

HONGKONG LAND HOLDINGS LIMITED

Preliminary Financial Statements

for the year ended 31st December 2009

2 March 2010

Highlights

- Underlying earnings per share up 111% to a record US¢34.55
- Commercial property net rental income up 19%
- Strong contribution from residential completions
- Capital values of completed investment properties up 6% for the year
- Full year dividend increased by 23% to US¢16.00

Results

	2009	2008	Change
	US\$m	US\$m	%
Underlying profit attributable to shareholders*	777	375	107
Profit/(loss) attributable to shareholders	1,641	-109	n/m
Shareholders' funds	12,756	11,313	13
Adjusted shareholders' funds[†]	14,936	13,308	12
Net debt	2,417	2,601	(7)
	US¢	US¢	%
Underlying earnings per share	34.55	16.41	111
Earnings/(loss) per share	72.96	(4.79)	n/m
Dividends per share	16.00	13.00	23
	US\$	US\$	%
Net asset value per share	5.67	5.03	13
Adjusted net asset value per share[†]	6.64	5.92	12

* 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 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 23 to the financial statements.

HONGKONG LAND HOLDINGS LIMITED

Consolidated Profit and Loss Account

for the year ended 31st December 2009

	Note	2009			2008		
		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	1,322.6	-	1,322.6	1,022.3	-	1,022.3
Net operating costs	6	(508.1)	-	(508.1)	(626.5)	-	(626.5)
		814.5	-	814.5	395.8	-	395.8
Increase/(decrease) in fair value of investment properties	11	-	1,000.6	1,000.6	-	(698.9)	(698.9)
Asset impairment provisions, reversals and disposals	11	-	(8.4)	(8.4)	-	1.8	1.8
Operating profit/(loss)		814.5	992.2	1,806.7	395.8	(697.1)	(301.3)
Financing charges		(110.0)	-	(110.0)	(116.3)	-	(116.3)
Financing income		58.0	-	58.0	71.8	-	71.8
Net financing charges	7	(52.0)	-	(52.0)	(44.5)	-	(44.5)
Share of results of associates and joint ventures	8	177.8	44.6	222.4	81.3	(16.4)	64.9
Profit/(loss) before tax		940.3	1,036.8	1,977.1	432.6	(713.5)	(280.9)
Tax	9	(120.3)	(168.9)	(289.2)	(81.1)	228.6	147.5
Profit/(loss) after tax		820.0	867.9	1,687.9	351.5	(484.9)	(133.4)
Attributable to:							
Shareholders of the Company		777.1	864.0	1,641.1	375.1	(484.5)	(109.4)
Minority interests		42.9	3.9	46.8	(23.6)	(0.4)	(24.0)
		820.0	867.9	1,687.9	351.5	(484.9)	(133.4)
				US¢			US¢
Earnings/(loss) per share	10						
- basic				72.96			(4.79)
- diluted				70.62			(4.79)

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2009

	Note	2009 US\$m	2008 US\$m
Profit/(loss) for the year		1,687.9	(133.4)
Revaluation of properties	12	83.3	-
Revaluation of other investments			
- gains arising during the year		8.5	-
- transfer to profit and loss		-	(6.1)
		8.5	(6.1)
Actuarial gains/(losses) on employee benefit plans		4.0	(12.1)
Net exchange translation differences		16.1	75.5
Cash flow hedges			
- losses arising during the year		(7.1)	(0.6)
- transfer to profit and loss		(1.4)	(3.6)
		(8.5)	(4.2)
Share of other comprehensive income of associates and joint ventures		6.3	(2.2)
Tax relating to components of other comprehensive income		(14.1)	3.8
Other comprehensive income for the year		95.6	54.7
Total comprehensive income for the year		1,783.5	(78.7)
Attributable to:			
Shareholders of the Company		1,735.0	(55.7)
Minority interests		48.5	(23.0)
		1,783.5	(78.7)

Consolidated Balance Sheet

at 31st December 2009

	<i>Note</i>	2009 US\$m	2008 US\$m
Net operating assets			
Tangible assets	12		
Investment properties		14,817.7	13,702.7
Others		3.9	14.8
		14,821.6	13,717.5
Associates and joint ventures	13	2,305.2	1,797.5
Other investments	14	46.4	-
Deferred tax assets	15	3.9	4.5
Pension assets	16	10.0	6.1
Non-current debtors	18	56.7	101.9
Non-current assets		17,243.8	15,627.5
Properties for sale	17	787.1	838.9
Current debtors	18	315.3	289.2
Bank balances	19	1,226.1	1,119.0
Current assets		2,328.5	2,247.1
Current creditors	20	(687.1)	(668.8)
Current borrowings	21	(245.9)	(95.4)
Current tax liabilities		(120.6)	(58.2)
Current liabilities		(1,053.6)	(822.4)
Net current assets		1,274.9	1,424.7
Long-term borrowings	21	(3,397.5)	(3,624.1)
Deferred tax liabilities	15	(2,179.4)	(1,992.9)
Non-current creditors	20	(50.5)	(26.8)
		12,891.3	11,408.4
Total equity			
Share capital	22	224.9	224.9
Revenue and other reserves		12,531.0	11,088.4
Shareholders' funds		12,755.9	11,313.3
Minority interests		135.4	95.1
		12,891.3	11,408.4

Approved by the Board of Directors on 4th March 2010

A J L Nightingale

Y K Pang

Directors

Consolidated Statement of Changes in Equity

for the year ended 31st December 2009

Attributable to shareholders of the Company

	<i>Note</i>	Share capital US\$m	Revenue reserves US\$m	Capital reserves US\$m	Hedging reserves US\$m	Exchange reserves US\$m	Total US\$m	Attributable to minority interests US\$m	Total equity US\$m
2009									
At 1st January		224.9	10,901.9	63.4	1.2	121.9	11,313.3	95.1	11,408.4
Total comprehensive income	12	-	1,723.0	-	(8.6)	20.6	1,735.0	48.5	1,783.5
Dividends paid by the Company	24	-	(292.4)	-	-	-	(292.4)	-	(292.4)
Dividends paid to minority shareholders		-	-	-	-	-	-	(6.0)	(6.0)
New subsidiary		-	-	-	-	-	-	(2.2)	(2.2)
At 31st December		224.9	12,332.5	63.4	(7.4)	142.5	12,755.9	135.4	12,891.3
2008									
At 1st January		229.5	11,486.7	63.4	3.8	49.6	11,833.0	124.1	11,957.1
Total comprehensive income		-	(125.4)	-	(2.6)	72.3	(55.7)	(23.0)	(78.7)
Dividends paid by the Company	24	-	(344.3)	-	-	-	(344.3)	-	(344.3)
Dividends paid to minority shareholders		-	-	-	-	-	-	(6.0)	(6.0)
Repurchase of shares		(4.6)	(115.1)	-	-	-	(119.7)	-	(119.7)
At 31st December		224.9	10,901.9	63.4	1.2	121.9	11,313.3	95.1	11,408.4

