

Hongkong Land Holdings Limited  
Annual Report 2008





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## Corporate Information

### Directors

Simon Keswick *Chairman*  
A J L Nightingale *Managing Director*  
Y K Pang *Chief Executive*  
Charles Allen-Jones  
Mark Greenberg  
Jenkin Hui  
Henry Keswick  
R C Kwok  
Lord Leach of Fairford  
Dr Richard Lee  
Lord Powell of Bayswater KCMG  
Percy Weatherall

### Company Secretary and Registered Office

C H Wilken  
Jardine House  
33-35 Reid Street  
Hamilton Bermuda

Hongkong Land is one of Asia's leading property investment, management and development groups. Founded in Hong Kong in 1889, the Group has business interests across the region. Hongkong Land's business is built on partnership, integrity and excellence.

In Hong Kong, the Group owns and manages some five million sq. ft of prime commercial space that defines the heart of the Central Business District. In Singapore, it is helping to create the city-state's new Central Business District with the expansion of its joint venture portfolio of new developments. Hongkong Land's properties in these and other Asian centres are recognised as market leaders and house the world's foremost financial, business and luxury retail names.

Hongkong Land also develops premium residential properties in a number of cities in the region, not least in Singapore where its 77%-owned listed affiliate, MCL Land, is a significant developer.

Hongkong Land Holdings Limited is incorporated in Bermuda. Its primary listing is in London, and its shares are also listed in Bermuda and Singapore. The Group's assets and investments are managed from Hong Kong by Hongkong Land Limited. Hongkong Land is a member of the Jardine Matheson Group.

The office lobby of the North Tower of One Raffles Quay, a joint venture development in Singapore's new Central Business District (front cover).



**Jardines**

A member of the Jardine Matheson Group

# Highlights

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

## Results

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

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

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

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

# Corporate Overview

## **Hongkong Land's Strategy for Growth**

### **Market Leadership in Hong Kong**

Hongkong Land will maintain a leadership position in Hong Kong's Central business district where it owns and manages some 5,000,000 sq. ft of prime office and retail space.

### **Property Investments and developments in Asia**

The Group will seek commercial and residential property developments in Asia for long-term investment and for trading. It has investments in Hong Kong, Macau, mainland China, Singapore, Vietnam, Thailand, Indonesia, Malaysia and the Philippines.

### **Shareholder Value**

The Group aims to build sustainable streams of value for its shareholders, while maintaining financial strength through a policy of prudent financing and investment.

### **Group Structure**

Hongkong Land Holdings Limited is incorporated in Bermuda and listed in London, Bermuda and Singapore. Hongkong Land Limited manages the operations of the Group from Hong Kong and provides services to Hongkong Land China, which holds the Group's property interests in China, and to Hongkong Land International, which holds the Group's property interests elsewhere.



Ju Ming's Tai-chi and Dame Elisabeth Frink's Water Buffalo, a part of Hongkong Land Collection, enhance the ambience of The Forum, Exchange Square.

# Chairman's Statement

## Overview

Strong demand and high occupancy in Hong Kong's Central district continued to underpin both the office and retail sectors in 2008, enabling the Group to report a reasonable increase in underlying profit despite provisions made against residential development properties in Singapore. Although the positive rental reversion cycle continued throughout the year and supply of grade A office space remains limited, it is evident that the market in Hong Kong has now begun to decline.

## Performance

Underlying profit rose 9% to US\$375 million, while underlying earnings per share were 9% higher at US¢16.41. Net rental income was up 29% compared with 2007. The contribution from residential development projects, however, was offset by a write-down in the carrying value of development properties by MCL Land. Financing charges were slightly lower than in 2007 due mainly to lower interest rates.

The independent valuation of the Group's commercial investment properties at the end of 2008, including the Group's share of investment properties in joint ventures and associates, was US\$14,525 million, representing a decrease of 4% from the valuation at the end of 2007. This reversed an increase of 11% at the half year. The adjusted net asset value per share fell 3% to US\$5.92 over the year. The loss attributable to shareholders for 2008, after taking account of the revaluation, was US\$109 million, and compared with a profit of US\$2,840 million in 2007.

The Directors are recommending a final dividend of US¢7.00 per share for 2008, providing a total dividend for the year of US¢13.00 per share, unchanged from 2007.

## Group Review

Rents remained at record levels throughout 2008 in Hong Kong's Central district. While demand for high quality commercial office space continued to be strong across all business sectors, there were signs of weakening towards the end of the year. The luxury retail market also performed well in Hong Kong for the first three quarters of 2008, but it too started to weaken in the fourth quarter.

The Singapore office market also began to soften in the second half of the year, although the Group's wholly owned property One Raffles Link and its joint venture property One Raffles Quay both remain fully let. The Group's joint venture development, Marina Bay Financial Centre, which is on schedule to complete in two phases in 2010 and 2012, is also in a good position with over 60% of the commercial office space already pre-committed.

In the residential sector, Phase IV of Central Park in Beijing, Phase I of Bamboo Grove in Chongqing and MCL Land's projects, Mera Springs and The Esta, completed during the year allowing profits on these projects to be recognised in the 2008 results. MCL Land did, however, make provision against the carrying value of some of its development properties in Singapore, the Company's share of which was US\$140 million.

The Company repurchased 45.9 million of its own shares during the second half of the year at a cost of US\$120 million, which has enhanced both earnings per share and net asset value per share. The Group did not have any major financing requirement during the year and its financial position remains strong.

## **People**

Lord Powell of Bayswater rejoined the Board in June 2008, having previously served as a Director between 1992 and 2000. It was another demanding year for our businesses in 2008 and the Board would like to thank all staff for their commitment, loyalty and professionalism.

## **Outlook**

Although trading conditions are difficult, increases in rentals achieved in Hong Kong during 2008 together with the recognition of profits on the completion of residential properties already sold in Singapore and Macau should benefit earnings in 2009. The Group's balance sheet remains strong and will stand it in good stead in the current uncertain economic climate.

## **Simon Keswick**

Chairman

5th March 2009

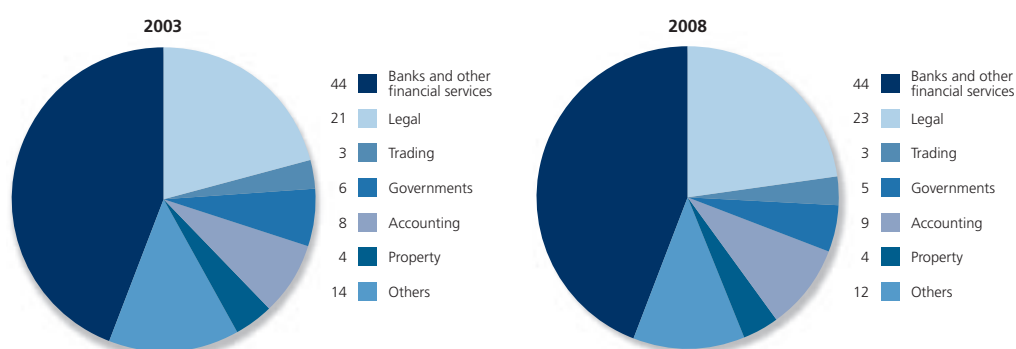
## Chief Executive's Review

The Group's Hong Kong commercial property portfolio, which remains the largest contributor to earnings, enjoyed excellent rental income growth and high occupancy throughout 2008. Despite new supply becoming available during the year in some decentralised locations on Hong Kong Island and in Kowloon, the continuing demand for space in the Group's buildings reinforces Central as Hong Kong's prime location for international business and finance, and its leading destination for luxury retail. While 2008 was a good year for the Group's commercial property business, the global economic problems are now starting to impact our tenants and business, and the outlook is more difficult than it has been for some time.

Despite the economic uncertainty, the Group is continuing to pursue the expansion of its commercial property activities throughout the region at a measured pace. In Singapore, construction of the 340,000 sq. m. joint venture development Marina Bay Financial Centre ('MBFC') is on track for phased completion in 2010 and 2012. Hongkong Land's wholly owned building One Raffles Link ('ORL') and our joint venture development One Raffles Quay ('ORQ') are both fully let. When MBFC is completed, Hongkong Land's attributable interests in this important regional business centre will extend to some 150,000 sq. m. of the best commercial office space.

Our aim is also to continue to grow our residential business so that it can make a significant, capital-efficient and sustainable contribution to the Group's earnings. Successful completions in Beijing, Chongqing and Singapore during the year made a positive contribution in 2008. Residential completions in Hong Kong, Singapore and Macau should benefit earnings strongly in 2009 and 2010. Residential projects in Chongqing and Shenyang in mainland China will complete in phases over the medium term.

