

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Turnover	4	1,680	1,638
Property expenses		(235)	(217)
Gross profit		1,445	1,421
Investment income	6	38	63
Other gains and losses	7	(3)	146
Administrative expenses		(133)	(134)
Finance costs	8	(131)	(155)
Change in fair value of investment properties		1,249	(212)
Share of results of associates		768	590
Profit before taxation		3,233	1,719
Taxation	9	(396)	(1)
Profit for the year	10	2,837	1,718
Profit for the year attributable to:			
Owners of the Company		2,716	1,594
Minority interests		121	124
		2,837	1,718
Earnings per share (expressed in HK cents)	15		
Basic		259.60	153.37
Diluted		259.50	153.36

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	2009 HK\$ million	2008 HK\$ million
Profit for the year		<b>2,837</b>	1,718
Other comprehensive income:	11		
Fair value gains (losses) on available-for-sale investments		37	(1,351)
Fair value gains (losses) on cash flow hedges		5	(28)
Gain on revaluation of properties held for own use		1	3
Share of translation reserve of an associate		(1)	155
Other comprehensive income (expense) for the year (net of tax)		<b>42</b>	(1,221)
Total comprehensive income for the year		<b>2,879</b>	497
Total comprehensive income attributable to:			
Owners of the Company		<b>2,758</b>	373
Minority interests		<b>121</b>	124
		<b>2,879</b>	497

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
<b>Non-current assets</b>			
Investment properties	16	37,363	35,850
Property, plant and equipment	17	81	80
Prepaid lease payments	18	121	123
Investments in associates	20	2,517	1,750
Available-for-sale investments	21	1,002	1,022
Other financial assets	22	177	242
Other receivables		31	29
		<b>41,292</b>	<b>39,096</b>
<b>Current assets</b>			
Accounts receivable and other receivables	23	83	94
Amount due from an associate	25	369	590
Other financial assets	22	120	41
Short-term investments	26	-	700
Time deposits	27	1,945	964
Cash and bank balances	27	39	51
		<b>2,556</b>	<b>2,440</b>
<b>Current liabilities</b>			
Accounts payable and accruals	28	314	320
Rental deposits from tenants		127	158
Amounts due to minority shareholders	29	327	327
Borrowings	30	400	550
Taxation payable		45	351
		<b>1,213</b>	<b>1,706</b>
<b>Net current assets</b>		<b>1,343</b>	<b>734</b>
<b>Total assets less current liabilities</b>		<b>42,635</b>	<b>39,830</b>
<b>Non-current liabilities</b>			
Borrowings	30	3,491	3,201
Other financial liabilities	22	36	41
Rental deposits from tenants		273	230
Deferred taxation	31	3,881	3,648
		<b>7,681</b>	<b>7,120</b>
<b>Net assets</b>		<b>34,954</b>	<b>32,710</b>
<b>Capital and reserves</b>			
Share capital	32	5,253	5,206
Reserves		28,415	26,263
<b>Equity attributable to owners of the Company</b>		<b>33,668</b>	<b>31,469</b>
<b>Minority interests</b>		<b>1,286</b>	<b>1,241</b>
<b>Total equity</b>		<b>34,954</b>	<b>32,710</b>

The consolidated financial statements on pages 84 to 150 were approved and authorised for issue by the Board of Directors on 10 March 2010 and are signed on its behalf by:

**David AKERS-JONES**  
Director

**Gerry L.F. YIM**  
Director

# STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
<b>Non-current assets</b>			
Property, plant and equipment	17	8	5
Investments in subsidiaries	19	-	-
Available-for-sale investments	21	2	2
Other receivables		-	1
		<b>10</b>	<b>8</b>
<b>Current assets</b>			
Other receivables		4	3
Amounts due from subsidiaries	24	12,743	12,869
Time deposits	27	566	100
Cash and bank balances	27	8	41
		<b>13,321</b>	<b>13,013</b>
<b>Current liabilities</b>			
Other payable and accruals		34	31
Amounts due to subsidiaries	24	192	59
Taxation payable		3	40
		<b>229</b>	<b>130</b>
<b>Net current assets</b>		<b>13,092</b>	<b>12,883</b>
<b>Net assets</b>		<b>13,102</b>	<b>12,891</b>
<b>Capital and reserves</b>			
Share capital	32	5,253	5,206
Reserves	33	7,849	7,685
<b>Total equity</b>		<b>13,102</b>	<b>12,891</b>

The financial statements on pages 84 to 150 were approved and authorised for issue by the Board of Directors on 10 March 2010 and are signed on its behalf by:

**David AKERS-JONES**  
Director

**Gerry L.F. YIM**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company			
	Share capital HK\$ million	Share premium HK\$ million	Share options reserve HK\$ million	Capital redemption reserve HK\$ million
At 1 January 2008	5,187	1,541	6	276
Profit for the year	–	–	–	–
Change in fair value of available-for-sale investments	–	–	–	–
Transfer to profit and loss on disposal of available-for-sale investments	–	–	–	–
Change in fair value of derivatives designated as cash flow hedge	–	–	–	–
Transfer to profit and loss for cash flow hedges	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use	–	–	–	–
Share of reserve of an associate	–	–	–	–
Total comprehensive income (expense) for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	18	63	–	–
Issue of shares under share option schemes	1	2	(1)	–
Recognition of equity-settled share-based payments	–	–	5	–
Forfeiture of share options	–	–	(1)	–
Dividends paid during the year (note 14)	–	–	–	–
At 31 December 2008	5,206	1,606	9	276
Profit for the year	–	–	–	–
Change in fair value of available-for-sale investments	–	–	–	–
Transfer to profit and loss on disposal of available-for-sale investments	–	–	–	–
Change in fair value of derivatives designated as cash flow hedge	–	–	–	–
Transfer to profit and loss for cash flow hedges	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Share of reserve of an associate	–	–	–	–
Total comprehensive income (expense) for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	47	96	–	–
Issue of shares under share option schemes	–	1	–	–
Recognition of equity-settled share-based payments	–	–	6	–
Forfeiture of share options	–	–	(5)	–
Dividends paid during the year (note 14)	–	–	–	–
At 31 December 2009	<b>5,253</b>	<b>1,703</b>	<b>10</b>	<b>276</b>

## Attributable to owners of the Company

General reserve HK\$ million	Investments revaluation reserve HK\$ million	Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Minority interests HK\$ million	Total HK\$ million
100	2,123	1	9	(1)	22,410	31,652	1,196	32,848
-	-	-	-	-	1,594	1,594	124	1,718
-	(1,165)	-	-	-	-	(1,165)	-	(1,165)
-	(186)	-	-	-	-	(186)	-	(186)
-	-	(31)	-	-	-	(31)	-	(31)
-	-	3	-	-	-	3	-	3
-	-	-	4	-	-	4	-	4
-	-	-	(1)	-	-	(1)	-	(1)
-	-	-	-	155	-	155	-	155
-	(1,351)	(28)	3	155	1,594	373	124	497
-	-	-	-	-	-	81	-	81
-	-	-	-	-	-	2	-	2
-	-	-	-	-	-	5	-	5
-	-	-	-	-	1	-	-	-
-	-	-	-	-	(644)	(644)	(79)	(723)
100	772	(27)	12	154	23,361	31,469	1,241	32,710
-	-	-	-	-	2,716	2,716	121	2,837
-	40	-	-	-	-	40	-	40
-	(3)	-	-	-	-	(3)	-	(3)
-	-	(12)	-	-	-	(12)	-	(12)
-	-	17	-	-	-	17	-	17
-	-	-	1	-	-	1	-	1
-	-	-	-	(1)	-	(1)	-	(1)
-	37	5	1	(1)	2,716	2,758	121	2,879
-	-	-	-	-	-	143	-	143
-	-	-	-	-	-	1	-	1
-	-	-	-	-	-	6	-	6
-	-	-	-	-	5	-	-	-
-	-	-	-	-	(709)	(709)	(76)	(785)
100	809	(22)	13	153	25,373	33,668	1,286	34,954