Consolidated Cash Flow Statement

for the year ended 31st December 2009

	<i>Note</i>	2009 US\$m	2008 US\$m
Operating activities			
Operating profit/(loss)		1,806.7	(301.3)
Depreciation	6	1.6	1.7
Fixed assets written off		1.5	-
Provision for development properties held for sale	6	-	180.2
(Increase)/decrease in fair value of investment properties		(1,000.6)	698.9
Asset impairment provisions, reversals and disposals		8.4	(1.8)
Decrease/(increase) in properties for sale		152.4	(159.9)
(Increase)/decrease in debtors, prepayments and others		(34.3)	159.0
Increase in creditors and accruals		41.4	6.6
Interest received		62.3	68.8
Interest and other financing charges paid		(94.6)	(109.3)
Tax paid		(53.1)	(62.3)
Dividends from associates and joint ventures		11.6	50.4
Cash flows from operating activities		903.3	531.0
Investing activities			
Major renovations expenditure		(29.5)	(29.8)
Developments capital expenditure		(4.4)	(15.0)
Purchase of a subsidiary	25	(42.0)	-
Investments in and loans to associates and joint ventures		(305.2)	(111.5)
Purchase of other investments		(37.9)	-
Cash flows from investing activities		(419.0)	(156.3)
Financing activities			
Drawdown of borrowings		456.3	391.5
Repayment of borrowings		(541.4)	(291.4)
Repurchase of shares		-	(119.7)
Contribution from minority shareholders		3.8	2.0
Dividends paid by the Company		(292.2)	(343.1)
Dividends paid to minority shareholders		(6.0)	(6.3)
Cash flows from financing activities		(379.5)	(367.0)
Effect of exchange rate changes		3.1	6.5
Net increase in cash and cash equivalents		107.9	14.2
Cash and cash equivalents at 1st January		1,117.1	1,102.9
Cash and cash equivalents at 31st December	26	1,225.0	1,117.1

Notes to the Financial Statements

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards 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.

Standards, amendments and interpretations effective in 2009 which are relevant to the Group's operations

IFRS 8	Operating Segments
IAS1 (revised 2007)	Presentation of Financial Statements
IAS 23 (revised 2007)	Borrowing Costs
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendment to IFRS 2	Vesting Conditions and Cancellations
Amendments to IFRS 7	Improving Disclosures about Financial Instruments
Improvements to IFRSs (2008)	
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

IFRS 8 'Operating Segments' 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. There is no change in the Group's reportable segments from 2008 as they remain consistent with the internal reporting provided to management. No operating segments have been aggregated to form the reportable segments. The Group has also early adopted an amendment to IFRS 8 (effective from 1st January 2010) included in the 2009 improvement project. The amendment clarifies that a measure of total assets should be disclosed in the financial statements only if that amount is regularly provided to management.

IAS 1 (revised 2007) 'Presentation of Financial Statements' 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. Two new primary statements, 'Consolidated Statement of Comprehensive Income' and 'Consolidated Statement of Changes in Equity' have been presented in these financial statements. The former replaces the 'Consolidated Statement of Recognised Income and Expense' presented in the 2008 financial statements. This change in presentation has no effect on reported profit or loss, total income and expense or net assets.

Amendments to IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' 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. There is no impact on the consolidated financial statements as the changes only affect the separate financial statements of the investing entity.

Amendments to IFRS 7 'Improving Disclosures about Financial Instruments' require the disclosure of any change in valuation technique and the reason for that change, introduce a three-level hierarchy for fair value measurement disclosures, and require the disclosure of liquidity risk between non-derivative financial liabilities and derivative financial liabilities.

IAS 36 (Amendment) 'Impairment of Assets' is part of the 2008 improvement project. It provides that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

IAS 40 (Amendment) 'Investment Property' is part of the 2008 improvement project. It requires that property that is being constructed or developed for future use as investment property should be classified as investment property. It also requires that such property to be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property with any gain or loss recognised in profit and loss. This is a change in accounting policy as previously such property was carried at cost until the construction was completed.

IFRIC 13 'Customer Loyalty Programmes' addresses the accounting by entities that grant loyalty award credits to customers who buy goods or services. It requires the allocation of consideration receivable from the customer between the separately identifiable components of the sale transaction using fair values. There is no significant impact on the results of the Group on adoption of this interpretation.

1 Principal accounting policies continued

The adoption of the following standards, amendments and interpretations does not have a material impact on the Group's accounting policies.

IAS 23 (revised 2007) 'Borrowing Costs' supersedes IAS 23 (as revised in 1993) and requires the capitalisation of borrowing costs relating to qualifying assets.

Amendment to IFRS 2 'Vesting Conditions and Cancellations' 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 19 (Amendment) 'Employee Benefits' is part of the 2008 improvement project. It clarifies the distinction between curtailments and negative past service costs under a defined benefit plan.

IAS 23 (Amendment) 'Borrowing Costs' is part of the 2008 improvement project. It amends the definition of borrowing costs such that interest expense is calculated using the effective interest method as defined in IAS 39 'Financial Instruments: Recognition and Measurement'.

IAS 28 (Amendment) 'Investments in Associates' and consequential amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' is part of the 2008 improvement project. It specifies that for the purposes of impairment testing, an investment in associate is treated as a single asset and any impairment loss is not allocated to specific assets included within the investment.

IAS 38 (Amendment) 'Intangible Assets' 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.

IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' is part of the 2008 improvement project. It clarifies that a revised effective interest rate is used when the carrying amount of a debt instrument is remeasured on cessation of fair value hedge accounting.

IFRIC 15 'Agreements for the Construction of Real Estate' 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' 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.