### Central portfolio office tenant profile by area occupied (%)





## Central portfolio

at 31st December 2008	Office	Retail
Capital value* (US\$m)	10,518	2,563
Gross revenue* (US\$m)	481	165
Average unexpired terms of lease (years)	3.7	2.7
Area subject to renewal/review in 2009 (%)	51	33

\* includes hotel

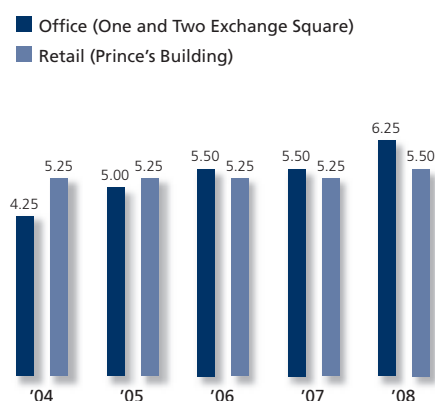
## Commercial Property

### Hong Kong Central Portfolio

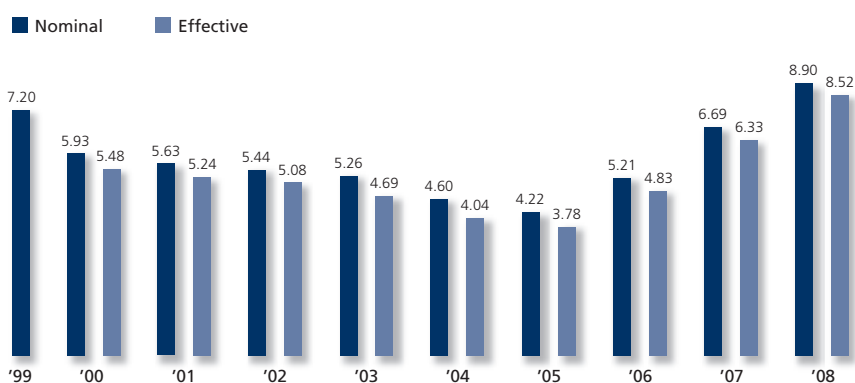
Demand for high quality centrally-located space remained strong throughout 2008 for both the commercial office and retail segments. However, with the global economic weakening starting to affect the Asian region, the capital value of the Group's investment properties in Hong Kong fell by 4%.

Occupancy in the Group's office portfolio remained high, but an increase in vacancy can be expected as some tenants elect to relocate to areas outside Central or reduce their office space upon lease renewal. Vacancy was 2.6% at the year end, compared with 2.0% at the end of 2007. Vacancy subsequently increased to 5.5% in January 2009 following the decision of a major tenant not to renew its lease, although some 70% of the additional vacant space has been re-let.

## Central portfolio equivalent yield (%)



## Central portfolio average office rent (US\$/sq. ft per month)



## Chief Executive's Review

### Top five office tenants (in alphabetical order)

at 31st December 2008

Credit Suisse  
JPMorgan  
KPMG  
Morgan Stanley  
PricewaterhouseCoopers

### Top five retail tenants (in alphabetical order)

at 31st December 2008

Dickson Concepts  
Giorgio Armani  
Gucci  
Louis Vuitton  
Richemont Group

Office rents in Central in Hong Kong were high throughout 2008, and average rents for the Group's properties in Hong Kong rose by 34% during the year.

A refurbishment of the basement level retail space in Jardine House was completed, and opportunities to improve the quality of the Group's buildings continue to be evaluated.

Sales in the luxury retail sector held up well during 2008. Like the office sector, there were signs of the market becoming more difficult towards the end of the year. Average rents for the Group's luxury retail space in Hong Kong rose by 10% during the year, while occupancy was 100% at the end of 2008 and 2007.

### Commercial Properties other than in Hong Kong

Singapore continued to increase its contribution to the Group's performance in 2008 with both ORL and ORQ fully let at good rental levels. Construction of MBFC is targeted to complete in two phases, in 2010 and 2012. The two phases comprising 190,000 sq. m. and 150,000 sq. m. of gross floor area, respectively, are more than 60% pre-committed.

Construction of the residential units and luxury retail centre in One Central, our joint venture development in the heart of the Macau Peninsula, continues on track. One Central will comprise some 37,000 sq. m. of luxury retail space together with a Mandarin Oriental hotel, serviced apartments and 137,000 sq. m. of residential apartments. The retail space is currently some 70% pre-committed.

Our other commercial investment properties are located in Hanoi, Jakarta, Bangkok and Bermuda. Our two buildings in Hanoi are fully let at the highest rents in that market. Jakarta Land's portfolio is achieving occupancy levels of over 95% also at good rents. In Bangkok, our 49%-owned luxury retail centre and office development, Gaysorn, continues to face difficult trading conditions. In Bermuda, Jardine Gibbons Property, in which Hongkong Land has a 40% interest, owns four small commercial buildings in the commercial centre of Hamilton which are fully let.

## **Residential Property**

The residential business recorded a breakeven result in 2008. Profits were recognised upon the completion and handover of Phase IV of Central Park in Beijing, Phase I of Bamboo Grove in Chongqing, and MCL Land's projects, Mera Springs and The Esta in Singapore. The overall result was, however, negatively impacted by an impairment provision of US\$140 million, being Hongkong Land's share of a write-down by MCL Land of the value of some of its development properties in Singapore.

Construction of the Group's two residential projects in Hong Kong, The Sail at Victoria and Tai Hang Road, is progressing well and completion is due in 2009 and 2010, respectively. The local residential property market, particularly at the luxury end, has softened considerably since the middle of 2008.

In One Central, Macau, the 796 unit residential units have been over 97% pre-sold and are on schedule for completion in the second half of 2009. Completion of the hotel will take place in the first half of 2010, as will the completion of 98 serviced apartments which have not yet been launched for sale.

In Singapore, construction of Marina Bay Residences, the residential component of Phase I of the MBFC, is on schedule for completion and handover to buyers in 2010. Phase II of the MBFC will also incorporate a tower of residential apartments, Marina Bay Suites, although construction of this tower has not yet commenced.

In mainland China, the first phase of the Park Life development in Shenyang, in which the Group has a 30% interest, completed during 2008. Subsequent phases of Park Life and a second site in Shenyang in which the Group also has a 30% interest are under master planning. In Chongqing, construction of Phase II of Bamboo Grove comprising some 964 units is progressing well, with completion and handover scheduled for the second half of 2009 and the first half of 2010. Some 65% of the units in Phase II have been pre-sold, despite difficult market conditions.

## **MCL Land**

MCL Land completed three projects in 2008, The Grange, Mera Springs and The Esta. Its results were, however, negatively impacted by a write-down in the values of some of its development properties in Singapore. The construction is in progress of three projects scheduled for completion in 2009 and a further two scheduled for completion in 2010. These projects are nearly 100% pre-sold, giving MCL Land a good pipeline of profits that will be recognised upon completion. The residential property market in Singapore, like those elsewhere in the region, has slowed. 'D'Pavilion' and 'The Peak@Balmeg' were launched during the year and the number of the units being pre-sold at the year end was 28% and 25%, respectively. MCL Land completed the acquisitions of three development sites in 2008, the total cost of which was US\$240 million.

## Chief Executive's Review

### **Finance and Corporate Activities**

The Group repurchased 45.9 million of its own shares during the year at a total cost of US\$120 million with the effects of enhancing both earnings per share and net asset value per share. The Group's financial position remains healthy. At the end of 2008 adjusted gearing was 19% with net debt at US\$2.6 billion, up from US\$2.4 billion at the end of 2007. The Group did not have any major re-financing requirements during the year, and its liquidity remains strong with no significant re-financing requirements until 2011.

### **Outlook**

The outlook at the end of 2008 is more uncertain than it has been for some years as the full effects of the global economic downturn start to be felt across Asia. Although commercial property markets are becoming more difficult in Hong Kong and other centres in which the Group has operations, our commercial property business remains in good health underpinned by its high quality tenant base. Additionally, our commercial property projects under development in Singapore and Macau are proceeding on track and will strengthen further our commercial revenues in the coming years. Residential property markets in the region have also slowed, although the Group's projects that will complete in Hong Kong, mainland China, Singapore and Macau will add an additional earnings stream in the years ahead.

While global economic conditions are expected to remain volatile and uncertain for some time, the Group's strong financial position places it in a good position to weather the difficult markets that we are now facing.

### **Y K Pang**

Chief Executive  
5th March 2009

# Financial Review

## Financial Markets' Review

Global banking and financial markets experienced a turbulent year, particularly in the second half following the bank failures and bail outs in the United States and Europe in September. The Hang Seng Index ended the year at 14,387 points, down 48% from the end of 2007. Reductions in liquidity in the banking and bond markets resulted in greatly reduced funding availability and increases in credit spreads. While Central Banks have implemented various measures, including reductions in benchmark interest rates and financial stimulus packages to ease the financial crisis and to boost economic activity, market conditions will remain challenging throughout 2009.

## Results

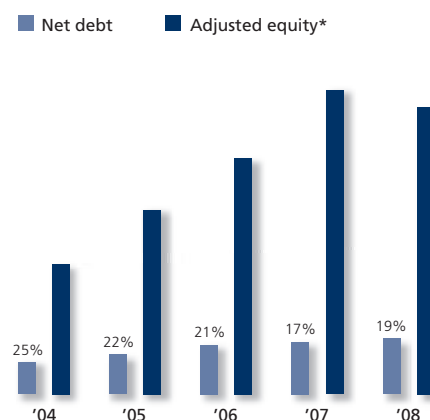
There have been no changes in the accounting policies adopted by the Group during 2008.

Underlying earnings for the year rose 9% to US\$375 million from US\$345 million recorded in 2007. Underlying earnings per share rose slightly more to US\$16.41 from US\$15.02 in 2007 benefitting from the repurchase of 2% of the Group's own shares. A loss attributable to shareholders of US\$109 million (2007: profit of US\$2,840 million) was recorded after a US\$486 million decrease in the fair value of investment properties (including those in joint ventures and associates) net of deferred tax.