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
<b>Operating activities</b>		
Profit before taxation	3,233	1,719
Adjustments for:		
Other gains and losses	3	(146)
Finance costs	131	155
Change in fair value of investment properties	(1,249)	212
Share of results of associates	(768)	(590)
Dividend income	(27)	(48)
Interest income	(11)	(15)
Depreciation of property, plant and equipment	6	6
Amortisation of prepaid lease payments	1	–
Share-based payment expenses	6	5
Operating cash flows before movements in working capital	1,325	1,298
Increase in accounts receivable and other receivables	(2)	(17)
Increase in held-for-trading investments	–	(56)
Increase in accounts payable and accruals	14	23
Decrease in equity derivatives	–	65
Increase in rental deposits from tenants	12	49
Cash generated from operations	1,349	1,362
Hong Kong profits tax paid	(469)	(189)
Hong Kong profits tax refund	–	6
<b>Net cash from operating activities</b>	<b>880</b>	<b>1,179</b>
<b>Investing activities</b>		
Interest received	8	12
Dividends received from available-for-sale investments	27	48
Proceeds on disposal of available-for-sale investments	44	272
Proceeds upon maturity of principal-protected deposits	40	78
Repayment from associates	221	6
Payments in respect of investment properties	(242)	(345)
Purchases of property, plant and equipment	(8)	(5)
Additions to principal-protected deposits	(112)	–
Increase in time deposits with original maturity over three months	(1,551)	–
<b>Net cash (used in) from investing activities</b>	<b>(1,573)</b>	<b>66</b>

	Note	2009 HK\$ million	2008 HK\$ million
<b>Financing activities</b>			
Interest paid		(119)	(125)
Bank charges		(4)	(8)
Medium Term Note Programme expenses		(1)	(1)
Payment for front-end fees		(1)	(4)
Payment for hedging expenses		(2)	(2)
Dividends paid		(566)	(562)
Dividends paid to minority shareholders of a subsidiary		(76)	(79)
Repayment of bank loans		(70)	–
Repayment of floating rate notes		(550)	–
New bank loans		599	200
Issue of fixed rate notes		–	565
Issue of floating rate notes		200	–
Proceeds on exercise of share options		1	2
<b>Net cash used in financing activities</b>		<b>(589)</b>	<b>(14)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(1,282)</b>	<b>1,231</b>
<b>Cash and cash equivalents at 1 January</b>		<b>1,715</b>	<b>484</b>
<b>Cash and cash equivalents at 31 December</b>	27	<b>433</b>	<b>1,715</b>

# SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2009

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies adopted are as follows:

## 1. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## 2. Investments in Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

## 3. Investments in Associates

An associate is an entity over which the Group or the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 4. Investment Properties

Investment properties are properties held to earn rental and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. If an investment property becomes an item of property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

#### 4. Investment Properties continued

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amount is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

#### 5. Property, Plant and Equipment

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair values at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

If an item of property, plant and equipment and the relevant leasehold land becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

#### 6. Prepaid Lease Payments

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments, which are carried at cost less subsequent accumulated amortisation and accumulated impairment losses, and is amortised to the consolidated income statement on a straight-line basis over the terms of relevant land leases except for those that are classified and accounted for as investment properties under the fair value model and those transferred from investment properties to property, plant and equipment.

#### 7. Impairment of Non-Financial Assets

At the end of each reporting period, the Group and the Company review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 7. Impairment of Non-Financial Assets continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 8. Financial Instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### (a) Financial assets

The Group's financial assets are classified into one of the four categories, including (i) financial assets at fair value through profit or loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity investments and (iv) available-for-sale financial assets. The Company's financial assets are classified into (i) loans and receivables and (ii) available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

#### (i) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than the one held for trading may be designated as at FVTPL upon initial recognition if it contains one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including accounts receivable and other receivables, amounts due from subsidiaries, amount due from an associate, time deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated listed debt securities, which are denominated in Hong Kong dollars and US dollars (see note 26 of the notes to the financial statements section), as held-to-maturity investments. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

## 8. Financial Instruments continued

### (a) Financial assets continued

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group and the Company designated investments in equity securities and club debentures (if any) as available-for-sale financial assets. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets (including certain equity securities investments and club debentures) are measured at fair value. Changes in fair value are recognised in equity in the investments revaluation reserve until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition (see accounting policy on impairment of financial assets below).

#### (v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

#### (vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and amounts due from subsidiaries and an associate, where the carrying amount is reduced through the use of an allowance account (if any). Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account receivable or an amount due from a subsidiary or an associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 8. Financial Instruments continued

### (a) Financial assets continued

#### (vi) Impairment of financial assets continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### (vii) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group or the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

### (b) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group or the Company after deducting all of its liabilities. The Group's financial liabilities are generally classified into (i) financial liabilities at FVTPL and (ii) other financial liabilities. The Company's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### (i) Financial liabilities at FVTPL

Financial liabilities at FVTPL, that are classified as held for trading, comprise derivatives that are not designated and effective as hedging instruments.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

#### (ii) Other financial liabilities

Other financial liabilities (including accounts payable and accruals, other payable, amounts due to subsidiaries, amounts due to minority shareholders and borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### (iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to repurchase the Company's own equity instruments are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### (iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis for financial liabilities, other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

## 8. Financial Instruments continued

### (b) Financial liabilities and equity continued

#### (v) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### (c) Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### (d) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### (e) Hedge accounting

The Group designates certain derivatives as hedging instruments as either fair value hedge or cash flow hedge.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### (i) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair values of the hedged items that are attributable to the hedged risk. The adjustment to the carrying amount of the hedged item for which the effective interest is used is amortised to profit or loss when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date the amortisation begins.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

##### (ii) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (hedging reserve). The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss accumulated in equity is recognised immediately in profit or loss.

## 9. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Management fee income and security service income are recognised when services are rendered.

Dividend income from investments including financial assets at FVTPL is recognised when the shareholders' right to receive payments has been established.

Interest income from a financial asset excluding financial assets at FVTPL is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 10. Leases

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

### (a) The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

### (b) The Company as lessee

Operating lease payments, including the leasehold interests in land, are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 11. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

## 12. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 13. Retirement Benefit Costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

### 14. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### (a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's or the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### (b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group or the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### 15. Equity-Settled Share-Based Payment Transactions

#### Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group and the Company revise their estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 1. General

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Shareholder Information” section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are property investment, management and development.

These financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group and the Company had applied a number of new and revised Standards, Amendments to Standards and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Except as described below, the adoption of these new and revised HKFRSs had no material effect on the financial statements of the Group or the Company for the current and/or prior accounting years. Accordingly, no prior year adjustment has been required.