Standards and amendments early adopted by the Group

IFRS 3 (revised 2008)	Business Combinations
IAS 27 (amended 2008)	Consolidated and Separate Financial Statements

IFRS 3 (revised 2008) 'Business Combinations' and the related amendment to IAS 27 'Consolidated and Separate Financial Statements' (both effective prospectively 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-related costs, the inclusion in the cost of acquisition of the fair value at acquisition date of any contingent purchase consideration, the remeasurement of previously held equity interest in the acquiree at fair value in a business combination achieved in stages, and accounting for changes in a parent's ownership interest in a subsidiary that do not result in the loss of control as equity transactions. The early adoption of IFRS 3 (revised 2008) and the related amendment to IAS 27 has resulted in changes in the accounting policies for goodwill and change in attributable interests in subsidiaries. Until 31st December 2008, acquisition-related costs were included in the cost of a business combination; contingent purchase consideration was recognised in goodwill as incurred; the cost of each exchange transaction in a business combination achieved in stages was compared with the fair values of the acquiree's identifiable net assets to determine the amount of goodwill associated with that transaction; the difference between the cost of acquisition and the carrying amount of the proportion of minority interest acquired in respect of an increase in attributable interest in a subsidiary was recognised as goodwill or credited to profit and loss as discount on acquisition, where appropriate; and the difference between the proceeds and the carrying amount of the proportion sold in respect of a decrease in attributable interest in a subsidiary was recognised as profit or loss on disposal. The Group continues to measure minority interest in an acquiree in a business combination at the minority interest's proportionate share of the acquiree's identifiable net assets.

1 Principal accounting policies continued

Standards, amendments and interpretations effective after 2009 which are relevant to the Group's operations and yet to be adopted

IFRS 9 'Financial Instruments' (effective from 1st January 2013) is the first part of a project to replace IAS 39. It addresses the classification and measurement of financial assets. The Group will apply IFRS 9 from 1st January 2013.

IAS 24 'Related Party Disclosures' (effective from 1st January 2011) supersedes IAS 24 (as revised in 2003). It simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group will apply IAS 24 and provide the required disclosure from 1st January 2011.

Amendment to IAS 32 'Classification of Rights Issues' (effective from 1st February 2010) clarifies that rights issues are equity instruments when they are denominated in a currency other than the issuer's functional currency and are issued pro-rata to an entity's existing shareholders for a fixed amount of currency. The Group will apply amendment to IAS 32 from 1st January 2011.

Amendment to IAS 39 'Eligible Hedged Items' (effective from 1st July 2009) gives additional guidance on the designation of a hedged item and how hedged accounting should be applied in particular situations. The Group will apply amendment to IAS 39 from 1st January 2010, but it is not expected to have any significant impact on the results of the Group.

The Improvements to IFRSs (2009) comprise a number of non-urgent but necessary amendments to IFRSs. With the exception of IAS 17 (Amended 2009) 'Leases', adoption of the other amendments is not expected to have any significant impact on the results of the Group.

IAS 17 (Amended) 'Leases' (effective from 1st January 2010) is part of the 2009 improvement project. It specifies that a land lease may be classified as a finance lease when significant risks and rewards associated with the land are transferred to the lessee despite there being no transfer of title at the end of the lease term. The Group will apply this amendment retrospectively from 1st January 2010.

Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement' (effective from 1st January 2011) require an entity to recognise an asset for a prepayment that will reduce future minimum funding contributions required by the entity. The Group will apply amendments to IFRIC 14 from 1st January 2011.

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. The Group will apply IFRIC 17 from 1st January 2010.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective from 1st April 2010) provides guidance on the application of IAS 39 and IAS 32 when an entity issues its own equity instruments to extinguish all or part of a financial liability. The Group will apply IFRIC 19 from 1st January 2011.

The principal operating subsidiaries, associates 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.

Basis of consolidation

- (i) The consolidated financial statements include the financial statements of the Company, its subsidiaries, and its associates and joint ventures.
- (ii) Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition include the fair value at the acquisition date of any contingent consideration. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognised the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognised in profit and loss.

1 Principal accounting policies continued

All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. The cost of and related income arising from shares held in the Company by subsidiaries are eliminated from shareholders' funds and minority interests, and profit respectively.

- (iii) Associates are entities, not being subsidiaries or joint ventures, over which the Group exercises significant influence. Joint ventures are entities which the Group jointly controls with one or more other venturers. Associates and joint ventures are included on the equity basis of accounting.
- (iv) Minority interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.
- (v) The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal respectively. The results of entities other than subsidiaries, associates and joint ventures are included to the extent of dividends received when the right to receive such dividend is established.

Foreign currencies

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

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

Exchange differences arising from the retranslation of the net investment in foreign subsidiaries, associates and joint ventures, and of financial instruments which are designated as hedges of such investments, are recognised in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments which results in the loss of control, such exchange differences are recognised in profit and loss. Exchange differences on available-for-sale investments are recognised in other comprehensive income as part of the gains and losses arising from changes in their fair value. All other exchange differences are recognised in profit and loss.

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.

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. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows. Cash-generating units or groups of 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.

Intangible assets

- (i) 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, associate or joint venture at the effective date of acquisition. Minority interests are measured at their proportionate share of the net identifiable assets at the acquisition date. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in profit and loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investment in associates and joint ventures. Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment loss.

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

- (ii) Land use rights are payments to third parties to acquire long-term interests in owner-occupied property. These payments are stated at cost and are amortised over the useful life of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

Notes to the Financial Statements

1 Principal accounting policies continued

- (iii) Other intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated on the straight line basis to allocate the cost of intangible assets over their estimated useful lives.

Tangible fixed assets and 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 estimated useful lives are as follows:

Buildings	10 – 50 years
Furniture, equipment and motor vehicles	3 – 10 years

Where 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.

Investment properties

Investment properties are 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 at fair value, representing estimated open market value determined annually by independent qualified valuers who have recent experience in the location and category of the investment property being valued. The market value of each property is calculated on the discounted net rental income allowing for reversionary potential. Changes in fair value are recognised in profit and loss.

Investments

- (i) 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 recognised in other comprehensive income. On the disposal of an investment or when an investment is determined to be impaired, the cumulative gain or loss previously deferred in equity is recognised in profit and loss. 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.
- (ii) 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.
- (iii) 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 investment.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Properties for sale

Properties for sale, which comprise land and buildings held for resale, are stated at the lower of cost and net realisable value. The cost of properties for sale comprises land and related development costs.

Debtors

Debtors, excluding derivative financial instruments, are measured at amortised cost 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 amount previously written off are credited to profit and loss.

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

1 Principal accounting policies continued

Cash and cash equivalents

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

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.

Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method.

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 bond. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' funds.

Borrowing costs relating to major development projects are capitalised until the asset is substantially completed. Capitalised borrowing costs are included as part of the cost of the asset. All other borrowing costs are expensed as incurred.