Overall, net rental income from commercial properties was 29% higher than in 2007. In the Group's Hong Kong Central office portfolio average effective rents increased from US\$6.33 psf in 2007 to US\$8.52 psf in 2008, while occupancy at the end of 2008 was 97.4%, marginally lower than 98.0% at the end of 2007. In the Group's Hong Kong Central retail portfolio average effective rents increased from US\$14.99 psf in 2007 to US\$16.54 psf in 2008, and at the end of the year the portfolio was fully occupied (also fully occupied at the end of 2007).

The Group's residential property business recorded a breakeven result in 2008 down from a US\$73 million contribution to underlying profit in 2007. The results from the completions of Phase IV of Central Park in Beijing, Phase I of Bamboo Grove in Chongqing and MCL Land's Mera Springs and The Esta were offset by Hongkong Land's US\$140 million share of write-down of development properties by MCL Land.

## Net debt as a percentage of adjusted equity\*



\* Excludes deferred tax on revaluation surpluses of investment properties that would not be payable if the properties were sold

## Financial Review

Net financing charges reduced from US\$50 million in 2007 to US\$45 million in 2008, largely due to lower interest rates. Average borrowing costs were 3.6% compared with 4.5% in 2007. Interest cover, calculated as the underlying operating profit which includes share of joint ventures results divided by net financing charges, was strong at 10.7 times (2007: 9.3 times).

### Dividends

The Board is recommending a final dividend of US¢7.00 per share (2007: US¢9.00 per share) giving a total dividend payable for the year of US¢13.00 per share, unchanged from 2007. The final dividend is payable on 13th May 2009 to those persons registered as shareholders at the close of business on 20th March 2009. The dividends are payable in cash.

### Cash Flow

With strong rental income from the Group's investment properties and receipt of progress payments from the Group's development projects in Singapore, recurring cash flow (cash flow from operating activities less major renovations expenditure) of US\$501 million in 2008 was US\$119 million higher than that in 2007. This cash flow was largely applied towards the payment of dividends (US\$349 million), capital expenditure on developments and joint ventures (US\$127 million), and share repurchases (US\$120 million).

As a result, the Group's net debt at the end of 2008 was US\$2,601 million, up US\$170 million from US\$2,431 million at the end of 2007. Net gearing calculated on adjusted equity, which excludes deferred tax provisions on revaluation surpluses of investment properties, was 19%, compared with 17% at the end of 2007 due to the higher net debt and lower adjusted shareholders' funds resulting from the decrease in the value of investment properties.

### Investment Properties' Valuation

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

### Year-end debt summary

	2008 US\$m	2007 US\$m
US\$ convertible bonds	358	349
US\$ bonds	1,184	1,119
US\$ bank loans	3	3
HK\$ bank loans	809	739
S\$ bonds	493	483
S\$ bank loans	873	842
Gross debt	3,720	3,535
Cash	1,119	1,104
Net debt	2,601	2,431

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-term 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.

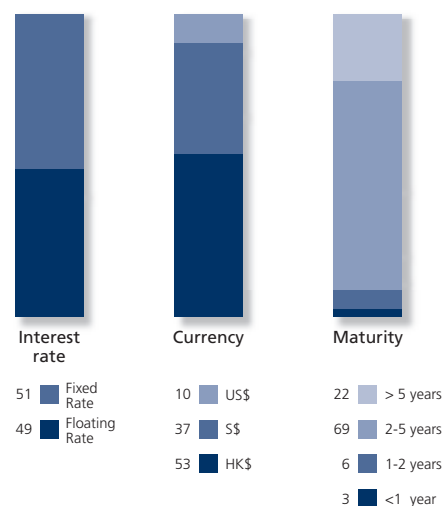
The revaluation deficit for 2008 of US\$719 million, which includes the Group's shares in joint ventures, resulted largely from higher capitalisation rates. The deferred tax credit required by IFRS in relation to this revaluation deficit is US\$233 million. The revaluation deficit and the associated deferred tax credit have been taken to the profit and loss account in accordance with IFRS as set out above. At the end of the year, the Group's commercial investment properties portfolio (including the Group's share of investment properties in joint ventures) was valued at US\$14,525 million, down by 4% from US\$15,075 million at the end of 2007.

Excluding the deferred tax provision on the revaluation surpluses of investment properties, the Group's adjusted net asset value per share decreased by 3% to US\$5.92 at the end of 2008 from US\$6.12 at the end of 2007.

### Financial Risk Management and Treasury Activities

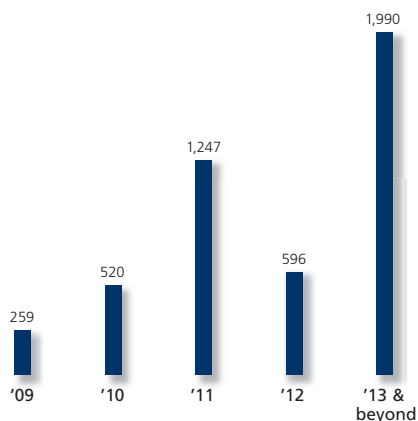
The Group manages its treasury activities within established risk management objectives and policies using a variety of techniques and instruments. The main objectives are to manage exchange, interest rate and liquidity risks and to provide a degree of certainty about costs. The Group's Treasury operations are managed as cost centres, and derivatives are employed for hedging purposes only. Appropriate credit guidelines are in place to manage counterparty credit risk.

### Debt profile as at 31st December 2008 (%)



## Financial Review

### Committed facility maturity as at 31st December 2008 (US\$m)



When economically sensible to do so, borrowings are taken in local currencies to hedge foreign currency exposures on investments. A portion of borrowings is denominated in fixed rates. Adequate headroom in committed facilities is maintained to facilitate the Group's capacity to pursue new investment opportunities.

A review of the principal risks and uncertainties facing the Company is set out on page 62.

### Funding

Global credit markets were volatile during 2008 with significant increases in credit spreads, particularly in the second half of the year. The Group, however, continues to maintain a healthy funding and liquidity position. While the Group did not have any major refinancing requirements in 2008, a number of new bilateral banking facilities were established to further strengthen its funding position.

As at 31st December 2008, the Group had total financing facilities of US\$5.0 billion (2007: US\$4.8 billion), of which 95% was committed (2007: 95%). At that date, 79% of the committed facilities were drawn. Of the Group's committed facilities, 43% are sourced from the capital markets and 57% from the banking market. The average facility maturity at 31st December 2008 was 3.6 years (2007: 4.4 years). At the year end the Group held cash deposits of US\$1,119 million (2007: US\$1,104 million). Total liquidity calculated as committed facility headroom plus surplus cash on deposit was US\$2,102 million (2007: US\$2,120 million).

During the year, Standard & Poor's and Moody's affirmed their long-term credit ratings for Hongkong Land Holdings Limited at BBB+ and Baa1, respectively. Standard & Poor's revised its BBB+ rating outlook of the Group to stable from positive following its review of the commercial property market. Moody's continues to maintain a stable outlook on its Baa1 rating.

### Geoffrey M Brown

Chief Financial Officer  
5th March 2009



# Directors' Profiles

## **Simon Keswick** Chairman

Mr Simon Keswick has been a Director of the Group's holding company since 1983. He was Chairman from 1983 to 1988 and was subsequently re-appointed in 1989. He joined the Jardine Matheson group in 1962 and is also chairman of Dairy Farm and Mandarin Oriental, and a director of Jardine Lloyd Thompson, Jardine Matheson and Jardine Strategic.

## **A J L Nightingale\*** Managing Director

Mr Nightingale joined the Board and was appointed as Managing Director in 2006. He has served in a number of executive positions since joining the Jardine Matheson group in 1969. He is chairman of Jardine Cycle & Carriage, Jardine Matheson Limited, Jardine Motors and Jardine Pacific and a commissioner of Astra. He is also managing director of Dairy Farm, Jardine Matheson, Jardine Strategic and Mandarin Oriental. Mr Nightingale is chairman of the Business Facilitation Advisory Committee established by the Financial Secretary in Hong Kong, a council member of the Hong Kong Trade Development Council and the Employers' Federation of Hong Kong, a Hong Kong representative to the APEC Business Advisory Council and a member of the Greater Pearl River Delta Business Council.

## **Y K Pang\*** Chief Executive

Mr Pang joined the Board and was appointed Chief Executive of the Group in 2007. He has previously held a number of senior executive positions in the Jardine Matheson group, having first joined in 1984. He is also chairman of MCL Land and Jardine Matheson (China) Limited, and is a director of Jardine Matheson Limited. He is a general committee member of the Hong Kong General Chamber of Commerce.

## **Charles Allen-Jones**

Mr Allen-Jones joined the Board in 2001. He was formerly senior partner of Linklaters, where he had been a partner for 33 years until 2001. Mr Allen-Jones is also a non-executive director of Jardine Strategic and Caledonia Investments, a member of the Financial Reporting Review Panel and vice chairman of the Council of the Royal College of Art.

## **Mark Greenberg**

Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He had previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Dairy Farm, Jardine Cycle & Carriage and Mandarin Oriental and a commissioner of Astra and Bank Permata.