### HKAS 1 (Revised 2007) – Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

### HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure Standard that has resulted in a disclosure of the Group’s reportable segments (see note 5).

### Amendments to HKFRS 7 – Financial Instruments: Disclosures

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group and the Company have not early applied the following new and revised Standards, Amendments to Standards or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>5</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>5</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) continued

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group’s financial assets.

In addition, as part of “Improvements to HKFRSs 2009”, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 will affect the classification and measurement of the Group’s leasehold land.

The Directors of the Company anticipate that the application of the other new and revised Standards, Amendments to Standards or Interpretations will have no material impact on the financial statements of the Group or the Company.

## 3. Key Sources of Estimation Uncertainty

In the application of the Group’s accounting policies, which are described in the “Significant Accounting Policies” section, the management of the Company is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Fair value of investment properties

At the end of the reporting period, the Group’s investment properties are stated at fair value of HK\$37,363 million (2008: HK\$35,850 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuers have based on market value basis which involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and reversionary income potential and redevelopment potential. In relying on the valuation, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

### Fair value of financial instruments

Financial instruments, such as interest rate swaps, cross currency swaps and foreign exchange derivatives, are carried in the statement of financial position at fair value, as disclosed in note 22. The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates. Most of the financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the “Financial Risk Management” section.

#### **4. Turnover**

Turnover represents gross rental income from investment properties and management fee income for the year.

The Group's principal activities are property investment, management and development and its turnover and results are principally derived from investment properties located in Hong Kong.

#### **5. Segment Information**

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segment (business and geographical) using a risks and returns approach.

In the past, the Group's turnover and results are principally derived from investment properties located in Hong Kong, no business or geographical segment is therefore presented. However, information reported to the Group's management for the purpose of resource allocation and assessment of performance is specifically focused on the type of usage of space (e.g. commercial, residential) within the Group's properties portfolio as each type of usage has different tenant base and requires different marketing strategies. As such, the application of HKFRS 8 has resulted in a disclosure of the Group's reportable segments as follows:

Office segment – leasing of high quality office space and related facilities

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Residential segment – leasing of luxury residential properties and related facilities

## 5. Segment Information continued

### Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable segment.

	Office HK\$ million	Retail HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2009</b>				
<b>Turnover</b>				
Gross rental income from investment properties	635	584	257	1,476
Management fee income	112	64	28	204
	<b>747</b>	<b>648</b>	<b>285</b>	<b>1,680</b>
Property expenses	(109)	(73)	(53)	(235)
<b>Segment profits</b>	<b>638</b>	<b>575</b>	<b>232</b>	<b>1,445</b>
Investment income				38
Other gains and losses				(3)
Administrative expenses				(133)
Finance costs				(131)
Change in fair value of investment properties				1,249
Share of results of associates				768
Profit before taxation				<b>3,233</b>
<b>For the year ended 31 December 2008</b>				
<b>Turnover</b>				
Gross rental income from investment properties	603	563	264	1,430
Management fee income	117	63	28	208
	<b>720</b>	<b>626</b>	<b>292</b>	<b>1,638</b>
Property expenses	(101)	(71)	(45)	(217)
<b>Segment profits</b>	<b>619</b>	<b>555</b>	<b>247</b>	<b>1,421</b>
Investment income				63
Other gains and losses				146
Administrative expenses				(134)
Finance costs				(155)
Change in fair value of investment properties				(212)
Share of results of associates				590
Profit before taxation				<b>1,719</b>

All of the segment turnover reported above is from external customers.

The accounting policies of the reporting segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of investment income, central administration costs and directors' salaries, other gains and losses, finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the Group's management for the purpose of resource allocation and performance assessment.

## 5. Segment Information continued

### Segment assets and liabilities

The following is an analysis of the Group's assets by reportable segment.

	Office HK\$ million	Retail HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>As at 31 December 2009</b>				
Segment assets	14,100	10,580	7,051	31,731
Investment properties under redevelopment				5,640
Investments in associates				2,517
Other assets				3,960
Consolidated assets				43,848
<b>As at 31 December 2008</b>				
Segment assets	13,602	10,156	6,832	30,590
Investment properties under redevelopment				5,270
Investments in associates				1,750
Other assets				3,926
Consolidated assets				41,536

Segment assets represented the fair value of investment properties and accounts receivable of each segment without allocation of property, plant and equipment, prepaid lease payments, investments in associates, amount due from an associate, financial instruments and other receivables. This is the measure reported to the Group's management for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profits. No segment liabilities analysis is presented as the Group's management monitored and managed all the liabilities on a group basis.

Other than the investments in associates, which operated in the People's Republic of China (the "PRC") and Singapore with carrying amounts of HK\$2,514 million and HK\$3 million respectively, all the Group's assets are located in Hong Kong.

### Other segment information

	Office HK\$ million	Retail HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2009</b>				
Additions to non-current assets	33	42	2	77
Additions to investment properties under redevelopment				184
				261
<b>For the year ended 31 December 2008</b>				
Additions to non-current assets	39	201	8	248
Additions to investment properties under redevelopment				107
				355

## 6. Investment Income

	2009 HK\$ million	2008 HK\$ million
Investment income comprises:		
Dividends from		
– listed investments	27	47
– unlisted investments	–	1
Interest income	11	15
	<b>38</b>	<b>63</b>

Investment income earned on financial assets not designated as at fair value through profit or loss (“FVTPL”), is as follows:

	2009 HK\$ million	2008 HK\$ million
Loans and receivables (including time deposits and bank balances)	11	15
Available-for-sale equity investments	27	48
	<b>38</b>	<b>63</b>

Investment income recognised in respect of financial assets designated as at FVTPL is disclosed in note 7.

## 7. Other Gains and Losses

	2009 HK\$ million	2008 HK\$ million
Other gains and losses comprise:		
Change in fair value of financial assets designated as at FVTPL	3	–
Change in fair value of financial assets or financial liabilities classified as held for trading	(8)	(52)
Cumulative gain reclassified from equity on disposal of investments classified as available-for-sale	3	186
(Losses) gains on hedging instruments under fair value hedge	(52)	124
Gains (losses) on adjustment for hedged items under fair value hedge	59	(112)
Amortisation of fair value gain adjusted to hedged items under fair value hedge in prior years	(8)	–
	<b>(3)</b>	<b>146</b>

## 8. Finance Costs

	2009 HK\$ million	2008 HK\$ million
Finance costs comprise:		
Interest on bank loans and overdrafts wholly repayable within five years	16	27
Interest on floating rate notes wholly repayable within five years	5	17
Interest on fixed rate notes wholly repayable within five years	99	99
Interest on fixed rate notes not wholly repayable within five years	30	11
Imputed interest on zero coupon notes not wholly repayable within five years	12	12
Total interest expenses	162	166
Less: Amounts capitalised	(1)	–
	161	166
Net interest receipts on interest rate swap and cross currency swaps	(57)	(29)
Fair value losses reclassified from equity on financial instruments designated as cash flow hedges	17	3
Medium Term Note Programme expenses	1	1
Other finance costs	9	14
	131	155

## 9. Taxation

	2009 HK\$ million	2008 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	161	166
– underprovision in prior years	2	26
– prior years' tax provision (Note)	–	72
	163	264
Deferred tax (note 31)		
Change in fair value of investment properties	207	(28)
Other temporary differences	26	(12)
Attributable to change in tax rate	–	(223)
	233	(263)
	396	1

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

## 9. Taxation continued

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2009 HK\$ million	2008 HK\$ million
Profit before taxation	3,233	1,719
Tax at Hong Kong profits tax rate of 16.5%	533	284
Tax effect of share of results of associates	(127)	(97)
Tax effect of expenses not deductible for tax purposes	3	11
Tax effect of income not taxable for tax purposes	(8)	(51)
Tax effect of estimated tax losses not recognised	2	21
Tax effect of deductible temporary differences not recognised	3	6
Reversal of previously recognised taxable temporary differences	(9)	(24)
Reversal of deductible temporary differences previously not recognised	(2)	–
Utilisation of estimated tax losses previously not recognised	(1)	(24)
Effect of change in tax rate	–	(223)
Underprovision in prior years	2	26
Prior years' tax provision	–	72
Taxation for the year	396	1

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's buildings held for own use has been charged directly to equity (see note 31).