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

Deferred tax

Deferred tax is provided, using the liability method, for 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 value of the net assets acquired and their tax base. Deferred tax is provided on temporary differences associated with investments in subsidiaries, associates 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 foreseeable future. Deferred tax assets relating to the 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.

Employee benefits

Pension obligations

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

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 profit and loss 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 other comprehensive income in the year in which they occur.

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Notes to the Financial Statements

1 Principal accounting policies continued

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 remeasured 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 a net investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recognised in profit and loss, 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 hedged item for which the effective interest method is used is amortised to profit and loss over the residual period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in hedging reserves. 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 hedging reserves are transferred from hedging reserves and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserves are transferred to profit and loss in the same periods during which the hedged firm commitment or forecast transaction affects profit and loss. 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 reserves at that time remains in the hedging reserves and is recognised when the committed or forecast transaction ultimately is recognised in profit and loss. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to profit and loss.

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 profit and loss.

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 reserves; the gain or loss relating to the ineffective portion is recognised immediately in profit and loss.

The fair value 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.

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.

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; acquisition-related costs in business combinations; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

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.

1 Principal accounting policies continued

Dividends

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

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.

- (i) Revenue from sale of properties, is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the properties are delivered to customers.
- (ii) Receipts under operating leases are accounted for on an accrual basis over the lease terms.
- (iii) Revenue from rendering of services is recognised when services are performed, provided that the amount can be measured reliably.

Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.

Notes to the Financial Statements

2 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price 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 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 profit and loss. 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 2009 are disclosed in Note 27.

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 2009, 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. 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 in fixed rate instruments with an average tenor of 2 - 3 years. At 31st December 2009, 52% of the Group's debt (2008: 51%) was hedged into fixed rate with an average fixed rate tenor of 2.8 years (2008: 2.5 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in Note 21.

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 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.

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.

2 Financial Risk Management continued

At 31st December 2009, 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\$5 million (2008: US\$2 million) higher/lower, and hedging reserve would have been US\$17 million (2008: US\$12 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. 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 profit and loss 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.

Price risk

The Group is exposed to securities price risk because of listed investments which are available for sale and held by the Group at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are dealt with in reserves. The performance of the Group's listed available-for-sale investments are monitored regularly, together with an assessment of their relevance to the Group's long term strategic plans. Details of the Group's available-for-sale investments are contained in Note 14.

Available-for-sale investments are unhedged. At 31st December 2009, if the price of listed available-for-sale investments had been 25% higher/lower with all other variables held constant, total equity would have been US\$12 million higher/lower. The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

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 2009, 100% (2008: 100%) of deposits and balances with banks 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 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 associates and 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 18 and totals US\$66 million (2008: US\$81 million). The Group's exposure to credit risk arising from exposure to derivative financial instruments with a positive fair value is disclosed in Note 18 as a component of other debtors and totals US\$64 million (2008: US\$110 million). The Group's exposure to credit risk arising from deposits and balances with banks is set out in Note 19 and totals US\$1,226 million (2008: US\$1,119 million).

Notes to the Financial Statements

2 Financial Risk Management continued

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and 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 2009, total available borrowing facilities amounted to US\$5,291 million (2008: US\$4,953 million) of which US\$3,643 million (2008: US\$3,720 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled US\$1,463 million (2008: US\$994 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 20, 21 and 27.

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 adds back the deferred tax provided for revaluation surplus of investment properties that would not be payable if the properties were sold. 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 2008 and 2009 are as follows:

	<u>2009</u>	<u>2008</u>
Gearing ratio (%)	16	19
Interest cover (times)	19	11

The decrease in gearing ratio at 31st December 2009 is largely a result of higher investment properties valuations. The increase in interest cover for the year then ended as compared to 2008 is primarily due to strong cash flows generated by Group companies.

Fair value estimation

The fair value of listed financial instruments is based on quoted prices in active markets. The quoted market price used for listed investments held by the Group is the current bid price.

The fair values of current debtors, bank balances and other liquid funds, 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 value of interest rate swaps is 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.

Investment properties

The fair values of investment properties are determined annually by independent valuers on an open market for existing use basis calculated on the discounted 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.

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.

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 International Financial Reporting Standards, provision for deferred tax is made on the revaluation of investment properties held under operating leases on the basis that the Group has no intention to sell, and their values would be recovered through use rather than through sale.

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/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.

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.

Notes to the Financial Statements

5 Revenue

	2009	2008
	US\$m	US\$m
Rental income	669.0	574.1
Service income	95.4	104.6
Sales of trading properties	558.2	343.6
	1,322.6	1,022.3

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

Total contingent rents included in rental income amounted to US\$7.5 million (2008: US\$7.8 million).

	2009	2008
	US\$m	US\$m
The future minimum rental payments receivable under non-cancellable leases are as follows:		
Within one year	588.7	550.9
Between one and two years	399.8	371.2
Between two and five years	308.1	240.1
Beyond five years	75.5	13.4
	1,372.1	1,175.6

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

6 Net operating costs

	2009	2008
	US\$m	US\$m
Cost of sales	(437.8)	(574.3)
Other income	2.2	0.8
Administrative expenses	(72.5)	(53.0)
	(508.1)	(626.5)

The following credits/(charges) are included in net operating costs:

Cost of properties for sale recognised as expenses	(318.8)	(258.1)
Direct operating expenses arising from investment properties	(119.0)	(136.0)
Provision for development properties held for sale	-	(180.2)
Depreciation of tangible assets (see Note 12)	(1.6)	(1.7)
Staff costs		
- salaries and benefits in kind	(69.9)	(59.2)
- defined contribution pension plan	(2.3)	(2.0)
- defined benefit pension plan (see Note 16)	(0.5)	0.4
	(72.7)	(60.8)

The number of employees at 31st December 2009 was 1,104 (2008: 1,086).

Notes to the Financial Statements

7 Net financing charges

	2009	2008
	US\$m	US\$m
Interest expenses		
Bank loans and overdrafts	(35.6)	(51.1)
Other borrowings	(67.5)	(74.5)
Total interest expenses	(103.1)	(125.6)
Interest capitalised	8.2	12.4
	(94.9)	(113.2)
Commitment and other fees	(15.1)	(3.1)
Financing charges	(110.0)	(116.3)
Financing income	58.0	71.8
	(52.0)	(44.5)

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

8 Share of results of associates and joint ventures

	2009	2008
	US\$m	US\$m
By business		
Commercial property	14.6	17.8
Residential property	163.2	63.5
	177.8	81.3
Increase/(decrease) in fair value of investment properties		
- Commercial property	49.4	(9.8)
- Residential property	(0.6)	(6.3)
	48.8	(16.1)
Asset impairment provisions, reversals and disposals	(4.2)	(0.3)
	222.4	64.9

Results are shown after tax and minority interests. The share of revenue of associates and joint ventures was US\$538.8 million (2008: US\$362.3 million).