## **Jenkin Hui**

Mr Hui joined the Board in 1994 and is a director of Jardine Matheson, Jardine Strategic, Central Development and a number of property and investment companies.

## **Henry Keswick**

Mr Henry Keswick first served on the Board of the Group's holding company between 1970 and 1975 and was re-appointed a Director in 1988. He is chairman of Jardine Matheson, having first joined the group in 1961, and is also chairman of Jardine Strategic. He is a director of Dairy Farm, Mandarin Oriental and Rothschilds Continuation Holdings. He is also vice chairman of the Hong Kong Association.

## **R C Kwok**

Mr Kwok is a Chartered Accountant and has been a Director of the Group's holding company since 1981. He joined the Jardine Matheson group in 1964 and is a director of Jardine Matheson Limited, Dairy Farm, Jardine Matheson, Jardine Strategic and Mandarin Oriental.

## **Lord Leach of Fairford**

Lord Leach has been a Director of the Group's holding company since 1985. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Jardine Matheson, Jardine Strategic, Mandarin Oriental and Rothschilds Continuation Holdings. He joined the Jardine Matheson group in 1983 after a career in banking and merchant banking.

## **Dr Richard Lee**

Dr Lee joined the Board in 2003. Dr Lee's principal business interests are in the manufacturing of textiles and apparel in Southeast Asia, and he is the chairman of TAL Apparel. He is also a director of Jardine Matheson and Mandarin Oriental.

## **Lord Powell of Bayswater KCMG**

Lord Powell rejoined the Board in June 2008, having first served as a Director between 1992 and 2000. He was previously Private Secretary and adviser on foreign affairs and defence to British Prime Ministers, Baroness Thatcher and Rt Hon John Major. He is a director of Caterpillar, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Mandarin Oriental, Capital Generation Partners, Textron Corporation, Schindler Holdings, Northern Trust Global Services, Yell Group and Magna Holdings. He is co-chairman of the UK Government's Asia Task Force and was previously president of the China-Britain Business Council and chairman of the Singapore-British Business Council.

## **Percy Weatherall**

Mr Weatherall joined the Board in 1994 and was Managing Director from 2000 to 2006. He held a number of senior positions since first joining the Jardine Matheson group in 1976 until his retirement from executive office in 2006. He is also a director of Dairy Farm, Jardine Matheson, Jardine Strategic and Mandarin Oriental.

\* Executive Director

# Consolidated Profit and Loss Account

for the year ended 31st December 2008

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

# Consolidated Balance Sheet

at 31st December 2008

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

Approved by the Board of Directors on 5th March 2009

**A J L Nightingale**

**Y K Pang**

Directors

# Consolidated Statement of Recognised Income and Expense

for the year ended 31st December 2008

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

# Consolidated Cash Flow Statement

for the year ended 31st December 2008

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

# Notes to the Financial Statements

## 1 Principal Accounting Policies

### a. Basis of preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 3 'Business Combinations' (effective from 1st July 2009), which replaces IFRS 3 (as issued in 2004) and the related amendment to IAS 27 'Consolidated and Separate Financial Statements' (effective from 1st July 2009) provide guidance for applying the acquisition method for business combinations. The major changes from the existing standards include: the immediate expensing of all acquisition costs, the inclusion in the cost of acquisition of the fair value at acquisition date of any contingent purchase consideration, the removal of the requirement to measure at fair value every asset and liability at

each step in a step acquisition for the purposes of calculating goodwill, and changes in a parent's ownership interest in a subsidiary that do not result in the loss of control should be accounted for as equity transactions. The Group will apply IFRS 3 and IAS 27 (as amended in 2008) from 1st January 2010 and will revise its accounting policy on business combinations accordingly.

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

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

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

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

IAS 40 (Amendment) 'Investment Property' (effective from 1st January 2009) is part of the 2008 improvement project. It requires property that is being constructed or developed for future use as investment property should be classified as

investment property. The Group will apply the amendment from 1st January 2009, but it is not expected to have any significant impact on the results of the Group.

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

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

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

## **b. Basis of consolidation**

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

### **i) Subsidiaries**

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

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

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

### **ii) Joint ventures**

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

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

## Notes to the Financial Statements

### 1 Principal Accounting Policies continued

#### b. Basis of consolidation continued

##### iii) Goodwill

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

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

#### c. Foreign currencies

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

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

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

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

#### d. Impairment

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

#### e. Properties

##### i) Investment properties

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

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

##### ii) Properties for sale

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

##### iii) Other properties

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



## f. Investments

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

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

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

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

## g. Depreciation

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

Building	2%
Other assets	10 – 33 $\frac{1}{3}$ %

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

## h. Debtors

Debtors are measured at amortised cost using the effective interest method except where the effect of discounting would be immaterial. Provision for impairment is established when there is objective evidence that the outstanding amounts will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the debtor is impaired. The carrying amount of the asset is reduced through the use of an allowance

account and the amount of the loss is recognised in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated profit and loss account.

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

## i. Cash and cash equivalents

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

## j. Provisions

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

## k. Borrowings and borrowing costs

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

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

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

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

## Notes to the Financial Statements

### 1 Principal Accounting Policies continued

#### l. Deferred tax

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

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

#### m. Employee pension obligations

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

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

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

#### n. Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as

either a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of a forecast transaction or of the foreign currency risk on a firm commitment (cash flow hedge), or a hedge of net investment in foreign entities.

##### i) Fair value hedge

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

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

##### ii) Cash flow hedge

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

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

##### iii) Hedges of net investments in foreign entities

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

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

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

#### **o. Financial guarantee contracts**

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

#### **p. Dividends**

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

#### **q. Revenue recognition**

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

#### **r. Pre-operating costs**

Pre-operating costs are expensed as they are incurred.

#### **s. Non-trading items**

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance.

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

#### **t. Earnings per share**

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

## **2 Financial Risk Management**

### **a. Financial risk factors**

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

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

## Notes to the Financial Statements

### 2 Financial Risk Management continued

#### a. Financial risk factors continued

##### i) Market risk

###### *Foreign exchange risk*

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

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

###### *Interest rate risk*

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

tenor of 2.5 years (2007: 3.2 years). 37% of the Group's cash (2007: 40%) was held in fixed rate with tenor of 1.2 years (2007: 1.6 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in Note 22.

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

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

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

interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

#### ii) Credit risk

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

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group's exposure to credit risk arising from debtors is set out in Note 19 and totals US\$81 million (2007: US\$179 million).

The Group's exposure to credit risk arising from exposure to derivative financial instruments with a positive fair value is disclosed in Note 19 as a component of other debtors and totals US\$110 million (2007: US\$36 million). The Group's exposure to credit risk arising from bank deposits is set out in Note 20 and totals US\$1,119 million (2007: US\$1,104 million).

#### iii) Liquidity risk

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

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

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

### b. Capital management

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

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

## Notes to the Financial Statements

### 2 Financial Risk Management continued

#### b. Capital management continued

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

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

	2008	2007
Gearing ratio	19%	17%
Interest cover	10.7	9.3

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

#### c. Fair value estimation

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

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

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

### 3 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting

accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

#### i) Investment properties

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

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

#### ii) Pension obligations

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

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

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

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

#### iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many

transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

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

**iv) Impairment of assets**

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

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

**v) Acquisition of subsidiaries and joint ventures**

The initial accounting on the acquisition of subsidiaries and joint ventures involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entity. The fair values of investment properties and development properties held for sale are determined by independent qualified valuers by reference to market prices or present value of expected net cash flows from the assets. Any changes in the

assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

**vi) Non-trading items**

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

## Notes to the Financial Statements

### 4 Segmental information

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

	Revenue		Operating (loss)/profit	
	2008 US\$m	2007 US\$m	2008 US\$m	2007 US\$m
<b>By business</b>				
Commercial property	<b>676.2</b>	535.6	<b>(156.2)</b>	3,008.4
Residential property	<b>346.1</b>	397.6	<b>(101.7)</b>	71.5
	<b>1,022.3</b>	933.2	<b>(257.9)</b>	3,079.9
Corporate, net financing charges and tax	–	–	<b>(43.4)</b>	(42.2)
	<b>1,022.3</b>	933.2	<b>(301.3)</b>	3,037.7
<b>By geographical location</b>				
Greater China	<b>648.7</b>	517.8	<b>(167.4)</b>	2,781.0
Southeast Asia and others	<b>373.6</b>	415.4	<b>(90.5)</b>	298.9
	<b>1,022.3</b>	933.2	<b>(257.9)</b>	3,079.9
Corporate, net financing charges and tax	–	–	<b>(43.4)</b>	(42.2)
	<b>1,022.3</b>	933.2	<b>(301.3)</b>	3,037.7
Operating (loss)/profit			<b>(301.3)</b>	3,037.7
Results of joint ventures			<b>64.9</b>	386.6
Net financing charges and tax			<b>103.0</b>	(569.4)
(Loss)/profit after tax			<b>(133.4)</b>	2,854.9