Note:

As disclosed in the annual reports published in previous years, the Group had been in dispute for a considerable period of time with the Hong Kong Inland Revenue Department (the "IRD") on interest deductions made in years of assessment dating back to 1995/1996. Taking into consideration professional advice and recent developments, the Group entered into a settlement with the IRD. Total claim amount of HK\$450 million, which was fully provided at 31 December 2008, was settled during the year by cash payment of HK\$268 million and tax reserve certificates of HK\$182 million already purchased in prior years.

## 10. Profit for the Year

	2009 HK\$ million	2008 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2	2
Amortisation of prepaid lease payments	1	–
Depreciation of property, plant and equipment	6	6
Gross rental income from investment properties	(1,476)	(1,430)
Less:		
– Direct operating expenses arising from properties that generated rental income	231	214
– Direct operating expenses arising from properties that did not generate rental income	4	3
	(1,241)	(1,213)
Staff costs, comprising:		
– Directors' emoluments (note 12)	17	17
– Share-based payments	2	2
– Other staff costs	135	126
	154	145
Share of income tax of an associate (included in share of results of associates)	286	181

## 11. Other Comprehensive Income

	2009 HK\$ million	2008 HK\$ million
Other comprehensive income comprises:		
Available-for-sale investments		
– Gains (losses) arising during the year	40	(1,165)
– Reclassification adjustments for the cumulative gain included in profit or loss upon disposal	(3)	(186)
	37	(1,351)
Cash flow hedges		
– Losses arising during the year	(12)	(31)
– Reclassification adjustments for losses included in profit or loss	17	3
	5	(28)
Gain on revaluation of properties held for own use	1	4
Share of translation reserve of an associate	(1)	155
Other comprehensive income (expense)	42	(1,220)
Income tax relating to components of other comprehensive income (see below)	–	(1)
Other comprehensive income (expense) for the year (net of tax)	42	(1,221)

Tax effect relating to other comprehensive income:

	Before-tax amount HK\$ million	2009 Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	2008 Tax expense HK\$ million	Net-of-tax amount HK\$ million
Fair value gains (losses) on available-for-sale investments	37	–	37	(1,351)	–	(1,351)
Fair value gains (losses) on cash flow hedges	5	–	5	(28)	–	(28)
Gain on revaluation of properties held for own use	1	–	1	4	(1)	3
Share of translation reserve of an associate	(1)	–	(1)	155	–	155
	42	–	42	(1,220)	(1)	(1,221)

## 12. Directors' Emoluments

	2009 HK\$ million	2008 HK\$ million
Directors' fees	1	1
Other emoluments		
Basic salaries, housing and other allowances	9	10
Bonus	3	3
Share-based payments (note 39)	4	3
Retirement benefits scheme contributions	–	–
	17	17

## 12. Directors' Emoluments continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2009, calculated with reference to their employment as Directors of the Company, are set out below:

	Directors' fees HK\$'000 (Note a)	Basic salaries, housing and other allowances HK\$'000 (Note b)	Bonus HK\$'000 (Note b)	Share-based payments HK\$'000 (Note c)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2009</b>						
<b>Executive Directors</b>						
Peter Ting Chang LEE (Note d)	151	3,583	1,467	1,825	242	7,268
Wendy Wen Yee YUNG	100	2,711	742	984	131	4,668
Gerry Lui Fai YIM (Note e)	8	322	–	95	–	425
Ricky Tin For TSANG (Note f)	74	2,167	318	657	9	3,225
<b>Non-executive Directors</b>						
Hans Michael JEBSEN	120	–	–	–	–	120
Anthony Hsien Pin LEE	130	–	–	–	–	130
Chien LEE	130	–	–	–	–	130
Dr. Deanna Ruth Tak Yung RUDGARD	100	–	–	–	–	100
<b>Independent non-executive Directors</b>						
Sir David AKERS-JONES (Note g)	229	–	–	–	–	229
Fa-kuang HU	120	–	–	–	–	120
Dr. Geoffrey Meou-tsen YEH (Note h)	156	–	–	–	–	156
Nicholas Charles ALLEN (Note i)	20	–	–	–	–	20
Tom BEHRENS-SORENSEN (Note h)	49	–	–	–	–	49
	1,387	8,783	2,527	3,561	382	16,640
<b>For the year ended 31 December 2008</b>						
<b>Executive Directors</b>						
Peter Ting Chang LEE	190	4,454	1,457	1,395	12	7,508
Wendy Wen Yee YUNG (Note j)	75	2,085	526	656	9	3,351
Ricky Tin For TSANG (Note j)	75	2,085	526	638	9	3,333
Pauline Wah Ling YU WONG (Note k)	37	1,040	608	96	104	1,885
<b>Non-executive Directors</b>						
Hans Michael JEBSEN	120	–	–	–	–	120
Anthony Hsien Pin LEE	130	–	–	–	–	130
Chien LEE	130	–	–	–	–	130
Dr. Deanna Ruth Tak Yung RUDGARD	100	–	–	–	–	100
<b>Independent non-executive Directors</b>						
Sir David AKERS-JONES	230	–	–	–	–	230
Fa-kuang HU	120	–	–	–	–	120
Dr. Geoffrey Meou-tsen YEH	140	–	–	–	–	140
Tom BEHRENS-SORENSEN	130	–	–	–	–	130
	1,477	9,664	3,117	2,785	134	17,177

## 12. Directors' Emoluments continued

Notes:

(a) Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2009 is set out below:

	Emoluments					2009 Total HK\$'000	2008 Total HK\$'000
	Board HK\$'000	Audit Committee HK\$'000	Review Committee HK\$'000	Investment Committee HK\$'000	Nomination Committee HK\$'000		
<b>Executive Directors</b>							
Peter Ting Chang LEE (Note d)	111	–	–	16	24	151	190
Wendy Wen Yee YUNG	100	–	–	–	–	100	75
Gerry Lui Fai YIM (Note e)	8	–	–	–	–	8	–
Ricky Tin For TSANG (Note f)	74	–	–	–	–	74	75
Pauline Wah Ling YU WONG (Note k)	–	–	–	–	–	–	37
<b>Non-executive Directors</b>							
Hans Michael JEBSEN	100	–	–	20	–	120	120
Anthony Hsien Pin LEE	100	–	–	30	–	130	130
Chien LEE	100	30	–	–	–	130	130
Dr. Deanna Ruth Tak Yung RUDGARD	100	–	–	–	–	100	100
<b>Independent non-executive Directors</b>							
Sir David AKERS-JONES (Note g)	124	53	30	–	22	229	230
Fa-kuang HU	100	–	20	–	–	120	120
Dr. Geoffrey Meou-tsen YEH (Note h)	100	16	20	–	20	156	140
Nicholas Charles ALLEN (Note i)	12	8	–	–	–	20	–
Tom BEHRENS-SORENSEN (Note h)	38	11	–	–	–	49	130
	1,067	118	70	66	66	1,387	1,477