9 Tax

	2009	2008
	US\$m	US\$m
Current tax	(115.0)	(79.7)
Deferred tax		
- changes in fair value of investment properties	(168.9)	228.6
- other temporary differences	(5.3)	(1.4)
	(174.2)	227.2
	(289.2)	147.5

Reconciliation between tax (expense)/credit and tax at the applicable tax rate

Tax at applicable tax rate	(289.4)	60.9
Change in Singapore/Hong Kong profits tax rate	1.8	123.6
Changes in fair value of investment properties not deductible in determining taxable profit	(1.2)	(1.8)
Asset impairment provisions, reversals and disposals not (deductible)/taxable in determining taxable profit	(2.2)	0.6
Expenses not deductible in determining taxable profit	(6.2)	(39.3)
Other income not subject to tax	7.5	2.9
Utilisation of previously unrecognised tax losses	0.4	1.1
Overprovision in prior years	2.4	0.5
Losses not recognised	(0.7)	(1.0)
Deferred tax assets written off	(1.0)	-
Deferred tax liabilities written back	0.4	-
Withholding tax	(1.0)	-
	(289.2)	147.5

Tax relating to components of other comprehensive income is analysed as follows:

Revaluation of tangible assets	(13.3)	-
Pension assets	(0.7)	2.1
Cash flow hedges	(0.1)	1.7
	(14.1)	3.8

The applicable tax rate for the year of 16.5% (2008: 17.6%) represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The decrease 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 associates and joint ventures of US\$47.3 million (2008: US\$18.6 million) are included in share of results of associates and joint ventures.

Notes to the Financial Statements

10 Earnings per share

Basic earnings/loss per share are calculated on profit attributable to shareholders of US\$1,641.1 million (2008: loss of US\$109.4 million) and on the weighted average number of 2,249.3 million (2008: 2,285.9 million) shares in issue during the year.

Diluted earnings/loss per share are calculated on profit attributable to shareholders of US\$1,661.8 million (2008: loss of US\$89.3 million), which is after adjusting for the effects of the conversion of convertible bonds, and on the weighted average number of 2,353.2 million (2008: 2,389.8 million) shares in issue during the year. The weighted average number of shares for basic and diluted earnings/loss per share is reconciled as follows:

	Ordinary shares in millions	
	2009	2008
Weighted average number of shares in issue	2,249.3	2,285.9
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	2,353.2	2,389.8

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

	2009			2008		
	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	777.1	34.55	33.90	375.1	16.41	16.41
Non-trading items (see Note 11)	864.0			(484.5)		
Profit/(loss) attributable to shareholders	1,641.1	72.96		(109.4)	(4.79)	
Interest expense on convertible bonds (net of tax)	20.7			20.1		
Profit/(loss) for calculation of diluted earnings per share	1,661.8	70.62		(89.3)	(4.79)	

11 Non-trading items

	2009	2008
	US\$m	US\$m
Revaluation surpluses/(deficits) of investment properties	1,000.6	(698.9)
Deferred tax (charges)/credit on revaluation surpluses/deficits of investment properties	(168.9)	228.6
Share of revaluation surpluses/(deficits) of investment properties of associates and joint ventures (net of deferred tax)	48.8	(16.1)
Asset impairment provisions, reversals and disposals	(8.4)	1.8
Share of asset impairment provisions, reversals and disposals of associates and joint ventures	(4.2)	(0.3)
Minority interests	(3.9)	0.4
	864.0	(484.5)

12 Tangible assets

	Investment properties US\$m	Other properties US\$m	Other assets US\$m	Total US\$m
2009				
Cost or valuation	13,702.7	10.9	15.3	13,728.9
Cumulative depreciation	-	(2.6)	(8.8)	(11.4)
Net book value at 1st January	13,702.7	8.3	6.5	13,717.5
Exchange rate adjustments	2.6	-	-	2.6
Additions	21.0	0.7	0.4	22.1
Depreciation	-	(0.1)	(1.5)	(1.6)
Written off	-	-	(1.5)	(1.5)
Net revaluation surplus	1,000.6	83.3	-	1,083.9
Transfer	90.8	(92.2)	-	(1.4)
Net book value at 31st December	14,817.7	-	3.9	14,821.6
Cost or valuation	14,817.7	-	13.9	14,831.6
Cumulative depreciation	-	-	(10.0)	(10.0)
	14,817.7	-	3.9	14,821.6
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

The Group's investment properties were revalued at 31st December 2009 by independent qualified valuers. As a result, a surplus of US\$1,000.6 million (2008: deficit of US\$698.9 million) has been taken to the consolidated profit and loss account.

All the Group's investment properties in Hong Kong, Singapore and Vietnam are held under leases with unexpired lease terms of more than 20 years. Details concerning the Group's investment properties are set out on page [].

The other properties revaluation surplus of US\$83.3 million less deferred tax of US\$13.3 million have been taken to asset revaluation reserve which is included in the revenue reserves as at 31st December 2009.

Notes to the Financial Statements

13 Associates and joint ventures

	2009	2008
	US\$m	US\$m
Share of unlisted associates and joint ventures' net assets	2,278.6	1,769.4
Goodwill on acquisition	26.6	28.1
	<u>2,305.2</u>	<u>1,797.5</u>

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

Non-current assets	1,845.2	1,202.4
Current assets	1,193.9	1,441.1
Current liabilities	(454.4)	(523.5)
Non-current liabilities	(303.4)	(350.5)
Minority interests	(2.7)	(0.1)
	<u>2,278.6</u>	<u>1,769.4</u>
Capital commitments	184.1	283.9
Contingent liabilities	42.4	43.7

14 Other investments

	2009	2008
	US\$m	US\$m
Listed securities	46.4	-

The Group's other investments were available-for-sale financial assets and were shown at fair value by reference to quoted prices in active markets.