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

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

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



Underlying profit attributable to shareholders		Capital expenditure		Segment assets		Segment liabilities	
2008	2007	2008	2007	2008	2007	2008	2007
US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>570.5</b>	438.0	<b>44.5</b>	36.4	<b>13,775.4</b>	14,374.1	<b>(229.1)</b>	(186.0)
<b>0.7</b>	73.7	<b>0.4</b>	0.3	<b>1,048.4</b>	1,207.4	<b>(350.1)</b>	(407.5)
<b>571.2</b>	511.7	<b>44.9</b>	36.7	<b>14,823.8</b>	15,581.5	<b>(579.2)</b>	(593.5)
<b>(196.1)</b>	(167.0)	<b>3.9</b>	1.6	–	–	–	–
<b>375.1</b>	344.7	<b>48.8</b>	38.3	<b>14,823.8</b>	15,581.5	<b>(579.2)</b>	(593.5)
<b>590.5</b>	424.1	<b>47.0</b>	37.5	<b>13,358.3</b>	13,867.0	<b>(277.6)</b>	(285.6)
<b>(19.3)</b>	87.6	<b>1.8</b>	0.8	<b>1,465.5</b>	1,714.5	<b>(301.6)</b>	(307.9)
<b>571.2</b>	511.7	<b>48.8</b>	38.3	<b>14,823.8</b>	15,581.5	<b>(579.2)</b>	(593.5)
<b>(196.1)</b>	(167.0)	–	–	–	–	–	–
<b>375.1</b>	344.7	<b>48.8</b>	38.3	<b>14,823.8</b>	15,581.5	<b>(579.2)</b>	(593.5)
Segment assets and liabilities				<b>14,823.8</b>	15,581.5	<b>(579.2)</b>	(593.5)
Investments in joint ventures				<b>1,797.5</b>	1,653.9	–	–
Unallocated assets and liabilities				<b>1,253.3</b>	1,178.7	<b>(5,887.0)</b>	(5,863.5)
Total assets and liabilities				<b>17,874.6</b>	18,414.1	<b>(6,466.2)</b>	(6,457.0)

## Notes to the Financial Statements

### 5 Revenue

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

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

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

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

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

### 6 Cost of sales

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

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

## 7 Operating profit

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

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

## 8 Net financing charges

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

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

## Notes to the Financial Statements

### 9 Share of results of joint ventures

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

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

### 10 Tax

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

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

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

## 11 Earnings per share

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

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

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

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

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

## 12 Non-trading items

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

## Notes to the Financial Statements

### 13 Tangible assets

	Investment properties US\$m	Other properties US\$m	Other assets US\$m	Total US\$m
<b>2008</b>				
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
<b>2007</b>				
Cost or valuation	11,650.7	11.9	11.0	11,673.6
Cumulative depreciation	–	(2.8)	(7.0)	(9.8)
Net book value at 1st January	11,650.7	9.1	4.0	11,663.8
Exchange rate adjustments	(4.2)	–	0.1	(4.1)
Additions	35.9	0.2	2.2	38.3
Depreciation	–	(0.1)	(0.8)	(0.9)
Disposals	(10.7)	(1.1)	(1.3)	(13.1)
Net revaluation surplus	2,588.9	–	–	2,588.9
Net book value at 31st December	14,260.6	8.1	4.2	14,272.9
Cost or valuation	14,260.6	10.5	11.9	14,283.0
Cumulative depreciation	–	(2.4)	(7.7)	(10.1)
	14,260.6	8.1	4.2	14,272.9

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

All the Group's investment properties in Hong Kong and Singapore are held under leases with unexpired lease terms of more than 20 years except for The Hong Kong Club Building in Hong Kong, which is held under a sub-lease. Details concerning the Group's commercial investment properties are set out on page 66.

## 14 Joint ventures

	2008 US\$m	2007 US\$m
Share of unlisted joint ventures' net assets	1,769.4	1,625.6
Goodwill on acquisition	28.1	28.3
	<b>1,797.5</b>	<b>1,653.9</b>
<p>The Group's share of assets, liabilities, capital commitments and contingent liabilities of joint ventures are summarised below:</p>		
Tangible assets	1,159.0	1,027.0
Other non-current assets	43.4	15.7
Current assets	1,441.1	1,420.0
Current liabilities	(523.5)	(488.5)
Non-current liabilities	(350.5)	(347.8)
Minority interests	(0.1)	(0.8)
	<b>1,769.4</b>	<b>1,625.6</b>
Capital commitments	283.9	272.0
Contingent liabilities	43.7	54.4

## 15 Other investments

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

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

## Notes to the Financial Statements

### 16 Deferred tax assets and liabilities

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

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

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



## 17 Pension plans

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

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

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

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

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

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

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

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

	<b>2008</b> US\$m	2007 US\$m
Fair value of plan assets	<b>25.1</b>	38.2
Present value of pension obligations	<b>(19.0)</b>	(20.9)
Pension assets	<b>6.1</b>	17.3
Movements in the fair value of plan assets:		
At 1st January	<b>38.2</b>	33.2
Exchange differences	<b>0.1</b>	–
Expected return	<b>2.9</b>	2.5
Contributions	<b>0.5</b>	0.5
Benefits paid	<b>(2.1)</b>	(0.5)
Actuarial (losses)/gains	<b>(14.5)</b>	2.5
At 31st December	<b>25.1</b>	38.2

## Notes to the Financial Statements

### 17 Pension plans continued

Movements in the present value of pension obligations:

	<b>2008</b>	2007
	<b>US\$m</b>	US\$m
At 1st January	<b>20.9</b>	19.3
Exchange difference	<b>0.1</b>	–
Interest cost	<b>1.0</b>	0.8
Current service cost	<b>1.5</b>	1.5
Benefits paid	<b>(2.1)</b>	(0.5)
Actuarial gains	<b>(2.4)</b>	(0.2)
At 31st December	<b>19.0</b>	20.9

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

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

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

The five year history of experience adjustments is as follows:

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

## 18 Properties for sale

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

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

## 19 Debtors

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

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

## Notes to the Financial Statements

### 19 Debtors continued

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

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

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

Other debtors are further analysed as follows:

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

The amounts due from joint ventures are repayable on demand.

### 20 Bank balances

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

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

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

## 21 Creditors

	2008 US\$m	2007 US\$m
Trade creditors	202.2	202.3
Amounts due to joint ventures	23.9	35.7
Tenants' deposits	139.1	115.6
Others	56.8	50.9
	<b>422.0</b>	404.5
Rent received in advance	7.4	4.5
Progress billings received	249.3	256.5
Derivative financial instruments	16.9	6.3
	<b>695.6</b>	671.8
Non-current	26.8	12.6
Current	668.8	659.2
	<b>695.6</b>	671.8
<b>By geographical area of operation</b>		
Greater China	367.7	338.6
Southeast Asia and others	327.9	333.2
	<b>695.6</b>	671.8
The remaining contractual maturities of creditors, excluding rent received in advance, progress billings received and derivative financial instruments, are analysed as follows:		
Within one year	257.2	232.3
Between one and two years	95.9	33.4
Between two and five years	50.1	125.8
Beyond five years	18.8	13.0
	<b>422.0</b>	404.5

The fair value of creditors approximate their carrying amounts.

## Notes to the Financial Statements

### 22 Borrowings

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

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

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

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

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

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

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

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

## 22 Borrowings continued

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

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

The borrowings are further summarised as follows:

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

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

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

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

## Notes to the Financial Statements

### 23 Share capital

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

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

### 24 Revenue and other reserves

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



## 24 Revenue and other reserves continued

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

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

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

## 25 Net asset value per share

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

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

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

## Notes to the Financial Statements

### 26 Dividends

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

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

### 27 Cash and cash equivalents

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

### 28 Derivative financial instruments

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

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

## 28 Derivative financial instruments continued

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

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

### Forward foreign exchange contracts

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

### Interest rate swaps and caps

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

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

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

### Cross currency swaps

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

## Notes to the Financial Statements

### 29 Commitments

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

### 30 Contingent liabilities

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

### 31 Related party transactions

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

#### Management fee

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

#### Property and other services

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

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

### 31 Related party transactions continued

#### Hotel management services

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

#### Outstanding balances with joint ventures

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

#### Directors' emoluments

Details of Directors' emoluments (being the key management personnel compensation) are shown on page 59 under the heading of 'Directors' Appointments, Retirement, Remuneration and Service Contracts'.

### 32 Summarised balance sheet of the Company

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

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

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

### 33 Principal subsidiaries and joint ventures

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

	Effective holding %		Issued share capital	Main activities	Country of incorporation	
	2008	2007				
<b>Subsidiaries</b>						
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 53 and 54)	77.4	77.4	SGD	369,985,977	Property development	Singapore
Reid Street Properties Limited	100	100	USD	400	Property investment	British Virgin Islands
Hongkong Land Singapore (Pte) Ltd	100	100	SGD	100,000	Property management	Singapore

\* Owned directly

### 33 Principal subsidiaries and joint ventures continued

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

## Notes to the Financial Statements

### 33 Principal subsidiaries and joint ventures continued

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



# Independent Auditor's Report

## To the members of Hongkong Land Holdings Limited

We have audited the accompanying consolidated financial statements of Hongkong Land Holdings Limited and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31st December 2008 and the consolidated profit and loss account, consolidated statement of recognised income and expense and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the requirements of Section 90 of the Bermuda Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31st December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Bermuda Companies Act.