(b) Year 2009:

In March 2009, the Emoluments Review Committee reviewed the 2009 fixed base salary of the Company's executive Directors and determined their 2008 performance-based bonus. It approved their proposal to freeze their fixed base salary for 2009. The stated bonus figures show the 2008 performance-based bonus approved by the Committee and paid to Executive Directors, namely HK\$1,466,750 for Peter Ting Chang LEE, HK\$742,256 for Wendy Wen Yee YUNG and HK\$318,110 for Ricky Tin For TSANG respectively, with reference to their employment as Directors of the Company.

Year 2008:

In March 2008, the Emoluments Review Committee reviewed the 2008 fixed base salary of the Company's executive Directors and determined their 2007 performance-based bonus. It was decided to make an increment on their base salary as from April 2008. The stated bonus figure includes adjustment for 2007 bonus accrued in 2007 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2008), and 2008 target bonus figures pending finalisation by the Emoluments Review Committee after year-end in March 2009.

- (c) Share-based payments are the fair values of share options granted to Directors, which are determined at the date of grant and expensed over the vesting period, regardless of whether the Directors exercise the share options or not during the year.
- (d) Peter Ting Chang LEE passed away on 17 October 2009.
- (e) Gerry Lui Fai YIM was appointed as Executive Director on 1 December 2009.
- (f) Ricky Tin For TSANG resigned as Executive Director, Finance on 29 September 2009.
- (g) Sir David AKERS-JONES was appointed as Acting Chairman and Chairman of Nomination Committee on 18 October 2009. He stepped down from the Audit Committee on 17 November 2009 upon the appointment of Nicholas Charles ALLEN.
- (h) Tom BEHRENS-SORENSEN resigned as Independent non-executive Director and a member of the Audit Committee on 18 May 2009, and Dr. Geoffrey Meou-tsen YEH was appointed a member of the Audit Committee in his stead on 18 June 2009.
- (i) Nicholas Charles ALLEN was appointed as Independent non-executive Director and Chairman of the Audit Committee on 17 November 2009.
- (j) Wendy Wen Yee YUNG and Ricky Tin For TSANG were appointed as Executive Directors on 1 April 2008. The figures stated refer to their respective emoluments received or receivable as Executive Directors.
- (k) Pauline Wah Ling YU WONG retired from the Board of the Company by rotation as from the conclusion of 2008 Annual General Meeting held on 14 May 2008. She remained as Senior Advisor to the Company until 31 December 2008 when she retired from the Company. The figure stated refers to her emoluments received as Executive Director.

### 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2008: four) were Directors of the Company, details of whose emoluments are included in note 12 above. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 December 2009 and 2008 were as follows:

	2009 HK\$ million	2008 HK\$ million
Basic salaries, housing and other allowances	14	15
Bonus	4	4
Incentive paid on joining	-	4
Share-based payments (Note)	4	3
	<b>22</b>	<b>26</b>

Note:

Share-based payments are the fair values of share options granted to Directors and eligible employees, which are determined at the date of grant and expensed over the vesting period, regardless of whether the Directors or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

	Number of individuals	
	2009	2008
HK\$2,500,001 to HK\$3,000,000	1	-
HK\$3,000,001 to HK\$3,500,000	2	-
HK\$4,000,001 to HK\$4,500,000	-	2
HK\$4,500,001 to HK\$5,000,000	1	-
HK\$5,000,001 to HK\$5,500,000	-	2
HK\$7,000,001 to HK\$7,500,000	1	-
HK\$7,500,001 to HK\$8,000,000	-	1
	<b>5</b>	<b>5</b>

### 14. Dividends

#### (a) Dividends recognised as distribution during the year:

	2009 HK\$ million	2008 HK\$ million
2009 interim dividend paid – HK14 cents per share	147	-
2008 interim dividend paid – HK14 cents per share	-	146
2008 final dividend paid – HK54 cents per share	562	-
2007 final dividend paid – HK48 cents per share	-	498
	<b>709</b>	<b>644</b>

Scrip dividend alternatives were offered to the shareholders in respect of the above dividends. These alternatives were accepted by the shareholders as follows:

	2009 HK\$ million	2008 HK\$ million
2009 interim dividend (2008 interim dividend):		
– Cash payment	132	135
– Share alternative	15	11
2008 final dividend (2007 final dividend):		
– Cash payment	434	428
– Share alternative	128	70
	<b>709</b>	<b>644</b>

## 14. Dividends continued

### (b) Dividends proposed after the end of the reporting period:

	2009 HK\$ million	2008 HK\$ million
Final dividend proposed – HK54 cents per share (2008: HK54 cents per share)	<b>567</b>	562

The 2009 final dividend of HK54 cents per share (2008: HK54 cents per share) has been proposed by the Directors on 10 March 2010 and is subject to approval by the shareholders at the forthcoming annual general meeting. Such dividend is not recognised as a liability as at 31 December 2009.

The proposed 2009 final dividend will be payable in cash with a scrip dividend alternative.

## 15. Earnings per Share

### (a) Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Earnings	
	2009 HK\$ million	2008 HK\$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	<b>2,716</b>	1,594
	Number of shares	
	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,046,243,250</b>	1,039,339,066
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<b>384,981</b>	73,471
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,046,628,231</b>	1,039,412,537

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares for both 2009 and 2008.

## 15. Earnings per Share continued

### (b) Adjusted basic earnings per share

For the purpose of assessing the performance of the Group's principal activities (i.e. leasing of investment properties), the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

	2009		2008	
	Profit HK\$ million	Basic earnings per share HK cents	Profit HK\$ million	Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	2,716	259.60	1,594	153.37
Change in fair value of investment properties	(1,249)	(119.38)	212	20.40
Effect of deferred taxation on change in fair value of investment properties	207	19.78	(236)	(22.71)
Effect of minority interests' shares	45	4.30	43	4.14
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(606)	(57.92)	(412)	(39.64)
Underlying profit attributable to owners of the Company	1,113	106.38	1,201	115.56
Net realised gain on disposal of available-for-sale investments	(3)	(0.29)	(166)	(15.97)
Prior years' tax provision	-	-	72	6.93
Gain on disposal of investment properties of an associate	-	-	(41)	(3.95)
Recurring underlying profit	1,110	106.09	1,066	102.57

The denominators used are the same as those detailed above for basic earnings per share.