15 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
2009					
At 1st January	-	(35.9)	(1,953.8)	1.3	(1,988.4)
Exchange rate adjustments	-	-	1.1	0.1	1.2
(Charged)/credited to profit and loss	0.5	(6.0)	(168.9)	0.2	(174.2)
(Charged)/credited to other comprehensive income	-	-	(13.3)	(0.8)	(14.1)
At 31st December	0.5	(41.9)	(2,134.9)	0.8	(2,175.5)
Deferred tax assets	0.5	-	-	3.4	3.9
Deferred tax liabilities	-	(41.9)	(2,134.9)	(2.6)	(2,179.4)
	0.5	(41.9)	(2,134.9)	0.8	(2,175.5)
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)
(Charged)/credited to profit and loss	(0.1)	(2.7)	228.6	1.4	227.2
(Charged)/credited to other comprehensive income	-	-	-	3.8	3.8
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)

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\$2.9 million (2008: US\$2.2 million) arising from unused tax losses of US\$17.2 million (2008: US\$12.8 million) have not been recognised in the financial statements. Unused tax losses have no expiry date.

Notes to the Financial Statements

16 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 actuaries annually using the projected unit credit method.

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

	2009	2008
	Weighted average	Weighted average
	%	%
	<hr/>	<hr/>
Discount rate applied to pension obligations	5.0	6.0
Expected return on plan assets	7.5	7.5
Future salary increases	5.0	5.0
	<hr/>	<hr/>

The expected return on plan assets is determined on the basis of long-term average returns on global equities of 3.8% to 11.3% per annum and global bonds of 2.8% to 4.4% per annum, and the long-term benchmark allocation of assets between equities and bonds in the plan.

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

	2009	2008
	US\$m	US\$m
	<hr/>	<hr/>
Fair value of plan assets	31.4	25.1
Present value of pension obligations	(21.4)	(19.0)
	<hr/>	<hr/>
Pension assets	10.0	6.1
	<hr/>	<hr/>

Movements in the fair value of plan assets:

At 1st January	25.1	38.2
Exchange differences	-	0.1
Expected return	1.9	2.9
Contributions from plan members	0.5	0.5
Benefits paid	(0.4)	(2.1)
Actuarial gains/(losses)	4.3	(14.5)
	<hr/>	<hr/>
At 31st December	31.4	25.1
	<hr/>	<hr/>

16 Pension plans continued

Movements in the present value of pension obligations:

	2009	2008
	US\$m	US\$m
At 1st January	19.0	20.9
Exchange difference	-	0.1
Interest cost	1.1	1.0
Current service cost	1.3	1.5
Benefits paid	(0.4)	(2.1)
Actuarial losses/(gains)	0.4	(2.4)
At 31st December	21.4	19.0

The analysis of the fair value of plan assets at 31st December is as follows:

Equity instruments	14.1	11.3
Debt instruments	9.4	6.7
Other assets	7.9	7.1
	31.4	25.1

The estimated amount of contributions expected to be paid to the plans in 2010 is US\$0.5 million.

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

	2009	2008
	US\$m	US\$m
Current service cost	1.3	1.5
Interest cost	1.1	1.0
Expected return on plan assets	(1.9)	(2.9)
Expense/(income) recognised	0.5	(0.4)
Actual return/(loss) on plan assets in the year	6.2	(11.7)

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

Notes to the Financial Statements

16 Pension plans continued

The five year history of experience adjustments is as follows:

	2009	2008	2007	2006	2005
	US\$m	US\$m	US\$m	US\$m	US\$m
Fair value of plan assets	31.4	25.1	38.2	33.2	29.1
Present value of pension obligations	(21.4)	(19.0)	(20.9)	(19.3)	(18.3)
Surplus	10.0	6.1	17.3	13.9	10.8
Experience adjustments on plan assets	4.3	(14.5)	2.5	3.4	1.1
Percentage of plan assets (%)	14	58	7	10	4
Experience adjustments on pension obligations	1.2	-	(0.1)	-	0.3
Percentage of pension obligations (%)	6	-	-	-	2

17 Properties for sale

	2009	2008
	US\$m	US\$m
Properties under development		
- land and development costs	832.6	955.1
- interest and other expenses capitalised	42.3	64.0
	874.9	1,019.1
Provision	(184.9)	(180.2)
	690.0	838.9
Completed properties	97.1	-
	787.1	838.9

At 31st December 2009, properties for sale of US\$289.9 million (2008: US\$296.6 million) were pledged as security for borrowings of US\$99.7 million (2008: US\$258.9 million) as shown in Note 21.

18 Debtors

	2009	2008
	US\$m	US\$m
Trade debtors	65.7	80.6
Other debtors		
- third parties	185.7	217.3
- associates and joint ventures	120.6	93.2
	372.0	391.1
Non-current	56.7	101.9
Current	315.3	289.2
	372.0	391.1

18 Debtors continued

	2009	2008
	US\$m	US\$m
By geographical area of operation		
Greater China	211.6	214.0
Southeast Asia and others	160.4	177.1
	372.0	391.1
Fair value		
Trade debtors	65.7	80.6
Other debtors	306.3	310.5
	372.0	391.1

An allowance for impairment of trade debtors is made based on the estimated irrecoverable amount. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment are considered indicators that the debtor is impaired.

At 31st December 2009, trade debtors of US\$0.5 million (2008: Nil) were impaired and fully provided.

At 31st December 2009, trade debtors of US\$4.4 million (2008: US\$7.8 million) were past due but not impaired. The ageing analysis of these trade debtors is as follows:

	2009	2008
	US\$m	US\$m
Below 30 days	3.4	5.7
Between 31 and 60 days	0.6	1.6
Between 61 and 90 days	0.2	0.3
Over 90 days	0.2	0.2
	4.4	7.8

The risk of trade debtors that are neither past due nor impaired at 31st December 2009 becoming impaired is low as most of the balances have been settled subsequent to the year end.

Other debtors are further analysed as follows:

	2009	2008
	US\$m	US\$m
Prepayments	85.6	65.4
Derivative financial instruments	64.0	109.6
Amounts due from associates and joint ventures	120.6	93.2
Others	36.1	42.3
	306.3	310.5

The fair value of debtors other than derivative financial instruments approximates their carrying amount, as the impact of discounting is not significant. Derivative financial instruments are stated at fair value which is calculated by reference to quoted prices in active markets.

The amounts due from associates and joint ventures are repayable on demand.

Notes to the Financial Statements

19 Bank balances

	2009 US\$m	2008 US\$m
By geographical area of operation		
Greater China	61.9	39.4
Southeast Asia and others	1,164.2	1,079.6
	1,226.1	1,119.0

Bank balances of certain subsidiaries amounting to US\$53.8 million (2008: US\$58.3 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 interest rate on bank balances of US\$1,194.0 million (2008: US\$1,078.1 million) is 0.3% (2008: 1.9%) per annum.