## Other Matters

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## PricewaterhouseCoopers LLP

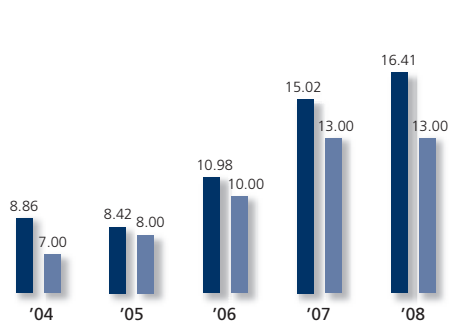
London  
United Kingdom  
5th March 2009

## Five Year Summary

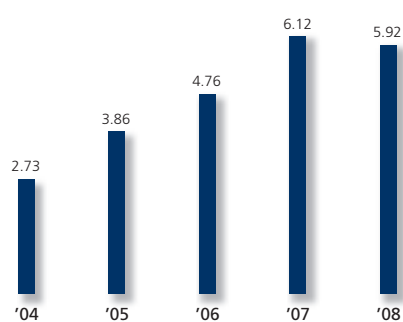
	2004 US\$m	2005 US\$m	2006 US\$m	2007 US\$m	<b>2008 US\$m</b>
<b>Profit/(loss) attributable to shareholders</b>	1,688	2,061	1,901	2,840	<b>(109)</b>
<b>Underlying profit attributable to shareholders</b>	197	188	245	345	<b>375</b>
<b>Investment properties</b>	7,289	9,779	11,651	14,261	<b>13,703</b>
<b>Net debt</b>	1,489	1,855	2,312	2,431	<b>2,601</b>
<b>Shareholders' funds</b>	5,205	7,215	9,197	11,833	<b>11,313</b>
<b>Adjusted shareholders' funds*</b>	6,072	8,592	10,922	14,041	<b>13,308</b>
	US\$	US\$	US\$	US\$	<b>US\$</b>
<b>Net asset value per share</b>	2.34	3.24	4.01	5.16	<b>5.03</b>
<b>Adjusted net asset value per share*</b>	2.73	3.86	4.76	6.12	<b>5.92</b>

### Underlying earnings/dividends per share (US¢)

■ Underlying earnings ■ Dividends



### Adjusted net asset value per share\* (US\$)



\*Based on shareholders' funds excluding deferred tax on revaluation surpluses of investment properties that would not be payable if the properties were sold

# Responsibility Statement

The Directors of the Company confirm to the best of their knowledge that:

- a. the consolidated 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; and
- b. the sections of this Report which constitute the management report include a fair review of all information required to be disclosed by the Disclosure and Transparency Rules 4.1.8 to 4.1.11 issued by the Financial Services Authority of the United Kingdom.

For and on behalf of the Board

**A J L Nightingale**

**Y K Pang**

Directors

5th March 2009

# Corporate Governance

The Group's corporate governance relies on a combination of shareholder, board and management supervision and strict compliance, internal audit and risk control procedures, within the context of the various international regulatory regimes to which the Group is subject.

Hongkong Land Holdings Limited is incorporated in Bermuda. The Group's property interests are almost entirely in Asia. The Company has its primary share listing on the London Stock Exchange and secondary listings in Bermuda and Singapore. The primary corporate governance regime applicable to the Company arises under the laws of Bermuda, including under certain specific statutory provisions that apply to the Company alone. The Company has fully complied with that governance regime. The Company is not subject to the Combined Code (the 'Code') that applies to United Kingdom incorporated companies listed in London, but this Report outlines the significant ways in which its corporate governance practices differ from those set out in the Code.

## The Management of the Group

The Company has its dedicated executive management under the Chief Executive. The Memorandum of Association of the Company, however, provides for the chairman of Jardine Matheson Holdings Limited ('Jardine Matheson') to be, or to appoint, the Managing Director of the Company. The managing director of Jardine Matheson has been so appointed. Reflecting this, and the 49% interest of the Jardine Matheson group in the Company's share capital, the Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Hongkong Land Limited ('HKL'), and its finance committee are chaired by the Managing Director and include Group executives and the group finance director, the group strategy director and the group general counsel of Jardine Matheson.

## The Board

The Company currently has a Board of 12 Directors: the Chief Executive; five executives of Jardine Matheson; and six non-executive Directors. Their names and brief biographies appear on page 15 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The composition and operation of the Board reflect the approach to management described in this Report. The Board regards Asian business experience and relationships as more valuable attributes of its non-executive Directors than formal independence criteria. The Company does not have nomination or remuneration committees or a formal Board evaluation process. Decisions on nomination and remuneration result from consultations between the Chairman and the Managing Director and other Directors as they consider appropriate. The four executives of Jardine Matheson on the board of HKL, being A J L Nightingale, Jonathan Gould, Mark Greenberg and James Riley, also form the HKL audit committee that has responsibility for the Group. The Board has not designated a 'senior independent director' as set out in the Code.

Among the matters which the Board of the Company decides are the Group's business strategy, its annual budget, dividends and major corporate activities. Responsibility for implementing the Group's strategy is delegated to the Company's executive management, with decision-making authority within designated financial parameters delegated to the HKL finance committee. In addition, certain Directors of the Company based outside Asia make regular visits to Asia and Bermuda, where they participate in five annual strategic reviews, four of which normally precede the full Board meetings. These Directors' knowledge of the region and the Group's affairs reinforces the process by which business is reviewed by the Board.

The Board is scheduled to hold four meetings in 2009, and ad hoc procedures are adopted to deal with urgent matters. Two meetings each year are held in Bermuda and two in Asia. The Board receives high quality, up to date information for each of its meetings, which has previously been considered and approved at meetings of the board of HKL. This information is also the subject of a strategy review in a cycle of meetings (in Bermuda or Asia, as appropriate) prior to consideration by the Board itself.

## **Directors' Appointment, Retirement, Remuneration and Service Contracts**

Candidates for appointment as executive Directors of the Company, or as executive directors of HKL or senior executives elsewhere in the Group may be sourced internally, from the Jardine Matheson group or externally using the services of specialist executive search firms. The aim is to appoint individuals of the highest calibre in their area of expertise, combining international best practice with experience of and an affinity with Asian markets.

Each new Director is appointed by the Board and in accordance with Bye-law 92 of the Company's Bye-laws, each new Director is subject to retirement at the first Annual General Meeting after appointment. Thereafter, the Director will be subject to retirement by rotation pursuant to Bye-law 85 whereby one-third of the Directors retire at the Annual General Meeting each year. These provisions apply to both executive and non-executive Directors, but the requirement to retire by rotation pursuant to Bye-law 85 does not extend to the Chairman or Managing Director.

On 19th June 2008, Lord Powell of Bayswater was appointed as a Director of the Company. In accordance with Bye-law 85, Mark Greenberg, R C Kwok and Percy Weatherall retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Lord Powell of Bayswater will also retire, and, being eligible, offer himself for re-election. None of the Directors proposed for re-election has a service contract with the Company or its subsidiaries.

The Company's policy is to offer competitive remuneration packages to its senior executives. It is recognised that, due to the nature of the Group and its diverse geographic base, a number of its senior executives, including the Chief Executive, are required to be offered international terms. The nature of the remuneration packages is designed to reflect this, for example by the provision of accommodation.

Non-executive Directors' fees are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws. For the year ended 31st December 2008, the Directors received from the Group US\$1.8 million (2007: US\$1.6 million) in Directors' fees and employee benefits, being US\$0.2 million (2007: US\$0.3 million) in Directors' fees, US\$1.5 million (2007: US\$1.2 million) in short-term employee benefits including salary, bonus, accommodation and deemed benefits in kind and US\$0.1 million (2007: US\$0.1 million) in post-employment benefits. The information set out in this paragraph forms part of the audited financial statements.

The Company has in place shadow share option schemes under which cash bonuses are paid based on the performance of the Company's share price over a period. The shadow schemes were established to provide longer-term incentives for executive Directors and senior managers. Shadow share options are granted after consultation between the Chairman, the Managing Director and the Chief Executive and other Directors as they consider appropriate.

The Company purchases insurance to cover its Directors against their costs in defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by law, the Company also indemnifies its Directors. Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly.

## **Directors' Responsibilities in respect of the Financial Statements**

The Directors are required under the Bermuda Companies Act 1981 to prepare financial statements for each financial year and to present them annually to the Company's shareholders at the Annual General Meeting. The financial statements should present fairly in accordance with International Financial Reporting Standards ('IFRS') the financial position of the Group at the end of the year and the results of its operations and its cash flows for the year then ended. The Directors consider that applicable accounting policies under IFRS, applied on a consistent basis and supported by prudent and reasonable judgements and estimates, have been followed in preparing the financial statements.

### Code of Conduct

The Group conducts business in a professional, ethical and even-handed manner. Its ethical standards are clearly set out in the Group's Code of Conduct, a set of guidelines to which every employee must adhere. The code requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. The code prohibits the giving or receiving of illicit payments, and requires all employees to be treated fairly, impartially and with respect. It also requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organisations. The Group has in place procedures by which employees can raise, in confidence, matters of serious concern in areas such as financial reporting or compliance.

### Internal Control

The Board has overall responsibility for the Group's system of internal control. The system of internal control is designed to manage, rather than eliminate, business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss.

The principal risks and uncertainties facing the Company are set out on page 62.

The Board has delegated to the audit committee of HKL responsibility for reviewing the operation and effectiveness of the Group's system of internal control and the procedures by which this is monitored. The audit committee considers the system and procedures on a regular basis, and reports to the Board semi-annually. The chief executive and finance director of HKL, together with representatives of the internal and external auditors, attend the meetings of the audit committee by invitation.

