-owned subsidiary of Jardine Matheson Holdings Limited.

Property and other services

The Group rented properties to Jardine Matheson group members. Gross rents on such properties in 2008 amounted to US\$8.2 million (2007: US\$8.0 million).

Jardine Matheson group members provided property maintenance and other services to the Group in 2008 in aggregate amounting to US\$23.2 million (2007: US\$14.9 million).

Hotel management services

Jardine Matheson group members provided hotel management services to the Group in 2008 amounted to US\$0.6 million (2007: US\$0.5 million).

Outstanding balances with joint ventures

Amounts of outstanding balances with joint ventures are included in debtors and creditors as appropriate (see Notes 19 and 21).

Directors' emoluments

Details of Directors' emoluments (being the key management personnel compensation) are shown on page [] under the heading of 'Directors' Appointments, Retirement, Remuneration and Service Contracts'.

Notes to the Financial Statements

32 Summarised balance sheet of the Company

Included below is certain summarised balance sheet information of the Company disclosed in accordance with Bermuda law.

	2008	2007
	US\$m	US\$m
Net operating assets		
Investments at cost		
Unlisted shares in subsidiaries	4,481.7	4,481.6
Net amounts due to subsidiaries	(827.9)	(697.0)
	3,653.8	3,784.6
Creditors and other accruals	(19.2)	(18.7)
	3,634.6	3,765.9
Capital employed		
Share capital (see Note 23)	224.9	229.5
Revenue and other reserves		
Contributed surplus	2,249.6	2,364.7
Revenue reserves	1,160.1	1,171.7
	3,409.7	3,536.4
Shareholders' funds	3,634.6	3,765.9

Subsidiaries are shown at cost less amounts provided.

The contributed surplus was set up on the formation of the Company in 1989 and, under the Bye-Laws of the Company, is distributable.

33 Principal subsidiaries and joint ventures

The principal subsidiaries and joint ventures of the Group at 31st December 2008 are set out below.

	Effective holding %		Issued share capital	Main activities	Country of incorporation
	2008	2007			
Subsidiaries					
Hongkong Land China Holdings Limited	100	100 *	USD 200,000,000	Investment holding	Bermuda
Hongkong Land Limited	100	100 *	USD 12,000	Group management	Bermuda
Hongkong Land International Holdings Limited	100	100 *	USD 200,000,000	Investment holding	Bermuda
The Hongkong Land Company, Limited	100	100	HKD 1,293,180,006	Property investment	Hong Kong
The Hongkong Land Property Company, Limited	100	100	HKD 200	Property investment	Hong Kong
HKL (Chater House) Limited	100	100	HKD 1,500,000	Property investment	Hong Kong
HKL (Esplanade) Pte Limited	100	100	SGD 150,000,000	Property investment	Singapore
HKL (Prince's Building) Limited	100	100	HKD 200	Property investment	Hong Kong
HKL Treasury (Singapore) Pte Limited	100	100	SGD 2	Finance	Singapore
Mulberry Land Company Limited	100	100	HKD 200	Property investment	Hong Kong
The Hongkong Land Finance (Cayman Islands) Company Limited	100	100	USD 2	Finance	Cayman Islands
HKL (Landmark Hotel) Limited	100	100	HKD 2	Hotel investment	Hong Kong
Hongkong Land Credit Limited	100	100	HKD 200	Finance	Hong Kong
HK Glory Properties Limited	100	100	USD 2	Property development	British Virgin Islands
Tong Yan Development Company Limited	100	100	HKD 400	Property development	Hong Kong
Hongkong Land CB (2005) Limited	100	100	USD 2	Finance	British Virgin Islands
The Hongkong Land Treasury Services (Singapore) Pte Limited	100	100	SGD 2	Finance	Singapore
MCL Land Limited (details are shown on pages [] and [])	77.4	77.4	SGD 369,985,977	Property development	Singapore
Reid Street Properties Limited	100	100	USD 400	Property investment	British Virgin Islands
Hongkong Land Singapore (Pte) Ltd	100	100	SGD 100,000	Property management	Singapore

* Owned directly

Notes to the Financial Statements

33 Principal subsidiaries and joint ventures continued

	Effective holding %		Issued share capital		Main activities	Country of incorporation
	2008	2007				
Joint ventures						
Beijing Premium Real Estate Limited	40	40	USD	12,000,000	Property development	Mainland China
Gaysorn Land Company Limited	49	49	THB	61,250,000	Property investments and operations	Thailand
Grosvenor Land Property Fund Limited	21.4	21.4	Ord.USD Pref.USD	28,000 100	Property investment	Bermuda
King Kok Investment Limited	35	35	USD	10,000	Property investment	Mauritius
Normelle Estates Limited	50	50	HKD	10,000	Property investment	Hong Kong
One Raffles Quay Pte Limited	33.33	33.33	SGD	6	Property development	Singapore
P.T. Jakarta Land	50	50	IDR	3,320,000,000	Property development and asset management	Indonesia
Roxas Land Corporation	40	40	Peso	2,442,500,000	Property investment	The Philippines
NorthPine Land Inc	40	40	Peso	1,224,635,200	Property investment	The Philippines
BFC Development Pte Limited	33.33	33.33	SGD	6	Property development	Singapore
Longhu Land Limited	50	50	USD	12,000,000	Property development	Mainland China
Basecity Investments Limited	46.55	46.55	USD	10,000	Property investment	British Virgin Islands
Central Boulevard Development Pte Ltd	33.3	33.3	SGD	6	Property investment	Singapore
Ampang Investments Pte Ltd	40	40	SGD	10	Hotel investment	Singapore
Raise Up Enterprises Ltd	30.3	30.3	USD	10,000	Property investment	British Virgin Islands
MCL Land Limited's subsidiaries and joint ventures						
MCL Land Holdings Pte Ltd	77.4	77.4	SGD	6,000,000	Property investment	Singapore
MCL Land (Property Management) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Serangoon) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Grange) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Richdeal Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Properties) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Superport Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Maxgrowth Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Acecharm Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore

33 Principal subsidiaries and joint ventures continued

	Effective holding %		Issued share capital	Main activities	Country of incorporation	
	2008	2007				
MCL Land Limited's subsidiaries and joint ventures <small>continued</small>						
MCL Land Realty Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land Development Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Prime) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Caseldine Investments Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
Kedron Investments Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Warren) Pte Ltd	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL (Century Gardens) Sdn Bhd (previously known as Century Gardens Sdn Bhd)	77.4	77.4	MYR	6,608,763	Property investment	Malaysia
MCL (Pantai View) Sdn Bhd (previously known as Pantai View Sdn Bhd)	77.4	77.4	MYR	2,000,000	Property investment	Malaysia
Calne Pte Ltd	38.7	38.7	SGD	1,000,000	Property development	Singapore
Grange Development Pte Ltd	41.4	41.4	SGD	1,000,000	Property development	Singapore
Golden Quantum Acres Sdn Bhd	38.7	38.7	MYR	10,764,210	Property development	Malaysia
Sunrise MCL Land Sdn Bhd	38.7	38.7	MYR	2,000,000	Property development	Malaysia
MSL Properties Sdn Bhd (previously known as Landmarks Land & Properties Sdn Bhd)	38.7	38.7	MYR	3,000,000	Property development	Malaysia