## 16. Investment Properties

	The Group	
	2009 HK\$ million	2008 HK\$ million
<b>Fair value</b>		
At 1 January	35,850	35,711
Additions	261	355
Transfer from property, plant and equipment and prepaid lease payments	3	–
Transfer to property, plant and equipment	–	(4)
Net change in fair value recognised in profit or loss	1,249	(212)
At 31 December	37,363	35,850

The carrying amount of investment properties shown above comprises:

	The Group	
	2009 HK\$ million	2008 HK\$ million
Land in Hong Kong:		
– Medium-term lease	6,400	6,240
– Long lease	30,963	29,610
	37,363	35,850

The fair values of the Group's investment properties at 31 December 2009 and 2008 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The Group's investment properties have been valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties. The valuation was mainly arrived at by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

## 17. Property, Plant and Equipment

	Leasehold land and buildings in Hong Kong HK\$ million	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>The Group</b>					
<b>Cost or valuation</b>					
At 1 January 2008	62	53	21	1	137
Additions	–	3	1	1	5
Transfer from investment properties	4	–	–	–	4
Disposals	–	–	–	(1)	(1)
Surplus on revaluation	2	–	–	–	2
At 31 December 2008	68	56	22	1	147
Additions	–	3	5	–	8
Transfer to investment properties	(2)	–	–	–	(2)
At 31 December 2009	<b>66</b>	<b>59</b>	<b>27</b>	<b>1</b>	<b>153</b>
Comprising:					
At cost	–	59	27	1	87
At valuation 2009	66	–	–	–	66
	66	59	27	1	153
<b>Accumulated depreciation</b>					
At 1 January 2008	–	46	17	1	64
Provided for the year	2	2	2	–	6
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on revaluation	(2)	–	–	–	(2)
At 31 December 2008	–	48	19	–	67
Provided for the year	1	3	2	–	6
Eliminated on revaluation	(1)	–	–	–	(1)
At 31 December 2009	–	<b>51</b>	<b>21</b>	–	<b>72</b>
<b>Carrying amounts</b>					
At 31 December 2009	<b>66</b>	<b>8</b>	<b>6</b>	<b>1</b>	<b>81</b>
At 31 December 2008	68	8	3	1	80

## 17. Property, Plant and Equipment continued

	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>The Company</b>				
<b>Cost</b>				
At 1 January 2008	22	20	1	43
Additions	–	1	1	2
Disposals	–	–	(1)	(1)
At 31 December 2008	22	21	1	44
Additions	1	4	–	5
At 31 December 2009	<b>23</b>	<b>25</b>	<b>1</b>	<b>49</b>
<b>Accumulated depreciation</b>				
At 1 January 2008	21	16	1	38
Provided for the year	–	2	–	2
Eliminated on disposals	–	–	(1)	(1)
At 31 December 2008	21	18	–	39
Provided for the year	–	2	–	2
At 31 December 2009	<b>21</b>	<b>20</b>	<b>–</b>	<b>41</b>
<b>Carrying amounts</b>				
At 31 December 2009	<b>2</b>	<b>5</b>	<b>1</b>	<b>8</b>
At 31 December 2008	1	3	1	5

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The Group's leasehold land and buildings were revalued at 31 December 2009 by Knight Frank Petty Limited, an independent qualified professional valuer, on market value basis, by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income. The gain of HK\$1 million (2008: HK\$4 million) arising on revaluation have been recognised in other comprehensive income and accumulated in equity.

Had the Group's buildings been measured on a historical cost basis, their carrying amounts would have been HK\$49 million (2008: HK\$53 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$22 million (2008: HK\$20 million) and accumulated depreciation of HK\$19 million (2008: HK\$18 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$1 million (2008: HK\$1 million).

There is no property, plant and equipment of the Company held for renting out under operating leases for the year or at the end of the reporting period.

## 18. Prepaid Lease Payments

	The Group	
	2009 HK\$ million	2008 HK\$ million
At 1 January	123	123
Transfer to investment properties	(1)	–
Amortised for the year	(1)	–
At 31 December	121	123

The Group's prepaid lease payments represent leasehold land in Hong Kong held under long lease, and are amortised on a straight-line basis over the terms of leases.

## 19. Investments in Subsidiaries

The Company's investments in subsidiaries are the interest in unlisted shares stated at cost.

The table below lists the principal subsidiaries of the Group at 31 December 2009 and 2008:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			directly	indirectly	
Admore Investments Limited	Hong Kong	HK\$2	100%	–	Investment holding
Golden Capital Investment Limited	Hong Kong	HK\$2	100%	–	Investment holding
HD Treasury Limited	Hong Kong	HK\$2	100%	–	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK\$1	100%	–	Investment holding
Hysan Leasing Company Limited	Hong Kong	HK\$2	100%	–	Leasing administration
Hysan Property Management Limited	Hong Kong	HK\$2	100%	–	Property management
Hysan Treasury Limited	Hong Kong	HK\$2	100%	–	Treasury operation
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	100%	–	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	100%	–	Property investment
Minsal Limited	Hong Kong	HK\$2	100%	–	Property investment
Mondsee Limited	Hong Kong	HK\$2	100%	–	Property investment
Stangard Limited	Hong Kong	HK\$300,000	100%	–	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK\$2	100%	–	Investment holding
Tohon Development Limited	Hong Kong	HK\$2	100%	–	Property investment
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	–	100%	Resident club management
Earn Extra Investments Limited	Hong Kong	HK\$1	–	100%	Property investment
Gearup Investments Limited	Hong Kong	HK\$1	–	100%	Property development
HD Investment Limited	British Virgin Islands	HK\$1	–	100%	Investment holding
Kochi Investments Limited	British Virgin Islands	HK\$1	–	100%	Capital market investment
Lee Theatre Realty Limited	Hong Kong	HK\$10	–	100%	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	–	100%	Property investment

## 19. Investments in Subsidiaries continued

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			directly	indirectly	
Main Rise Development Limited	Hong Kong	HK\$2	–	100%	Investment holding
OHA Property Company Limited	Hong Kong	HK\$2	–	100%	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	–	100%	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	–	100%	Property investment
Barrowgate Limited	Hong Kong	HK\$10,000	–	65.36%	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Group. Other than floating rate notes, fixed rate notes and zero coupon notes issued by Hysan (MTN) Limited as disclosed in note 30, none of the subsidiaries had issued any debt securities at the end of the reporting period.

## 20. Investments in Associates

	The Group		The Company	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Cost of unlisted investments	3	3	–	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	2,511	1,744	–	–
	<b>2,514</b>	<b>1,747</b>	–	–
Loan to an associate	109	106	–	–
Less: Loss allocated in excess of cost of investments	(106)	(103)	–	–
	<b>3</b>	<b>3</b>	–	–
	<b>2,517</b>	<b>1,750</b>	–	–

Loan to an associate of HK\$109 million (2008: HK\$106 million) is unsecured and interest-free. In the opinion of the Directors, the loan is considered as part of the Group's net investment in the associate and, accordingly, the loan is included in the amount of investments in associates.