Executive management is responsible for the implementation of the system of internal control throughout the Group and the internal audit function monitors the effectiveness of the system. The internal audit function is outside the operating businesses and reports its findings, and recommendations for any corrective action required, to the audit committee of HKL.

The Group has in place an organisational structure with defined lines of responsibility and delegation of authority. There are established policies and procedures for financial planning and budgeting; for information and reporting systems; for assessment of risk; and for monitoring the Group's operations and performance. The information systems in place are designed to ensure that the financial information reported is reliable and up to date.

The Company's policy on commercial conduct is also an important part of the Group's internal control process, particularly in the area of compliance. The policy, as set out in the Code of Conduct, is reinforced and monitored by an annual compliance certification process.

The audit committee of HKL has also been given the responsibility to oversee the effectiveness of the formal procedures for employees to raise any matters of serious concern, and is required to review any reports made under those procedures that are referred to it by the internal audit function.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results is undertaken by the audit committee of HKL with the executive management and a report is received from the external auditors. The external auditors also have access to the full Board, in addition to the Chief Executive, Chief Financial Officer and other senior executives.

The audit committee of HKL keeps under review the nature, scope and results of the external audit and the audits conducted by the internal audit department. The audit committee of HKL also keeps under review the independence and objectivity of the external auditors.

## Directors' Share Interests

The Directors of the Company in office on 18th March 2009 had interests (within the meaning of the Disclosure and Transparency Rules ('DTRs') of the Financial Services Authority (the 'FSA') of the United Kingdom) set out below in the ordinary share capital of the Company. These interests included those notified to the Company in respect of the Directors' connected persons (as that term is used in the DTRs in relation to companies incorporated outside the United Kingdom).

Simon Keswick	74,521
A J L Nightingale	2,184
Y K Pang	38,000
Charles Allen-Jones	60,000
R C Kwok	15,261
Dr Richard Lee	3,678,685

## Substantial Shareholders

As a non-UK issuer, the Company is subject to the DTRs pursuant to which a person must notify the Company of the percentage of voting rights attaching to the share capital of the Company that he holds in certain circumstances. The obligation to notify arises if that person acquires or disposes of shares in the Company which results in the percentage of voting rights which he holds reaching, exceeding or falling below 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

The Company has been informed of the holding of voting rights of 5% or more attaching to the Company's issued ordinary share capital by Jardine Strategic, which is directly interested in 1,109,336,616 ordinary shares carrying 49.32% of the voting rights. By virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares. Apart from this shareholding, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 18th March 2009.

There were no contracts of significance with corporate substantial shareholders during the year under review.

## Relations with Shareholders

The Company maintains a dialogue with major shareholders and holds meetings following the announcement of the annual and interim results with institutional shareholders. A corporate website is maintained containing a wide range of information of interest to investors at [www.hkland.com](http://www.hkland.com).

The 2009 Annual General Meeting will be held on 6th May 2009. The full text of the resolutions and explanatory notes in respect of the meeting are contained in the Notice of Meeting which accompanies this Report.

## Securities Purchase Arrangements

At the Annual General Meeting held on 7th May 2008, shareholders renewed the approval of a general mandate authorising the Directors to effect purchases by the Company or its subsidiaries of the Company's own ordinary shares of less than 15% in aggregate of its issued share capital.

During the year, the Company repurchased and cancelled 45,900,000 ordinary shares of the Company for an aggregate consideration of US\$120 million. The repurchased ordinary shares represented 2% of the Company's issued ordinary share capital.

## Related Party Transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in Note 31 to the financial statements on pages 50 and 51. There were no transactions entered into by the Company during the course of the year to which the related party transaction rules of the FSA in the United Kingdom apply.

# Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on page 60 of the Corporate Governance section of this Report. The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Disclosure and Transparency Rules issued by the Financial Services Authority of the United Kingdom and are in addition to the matters referred to in the Chairman's Statement and Chief Executive's Review.

## Economic Risk

The Group is exposed to the risk of negative developments in global and regional economies, and financial and property markets, either directly or through the impact on the Group's joint venture partners, bankers, suppliers or tenants. These developments can result in:

- recession, inflation, deflation and currency fluctuations;
- restrictions in the availability of credit, increases in financing and construction costs and business failures; and
- reductions in office and retail rents, office and retail occupancy and sales prices of, and demand for, residential developments.

Such developments might increase costs of sales and operating costs, reduce revenues, or result in reduced valuations of the Group's investment properties or in the Group being unable to meet in full its strategic objectives.

## Commercial Risk and Financial Risk

Risks are an integral part of normal commercial practices, and where practicable steps are taken to mitigate such risks. These risks are further pronounced when operating in volatile markets.

The Group makes significant investment decisions in respect of commercial and residential development projects that take time to come to fruition and achieve the desired returns and are, therefore, subject to market risks. These risks are further pronounced when operating in volatile markets.

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product specification or levels of service can have an adverse effect on earnings as can construction risks in relation to new developments. Significant pressure from such competition may lead to reduced margins. The quality and safety of the products and services provided by the Group are also important and there is an associated risk if they are below standard.

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Review on pages 13 to 14 and in Note 2 to the Financial Statements on pages 25 to 28.

## Regulatory and Political Risk

The Group is subject to a number of regulatory environments in the territories in which it operates. Changes in the regulatory approach to such matters as foreign ownership of assets and businesses, exchange controls, planning controls, tax rules and employment legislation have the potential to impact the operations and profitability of the Group. Changes in the political environment in such territories can also affect the Group.

## Terrorism, Pandemic and Natural Disasters

A number of the Group's interests are vulnerable to the effects of terrorism, either directly through the impact of an act of terrorism or indirectly through the impact of generally reduced economic activity in response to the threat of or an actual act of terrorism.

The Group would be impacted by a global or regional pandemic which could be expected to seriously affect economic activity and the ability of our business to operate smoothly. In addition, many of the territories in which the Group is active can experience from time to time natural disasters such as earthquakes and typhoons.



# Shareholder Information

## Financial Calendar

2008 full-year results announced	5th March 2009
Share registers closed	23rd to 27th March 2009
Annual General Meeting to be held	6th May 2009
2008 final dividend payable	13th May 2009
2009 half-year results to be announced	6th August 2009*
Share registers to be closed	31st August to 4th September 2009*
2009 interim dividend payable	21st October 2009*

\* Subject to change

## Dividends

Shareholders will receive their dividends in United States Dollars, unless they are registered on the Jersey branch register where they will have the option to elect for sterling. These shareholders may make new currency elections for the 2008 final dividend by notifying the United Kingdom transfer agent in writing by 24th April 2009. The sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 29th April 2009. Shareholders holding their shares through The Central Depository (Pte) Limited ("CDP") in Singapore will receive United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

## Registrars and Transfer Agent

Shareholders should address all correspondence with regard to their shareholdings or dividends to the appropriate registrar or transfer agent.

### Principal Registrar

Jardine Matheson International Services Limited  
P O Box HM 1068  
Hamilton HM EX  
Bermuda

### Jersey Branch Registrar

Capita Registrars (Jersey) Limited  
12 Castle Street  
St Helier, Jersey JE2 3RT  
Channel Islands

### Singapore Branch Registrar

M & C Services Private Limited  
138 Robinson Road #17-00  
The Corporate Office  
Singapore 068906

### United Kingdom Transfer Agent

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham, Kent BR3 4TU  
England

Press releases and other financial information can be accessed through the Internet at [www.hkland.com](http://www.hkland.com).

# Management and Offices

## Hongkong Land Limited

### Directors

A J L Nightingale Chairman  
Y K Pang Chief Executive  
G M Brown Finance Director  
R M J Chow  
R Garman  
Jonathan Gould  
Mark Greenberg  
D P Lamb  
James Riley  
J A Robinson  
M Whitehead  
R Wong

### Corporate Secretary

N M McNamara

## Offices

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Y K Pang

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Robert Garman

### Hongkong Land (Asia Management) Limited

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Shirley Lam

### Hongkong Land (Beijing) Management Company Limited

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Joe Kwok

### Hongkong Land (Chongqing) Management Company Limited

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lcf@hklandbj.com  
Joe Kwok / Ling Chang Feng

## Representative Offices

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Stanley Ko / Vincent Sun

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Cosimo Jencks

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E-mail: handrew@hkland.com  
Hugh Andrew

# Report of the Valuers

## **To Hongkong Land Holdings Limited**

Dear Sirs,

Revaluation of Commercial Investment Properties Held on Leases

Further to your instructions, we have valued in our capacity as external valuers the commercial investment properties held on leases as described in the Annual Report of Hongkong Land Holdings Limited. We are of the opinion that the market value of the commercial investment properties held on leases in Hong Kong, Singapore and Vietnam as at 31st December 2008, totalled US\$13,686,700,000 (United States Dollars Thirteen Thousand Six Hundred Eighty Six Million and Seven Hundred Thousand).

Our valuations are prepared in accordance with the International Valuation Standards ('IVS') (Eighth Edition 2007) by the International Valuation Standards Committee and The HKIS Valuation Standards on Properties by The Hong Kong Institute of Surveyors.

We have inspected the properties without either making structural surveys or testing the services. We have been supplied with details of tenure, tenancies and other relevant information.