20 Creditors

	2009 US\$m	2008 US\$m
Trade creditors	193.6	202.2
Amounts due to associates and joint ventures	81.7	23.9
Tenants' deposits	149.0	139.1
Other creditors	68.8	56.8
Derivative financial instruments	18.5	16.9
Financial liabilities	511.6	438.9
Rent received in advance	7.5	7.4
Progress billings received	218.5	249.3
	737.6	695.6
Non-current	50.5	26.8
Current	687.1	668.8
	737.6	695.6
By geographical area of operation		
Greater China	432.4	367.7
Southeast Asia and others	305.2	327.9
	737.6	695.6

The remaining contractual maturities of financial liabilities other than derivative financial instruments are analysed as follows:

Within one year	355.0	257.2
Between one and two years	62.2	95.9
Between two and five years	58.5	50.1
Beyond five years	17.4	18.8
	493.1	422.0

Derivative financial instruments are stated at fair value which is calculated by reference to quoted prices in active market. Other creditors are stated at amortised cost. The fair value of these creditors approximates their carrying amounts.

21 Borrowings

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	US\$m	US\$m	US\$m	US\$m
Current				
Bank overdrafts	1.1	1.1	1.9	1.9
Bank loans	-	-	9.0	9.0
Current portion of long-term borrowings				
- Bank loans	10.5	10.5	84.5	84.5
- 3.01% Singapore Dollar notes due 2010	234.3	234.5	-	-
	245.9	246.1	95.4	95.4
Long-term				
Bank loans	1,405.2	1,405.2	1,587.8	1,587.8
7% United States Dollar bonds due 2011	619.1	635.2	629.1	652.0
5.5% United States Dollar bonds due 2014	537.0	537.0	555.2	555.2
3.01% Singapore Dollar notes due 2010	-	-	229.4	229.8
3.65% Singapore Dollar notes due 2015	268.9	274.7	264.2	275.5
2.75% United States Dollar convertible bonds due 2012	368.1	385.0	358.4	355.2
Medium term notes	199.2	194.5	-	-
	3,397.5	3,431.6	3,624.1	3,655.5
	3,643.4	3,677.7	3,719.5	3,750.9

The fair values are based on market prices or are estimated using the expected future payments discounted at market interest rates ranging from 0.4% to 3.7% (2008: 0.8% to 5.6%) per annum. The fair values of current borrowings approximate their carrying amount, as the impact of discounting is not significant.

	2009	2008
	US\$m	US\$m
Secured	99.7	258.9
Unsecured	3,543.7	3,460.6
	3,643.4	3,719.5

Secured borrowings at 31st December 2009 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

21 Borrowings continued

During the year, the Group issued the following notes under the US\$3,000 million medium term note programme:

The 4.135% 10-year notes with nominal value of HK\$200 million due on 17th September 2019
 The 4.1875% 10-year notes with nominal value of HK\$300 million due 23rd October 2019
 The 4.25% 10-year notes with nominal value of HK\$300 million due 25th November 2019
 The 4.28% 12-year notes with nominal value of HK\$500 million due 20th December 2021
 The 3.86% 8-year notes with nominal value of S\$50 million due 29th December 2017

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

	2009	2008
	US\$m	US\$m
Liability component at 1st January	358.4	349.3
Interest expense at effective interest rate	20.7	20.1
Interest expense at coupon rate	(11.0)	(11.0)
Liability component at 31st December	368.1	358.4

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					
2009					
Hong Kong Dollar	2.4	2.1	906.3	1,116.1	2,022.4
Singapore Dollar	2.1	3.9	602.3	648.4	1,250.7
United States Dollar	5.5	3.0	368.1	2.2	370.3
			1,876.7	1,766.7	3,643.4
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

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 below. The interest payments are computed using contractual rates and, in the case of floating rate borrowings, based on market rates at the balance sheet date before taking into account hedging transactions. Cash flows denominated in currencies other than United States Dollars are converted into United States Dollars at the rates of exchange ruling at the balance sheet date.

	2009	2008
	US\$m	US\$m
Within one year	356.6	219.7
Between one and two years	1,105.1	572.3
Between two and five years	2,016.7	2,545.9
Beyond five years	522.2	786.2
	4,000.6	4,124.1

22 Share capital

	Ordinary shares in millions		2009	2008
	2009	2008	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	2,249.3	2,295.2	224.9	229.5
Repurchased and cancelled	-	(45.9)	-	(4.6)
At 31st December	2,249.3	2,249.3	224.9	224.9

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.

23 Net asset value per share

Net asset value per share is calculated on shareholders' funds of US\$12,755.9 million (2008: US\$11,313.3 million) and on 2,249.3 million (2008: 2,249.3 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:

	2009		2008	
	US\$m	Net asset value per share US\$	US\$m	Net asset value per share US\$
Shareholders' funds	12,755.9	5.67	11,313.3	5.03
Deferred tax on revaluation surpluses of investment properties	2,133.2		1,951.7	
Share of deferred tax on revaluation surpluses of investment properties of associates and joint ventures	46.9		43.1	
Adjusted shareholders' funds	14,936.0	6.64	13,308.1	5.92

24 Dividends

	2009	2008
	US\$m	US\$m
Final dividend in respect of 2008 of US¢7.00 (2007: US¢9.00) per share	157.5	206.6
Interim dividend in respect of 2009 of US¢6.00 (2008: US¢6.00) per share	134.9	137.7
	292.4	344.3

A final dividend in respect of 2009 of US¢10.00 (2008: US¢7.00) per share amounting to a total of US\$224.9 million (2008: US\$157.5 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 2010.

Notes to the Financial Statements

25 Purchase of a subsidiary

	2009		Fair value US\$m
	Book value	Fair value adjustments	
	US\$m	US\$m	
Current assets	87.2	-	87.2
Current liabilities	(3.9)	-	(3.9)
Other non-current liabilities	(10.5)	-	(10.5)
Net assets	72.8	-	72.8
Adjustment for minority interests			2.2
Net assets acquired			75.0
Adjustment for carrying value of associates and joint ventures			(29.2)
Cash and cash equivalents acquired			(3.8)
Net cash outflow			42.0

During the year, the Group increased its interest in King Kok Investment Limited ("Kingkok") from 35% to 90%. Fair value adjustments were determined based on fair values of Kingkok's identifiable assets and liabilities at the date on which the Group obtained control. Revenue and profit after tax since acquisition amounted to US\$2.5 million and US\$0.8 million respectively. Had the acquisition occurred on 1st January 2009, the Group's consolidated revenue and profit after tax for the year ended 31st December 2009 would have been US\$1,328.7 million and US\$1,678.9 million respectively.