## 20. Investments in Associates continued

Details of the Group's associates at 31 December 2009 and 2008 are as follows:

Name of associate	Form of business structure	Place of registration and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited	Private limited company	Hong Kong	Ordinary share	26.3%*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd	Sino-Foreign equity joint venture	The PRC	US\$165,000,000 <sup>#</sup>	24.7%*	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd	Sino-Foreign equity joint venture	The PRC	US\$140,000 <sup>#</sup>	23.7%*	Property management
Wingrove Investment Pte Ltd	Private company limited by shares	Singapore	Ordinary share	25.0%*	Property development and investment, and being inactive in both 2009 and 2008

\* Indirectly held

<sup>#</sup> Registered capital

The summarised financial information in respect of the Group's associates based on the unaudited management accounts for the year ended 31 December 2009 and 2008 is as follows:

	2009 HK\$ million	2008 HK\$ million
Total assets	14,973	11,968
Total liabilities	(5,122)	(5,182)
Net assets	9,851	6,786
Group's share of net assets of associates	2,408	1,644
Turnover	1,085	952
Profit for the year	2,939	2,240
Group's share of results of associates for the year	768	590

## 21. Available-For-Sale Investments

	The Group		The Company	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Available-for-sales investments comprise:				
Listed investments:				
– Equity securities listed in Hong Kong, at fair value	997	982	–	–
Unlisted investments:				
– Overseas equity securities, at cost	58	93	–	–
Less: Impairment loss recognised	(55)	(55)	–	–
	3	38	–	–
– Club debentures, at fair value	2	2	2	2
	1,002	1,022	2	2

The overseas equity securities represent the Group's investments in unlisted equity securities issued by private entities incorporated in Singapore. These private entities are engaged in property investment and development activities in Singapore. They are measured at cost less any identified impairment loss at the end of each reporting period because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

In the current year, one of the private entities incorporated in Singapore was dissolved. The carrying amount of the unlisted equity security issued by the entity was HK\$35 million before dissolution, which approximated the Group's share of the net assets of the investee upon its dissolution. The Group received an advance of HK\$35 million from this investee in prior years and was included in other payables. The payable owed to the investee by the Group was settled by the distribution which the Group entitled at the time of dissolution of the investee, which constituted a non-cash transaction. There is no gain or loss resulted from the dissolution of the unlisted equity investment.

## 22. Other Financial Assets/Liabilities

	Current		Non-current	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
<b>Other financial assets</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	-	1	1	1
– Cross currency swaps	-	-	2	2
– Interest rate swaps	-	-	1	-
– Basis swaps	1	-	-	-
Fair value hedges				
– Interest rate swaps	1	-	29	71
– Cross currency swaps	-	-	-	83
	<b>2</b>	<b>1</b>	<b>33</b>	<b>157</b>
Other derivatives classified as held for trading (not under hedge accounting):				
– Cross currency swaps	-	-	62	-
Financial assets designated as at FVTPL:				
– Principal-protected deposits	118	40	82	85
<b>Total</b>	<b>120</b>	<b>41</b>	<b>177</b>	<b>242</b>
<b>Other financial liabilities</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Interest rate swaps	-	-	27	31
Other derivatives classified as held for trading (not under hedge accounting):				
– Net basis swaps	-	-	9	10
<b>Total</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>41</b>

### (a) Cash flow hedges

#### (i) Foreign currency risk

During the year, the Group designated forward foreign exchange contracts and cross currency swaps as cash flow hedges to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swaps have been negotiated to match the major terms of the respective designated hedged items and the management considered that the hedges are highly effective.

## 22. Other Financial Assets/Liabilities continued

### (a) Cash flow hedges continued

#### (i) Foreign currency risk continued

The table below is prepared based on the maturity dates of respective contracts. The major terms of these forward foreign exchange contracts and cross currency swaps are as follows:

	The Group							
	2009				2008			
	Average exchange rate*	Notional amount		Fair value	Average exchange rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Forward foreign exchange contracts</b>								
<b>Buy USD (Note a)</b>								
Within 1 year	7.6366	5	35	-	7.4738	5	34	1
More than 1 year but not exceeding 5 years	7.6137	6	49	1	7.6231	11	84	1
	7.6231	11	84	1	7.5794	16	118	2
<b>Sell USD (Note b)</b>								
Within 1 year	7.7479	27	209	-	-	-	-	-
More than 1 year but not exceeding 5 years	7.7254	4	31	-	-	-	-	-
	7.7450	31	240	-	-	-	-	-
<b>Cross currency swaps</b>								
<b>Hedging interest and principal of USD bank loans (Note c)</b>								
More than 1 year but not exceeding 5 years	7.7753	51	399	2	7.8000	26	200	2
<b>Total</b>		<b>93</b>	<b>723</b>	<b>3</b>		<b>42</b>	<b>318</b>	<b>4</b>

\* Average exchange rate represented the average HKD:USD exchange rate weighted by the notional amounts of the contracts or the swaps.

#### Notes:

- The Group designated HK\$84 million (2008: HK\$118 million) forward foreign exchange contracts as cash flow hedges to hedge the foreign exchange rate risk in relation to the semi-annual coupon payment of US\$65 million out of the US\$182 million fixed rate notes.
- The Group designated HK\$240 million (2008: nil) forward foreign exchange contracts as cash flow hedges to hedge the foreign exchange rate risk of almost all the principal amount of time deposits and principal-protected deposits denominated in USD at their respective maturity dates.
- The Group used HK\$399 million (2008: HK\$200 million) cross currency swaps to convert USD interest and principal of US\$51 million (2008: US\$26 million) bank loans into HKD.

As at 31 December 2009, fair value gains of HK\$4 million (2008: HK\$4 million) from the forward foreign exchange contracts and cross currency swaps have been recognised in other comprehensive income and accumulated in equity, and are expected to be released to the consolidated income statements at various dates when the hedged items are recognised in profit or loss.

During the year, gains of HK\$2 million (2008: HK\$3 million) on forward foreign exchange contracts and cross currency swaps were reclassified from equity to profit or loss as finance costs.

The fair values of forward foreign exchange contracts and cross currency swaps are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swaps.

## 22. Other Financial Assets/Liabilities continued

### (a) Cash flow hedges continued

#### (ii) Interest rate risk

During the year, the Group used interest rate swaps and basis swaps to hedge its interest rate risk exposure. The terms of the swaps have been negotiated to match the major terms of the respective hedged underlying items so that the management considered that the interest rate swaps and basis swaps are highly effective hedging instruments.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these interest rate swaps and basis swaps are as follows:

	The Group							
	2009				2008			
	Average interest rate*	Notional amount		Fair value	Average interest rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Interest rate swaps</b>								
<b>Hedging interest of HKD bank loans</b> (Note a)								
More than 1 year but not exceeding 5 years	3.12%	n/a	325	(12)	3.12%	n/a	325	(15)
More than 5 years	3.65%	n/a	200	1	–	n/a	–	–
	3.32%	n/a	525	(11)	3.12%	n/a	325	(15)
<b>Hedging floating-interest-rate payments of financial instruments</b> (Note b)								
Within 1 year	2.96%	n/a	200	–	–	n/a	–	–
More than 1 year but not exceeding 5 years	3.39%	n/a	400	(15)	3.38%	n/a	400	(16)
	3.25%	n/a	600	(15)	3.38%	n/a	400	(16)
<b>Basis swaps</b>								
<b>Hedging interest of HKD bank loans</b> (Note c)								
Within 1 year	0.48%	n/a	325	–	–	n/a	–	–
<b>Hedging interest of USD bank loans</b> (Note d)								
Within 1 year	0.29%	51	399	1	–	–	–	–
<b>Total</b>			<b>1,849</b>	<b>(25)</b>			<b>725</b>	<b>(31)</b>

\* For interest rate swaps, the average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month Hong Kong Interbank Offered Rate (“HIBOR”) or 6-month HIBOR weighted by the notional amounts of the swaps. For basis swaps, the average interest rate represented the average spread (weighted by the notional amounts of the swaps) that was added to 1-month HIBOR or 1-month London-Interbank Offered Rate (“LIBOR”) received by the Group against 3-month HIBOR or 3-month LIBOR paid by the Group.