In arriving at our opinion, each property was valued individually, on market value basis, calculated on the net income allowing for reversionary potential, however no allowance has been made for expenses of realisation or for taxation which might arise in the even of disposal.

Yours faithfully,

**Jones Lang LaSalle Ltd**

Hong Kong, 5th March 2009

# Property Portfolio

at 31st December 2008

## Commercial Investment Property

	LETTABLE AREA			Total levels	Year of completion	Lease expiry
	Total	Office	Retail			
	(in thousands of square feet)					
<b>Hong Kong*</b>						
Alexandra House	372	323	49	37	1976	2899
Chater House	464	418	46	33	2002	2898
Exchange Square	1,476					2057**
One Exchange Square		566	–	52	1985	
Two Exchange Square		508	–	51	1985	
Three Exchange Square		321	–	33	1988	
Podium		–	49	3	1985	
The Forum		–	32	5	1988	
The Hong Kong Club Building	148	142	6	25	1984	2009
Jardine House	661	621	40	52	1973	2045**
The Landmark	1,325					2842
Gloucester Tower		470	–	48	1980	
Atrium		–	261	8	1980	
Edinburgh Tower		338	143	47	1983	
York House		113	–	26	2006	
Prince's Building	547	402	145	29	1965	2895
	<u>4,993</u>	<u>4,222</u>	<u>771</u>			
<b>Singapore</b>						
One Raffles Link	<u>309</u>	<u>236</u>	<u>73</u>	10	2000	2095
<b>Hanoi, Vietnam</b>						
Central Building	41	37	4	9	1995	2033
63 Lý Thái Tô'	74	68	6	10	1998	2039
	<u>115</u>	<u>105</u>	<u>10</u>			

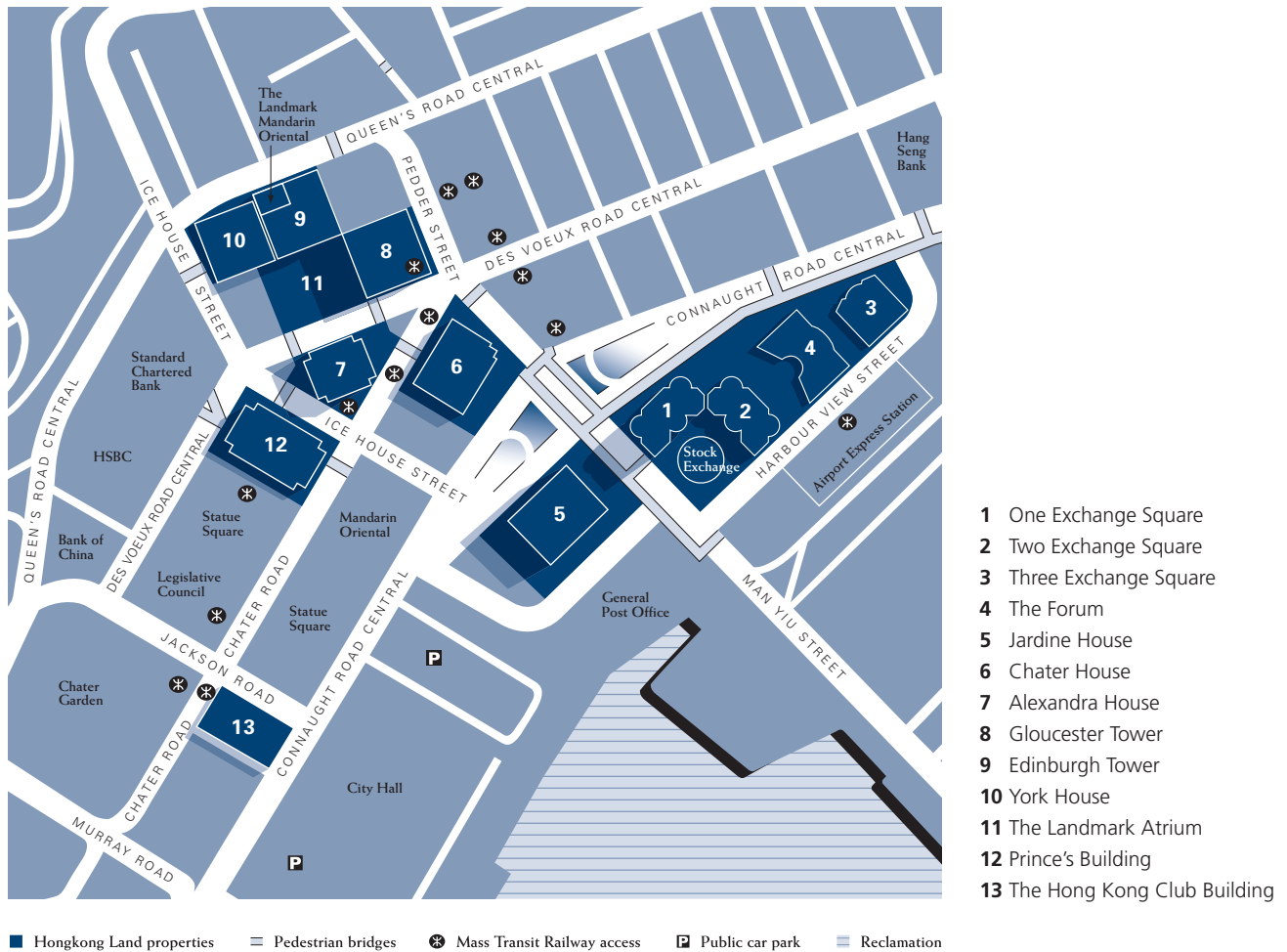
\* Property in Hong Kong is almost entirely held under leases originally granted from the Crown. Under the Basic Law of the Hong Kong Special Administrative Region, all rights in relation to such leases will continue to be recognised and protected. All the Group's investment properties are leasehold and directly held under these leases, except for an interest in the non-Club area of The Hong Kong Club Building which is held under a sub-lease from The Hong Kong Club.

\*\* There is an option to renew these leases for a further term of 75 years.

## Residential Development Property for sale

	Address	Site area	Lease expiry
<b>Hong Kong</b>			
The Sail at Victoria	Victoria Road	10,735 sq. ft	2056
Tai Hang Road	Tai Hang Road	66,713 sq. ft	2113
<b>Singapore</b>			
Tierra Vue	St. Patrick's Road	113,471 sq. ft	Freehold
The Fernhill	Fernhill Road/Stevens Road/Orange Grove Road	29,168 sq. ft	Freehold
Waterfall Gardens	Farrer Road	160,925 sq. ft	Freehold
D'Pavilion	Upper Serangoon Road	46,098 sq. ft	Freehold
The Peak@Balmeg	Balmeg Hill	184,143 sq. ft	Freehold
Hillcrest Villa	Hillcrest Road	256,486 sq. ft	2105
Lot 6185M 9866T MK 17	Boon Teck Road	27,858 sq. ft	Freehold
Lots 570N, 571X, 611N, 612X & 613L TS 26	Ewe Boon Road	63,572 sq. ft	Freehold
Lot 4239X MK 04	Sixth Avenue / Jalan Haji Alias	69,018 sq. ft	Freehold
Lot 3078 MK 19	Yishun Avenue 1 / Avenue 2	290,080 sq. ft	2107
Lots 7289V, 9052L & 9053C MK 27	Upper East Coast Road	65,110 sq. ft	Freehold
Lot 8547P & 8550P MK 18	Nim Road	193,267 sq. ft	Freehold

# Properties in Hong Kong's Central Business District



Since the founding of Hong Kong in 1842, a quarter square mile of land in Central has been the focus of business, finance and Government. Today, it is also the location of Hongkong Land's unique portfolio of interconnected buildings. The northern shoreline of Hong Kong Island has been reclaimed four times to create this area. The latest major reclamation is part of the Hong Kong SAR Government's far-sighted 'Metropool', which is creating new land for infrastructure to support future economic growth. Phase 1 of the Central and Wanchai Reclamation was started in 1993 and completed in 1998. It has provided 20 hectares of new land contiguous with Hongkong Land's portfolio, strengthening the focus of the Central business and financial district as well as adding new facilities including the Central Station of the Airport Railway. The new phase of the reclamation has commenced in 2003, and is expected to be completed by the end of 2009. It will add 18 hectares of new land to the east of Phase 1 and house the underground Central Wanchai Bypass and North Hong Kong Island line as well as the waterfront promenade.

The Group's portfolio accounts for a substantial portion of the prime office space in Hong Kong's Central business and financial district. Located within this area are the Hong Kong head offices of many of the world's leading banks, the Stock Exchange, the Legislative Council Building and the Hong Kong SAR Central Government Offices, as well as an unequalled concentration of the world's finest retail names.



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# Beyond Central & Regional Developments

## Singapore



One Raffles Link



CityLink Mall



Marina Bay Financial Centre



One Raffles Quay

## Thailand



The Peak@Balmeg



D'Pavilion



Gaysorn

## Vietnam



Central Building



63 Ly Thai To

## Indonesia



Jakarta Land

## Macau



One Central

## Hong Kong



The Sail at Victoria



Tai Hang Road

## Beijing



Central Park

## Chongqing



Bamboo Grove

## Shenyang



Park Life



**Hongkong Land Holdings Limited**

Jardine House Hamilton Bermuda