26 Cash and cash equivalents

	2009	2008
	US\$m	US\$m
Bank balances	1,226.1	1,119.0
Bank overdrafts (see Note 21)	(1.1)	(1.9)
	1,225.0	1,117.1

27 Derivative financial instruments

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

	2009		2008	
	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	4.8	11.8	13.8	16.9
- cross currency swaps	2.4	2.8	7.6	-
Designated as fair value hedges				
- interest rate swaps	4.8	3.9	7.8	-
- cross currency swaps	52.0	-	78.0	-
Not qualified as hedges				
- interest rate swaps	-	-	0.1	-
- cross currency swaps	-	-	2.3	-

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
2009				
Net settled				
- interest rate swaps	16.2	9.0	11.4	-
Gross settled				
- cross currency swaps	30.5	618.7	522.1	91.5
	46.7	627.7	533.5	91.5
2008				
Net settled				
- interest rate swaps	13.0	7.5	2.7	-
Gross settled				
- cross currency swaps	33.3	33.3	636.8	505.8
	46.3	40.8	639.5	505.8

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31st December 2009 were US\$1,401.2 million (2008: US\$1,491.5 million).

At 31st December 2009, the fixed interest rates relating to interest rate swaps vary from 1.84% to 5.16% (2008: 1.90% to 5.16%).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 0.14% to 2.71% (2008: 0.95% to 1.99%) per annum.

Cross currency swaps

The contract amounts of the outstanding cross currency swap contracts at 31st December 2009 were US\$1,176.7 million (2008: US\$1,100.0 million).

Notes to the Financial Statements

28 Commitments

	2009 US\$m	2008 US\$m
Capital commitments		
Authorised not contracted	166.9	131.0
Contracted not provided	17.1	24.4
	184.0	155.4
Contribution to associates and joint ventures	614.7	744.4
Operating lease commitments		
Due within one year	1.4	0.7
Due between one and two years	0.8	0.5
Due between two and three years	0.4	0.5
Due between three and four years	-	0.3
	2.6	2.0

29 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.

30 Related party transactions

The parent company of the Group is Jardine Strategic Holdings Limited and the ultimate holding company is Jardine Matheson Holdings Limited. Both companies are incorporated in Bermuda.

In the normal course of business, the Group has entered into a variety of transactions with the subsidiary undertakings, associates and joint ventures 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\$3.9 million (2008: US\$1.9 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 2009 amounted to US\$14.0 million (2008: US\$8.2 million).

Jardine Matheson group members provided property construction, maintenance and other services to the Group in 2009 in aggregate amounted to US\$77.0 million (2008: US\$23.2 million).

Hotel management services

Jardine Matheson group members provided hotel management services to the Group in 2009 amounted to US\$0.9 million (2008: US\$0.6 million).

Outstanding balances with associates and joint ventures

Amounts of outstanding balances with associates and joint ventures are included in debtors and creditors as appropriate (see Notes 18 and 20).

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'.

31 Summarised balance sheet of the Company

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

	2009	2008
	US\$m	US\$m
Net operating assets		
Investments at cost		
Unlisted shares in subsidiaries	4,481.7	4,481.7
Net amounts due to subsidiaries	(708.2)	(827.9)
	3,773.5	3,653.8
Creditors and other accruals	(18.7)	(19.2)
	3,754.8	3,634.6
Capital employed		
Share capital (see Note 22)	224.9	224.9
Revenue and other reserves		
Contributed surplus	2,249.6	2,249.6
Revenue reserves	1,280.3	1,160.1
	3,529.9	3,409.7
Shareholders' funds	3,754.8	3,634.6

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.

Notes to the Financial Statements

32 Principal subsidiaries, associates and joint ventures

The principal subsidiaries, associates and joint ventures of the Group at 31st December 2009 are set out below.

	Effective holding %			Issued share capital	Main activities	Country of incorporation
	2009	2008				
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	Investment holding	British Virgin Islands
Hongkong Land Singapore (Pte) Ltd	100	100	SGD	100,000	Property management	Singapore
Starsome Investments Limited	100	100	USD	2	Investment holding	British Virgin Islands
The Hongkong Land Notes Company Limited	100	100	USD	2	Finance	British Virgin Islands
King Kok Investment Limited	90	35	USD	10,000	Property investment	Mauritius

* Owned directly

32 Principal subsidiaries, associates and joint ventures continued

	Effective holding %		Issued share capital		Main activities	Country of incorporation
	2009	2008				
Associates and 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
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 Limited	33.3	33.3	SGD	6	Property investment	Singapore
Ampang Investments Pte Limited	40	40	SGD	10	Hotel investment	Singapore
Raise Up Enterprises Limited	30.3	30.3	USD	10,000	Property investment	British Virgin Islands
Cosmo City Limited	50	-	HKD	2	Property investment	Hong Kong
Jardine Gibbons Properties Limited	40	40	BD	600,000 'A' 400,000 'B'	Property holding	Bermuda
MCL Land Limited's subsidiaries, associates and joint ventures						
MCL Land Holdings Pte Limited	77.4	77.4	SGD	6,000,000	Property investment	Singapore
MCL Land (Serangoon) Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Grange) Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Richdeal Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Properties) Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Superport Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Maxgrowth Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Acecharm Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore

32 Principal subsidiaries, associates and joint ventures continued

	Effective holding %		Issued share capital	Main activities	Country of incorporation	
	2009	2008				
MCL Land Limited's subsidiaries, associates and joint ventures <small>continued</small>						
MCL Land Realty Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land Development Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Prime) Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Caseldine Investments Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
Kedron Investments Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL Land (Warren) Pte Limited	77.4	77.4	SGD	1,000,000	Property development	Singapore
MCL (Century Gardens) Sdn Bhd	77.4	77.4	MYR	6,608,763	Property investment	Malaysia
MCL (Pantai View) Sdn Bhd	77.4	77.4	MYR	2,000,000	Property investment	Malaysia
Grange Development Pte Limited	41.4	41.4	SGD	1,000,000	Property development	Singapore
Calne Pte Limited	38.7	38.7	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	38.7	38.7	MYR	3,000,000	Property development	Malaysia