n/a – not applicable

## 22. Other Financial Assets/Liabilities continued

### (a) Cash flow hedges continued

#### (ii) Interest rate risk continued

Notes:

- The Group entered into HK\$525 million (2008: HK\$325 million) interest rate swaps to manage its exposure to interest rate changes of the monthly or quarterly interest payments of HKD bank loans. HK\$200 million of the swaps will be effective in 2012 for hedging forecasted transactions of borrowings at that time.
- The Group used HK\$600 million (2008: HK\$400 million) interest rate swaps to hedge the interest rate risk in relation to the semi-annual or quarterly floating-interest-rate payments of certain financial instruments.
- The Group used HK\$325 million (2008: nil) basis swaps to combine with interest rate swaps mentioned in note (a) to hedge the interest rate changes of the monthly or quarterly interest payments of HK\$325 million bank loans.
- The Group used HK\$399 million (2008: nil) basis swaps to combine with cross currency swaps mentioned in note (c) of "foreign currency risk" to hedge the interest rate changes of the monthly or quarterly interest payments of US\$51 million bank loans.

As at 31 December 2009, net fair value losses of HK\$26 million (2008: HK\$31 million) from the interest rate swaps and basis swaps under cash flow hedges have been recognised in other comprehensive income and accumulated in equity, and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest expenses are recognised and impacts profit or loss.

During the year, losses of HK\$19 million (2008: HK\$6 million) on interest rate swaps and basis swaps were reclassified from equity to profit or loss as finance costs.

The fair values of interest rate swaps and basis swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

### (b) Fair value hedges

The Group uses interest rate swaps to minimise its exposure to fair value changes of its HKD fixed rate notes and zero-coupon notes by swapping the notes from fixed rates to floating rates. The major terms of the interest rate swaps match the corresponding notes and the management considered that the swaps are highly effective hedging instruments.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these interest rate swaps are as follows:

	The Group							
	2009				2008			
	Average interest/exchange rate*	Notional amount		Fair value	Average interest/exchange rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Interest rate swaps</b>								
(Note a)								
Within 1 year	1.17%	n/a	200	1	–	n/a	–	–
More than 1 year but not exceeding 5 years	1.42%	n/a	65	–	–	n/a	–	–
More than 5 years	4.32%	n/a	551	29	4.32%	n/a	539	71
	3.32%	n/a	816	30	4.32%	n/a	539	71
<b>Cross currency swaps</b>								
(Note b)								
More than 1 year but not exceeding 5 years	–	–	–	–	7.7998	117	913	83
			816	30			1,452	154

\* The average interest rate represented the average fixed interest rate (weighted by the notional amounts of the interest rate swaps) received by the Group against payments of 3-month HIBOR. The average exchange rate represented the average HKD:USD exchange rate weighted by the notional amounts of the cross currency swaps.

n/a – not applicable

## 22. Other Financial Assets/Liabilities continued

### (b) Fair value hedges continued

Notes:

- (a) The Group designated HK\$816 million (2008: HK\$539 million) fixed-to-floating interest rate swaps to hedge interest rate risk related to part of the coupon payments of the HK\$565 million (2008: HK\$300 million) fixed rate notes. The Group also used a fixed-to-floating interest rate swap to hedge the zero coupon notes with nominal amount of HK\$430 million by converting a fixed rate of 5.19% per annum to HIBOR plus 0.69% per annum.
- (b) In 2008, the Group designated HK\$913 million cross currency swaps as fair value hedges to manage the interest rate and foreign exchange risks by converting the 7% USD coupon payments into 6-month HIBOR plus 1.93% per annum in average in relation to US\$117 million of the US\$182 million fixed rate notes. The Group will also receive US\$117 million (equivalent to HK\$913 million) at maturity under the swaps. In 2009, the management decided to revoke the hedging relationship and the hedge accounting is discontinued prospectively. The cross currency swaps, accordingly, are accounted for as derivatives not under hedge accounting.

As a result of the hedge accounting, the carrying amount of the fixed rate notes as at 31 December 2009 was adjusted by a net gain of approximately HK\$1 million (2008: net loss of HK\$22 million) while the carrying amount of the zero coupon notes as at 31 December 2009 was adjusted by losses of approximately HK\$7 million (2008: HK\$36 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

The fair values of interest rate swaps and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and quoted foreign exchange rates.

### (c) Financial assets designated as at FVTPL

The Group entered into certain contracts of structured deposits with certain financial institutions. The structured deposits are principal-protected at the maturity dates and contain embedded derivatives which are not closely related to the host contracts. The interest rates of such deposits vary in relation to the relative movements of the underlying, such as foreign exchange rates and HKD swap rates. The entire combined contracts have been designated as financial assets at FVTPL on initial recognition.

The notional amount and the maturity period of the principal-protected deposits are as follows:

	The Group			
	2009		2008	
	Notional amount HK\$ million	Fair value HK\$ million	Notional amount HK\$ million	Fair value HK\$ million
Within 1 year	111	118	40	40
More than 1 year but not exceeding 5 years	81	82	80	85
	192	200	120	125

## 22. Other Financial Assets/Liabilities continued

### (d) Other derivatives classified as held for trading (not under hedge accounting)

At the end of the reporting period, the Group had certain derivatives classified as held for trading and not under hedge accounting. The table below is prepared based on the maturity dates of respective contracts. The major terms of these derivatives are as follows:

	The Group							
	2009				2008			
	Average interest/ exchange rate*	Notional amount		Fair value	Average interest/ exchange rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Net basis swaps</b> (Note a)								
More than 1 year but not exceeding 5 years	7.8000	65	507	(9)	7.8000	65	507	(10)
<b>Cross currency swaps</b> (Note b)								
More than 1 year but not exceeding 5 years	7.7998	117	913	62	–	–	–	–
<b>Interest rate swap</b> (Note c)								
More than 1 year but not exceeding 5 years	1.49%	n/a	65	–	–	n/a	–	–
<b>Forward foreign exchange contracts</b>								
<b>Sell USD</b> (Note d)								
Within 1 year	–	–	–	–	7.7491	27	209	–
<b>Buy USD</b> (Note e)								
Within 1 year	–	–	–	–	7.7480	5	39	–

\* For net basis swaps, cross currency swaps and forward foreign exchange contracts, the average exchange rate represented the average HKD:USD exchange rate weighted by their notional amounts. For interest rate swap, the average interest rate represented the fixed interest rate received by the Group against payment of 3-month HIBOR.

Notes:

- The Group entered into net basis swaps to minimise the foreign currency exposure in relation to the principal payment of the US\$65 million of the US\$182 million fixed rate notes at maturity.
- As mentioned in note (b) of “fair value hedges” section, the management decided to revoke the hedging relationship on HK\$913 million cross currency swaps in 2009 and reclassified the swaps as derivatives not under hedge accounting. The swaps continued to be used to manage the interest rate and foreign exchange risks of US\$117 million of the US\$182 million fixed rate notes.
- The Group used HK\$65 million fixed-to-floating interest rate swap to manage the interest rate risk in relation to the quarterly interest payment of part of the Group’s borrowings.
- As at 31 December 2008, the Group used HK\$209 million forward foreign exchange contracts to manage the foreign currency exposures of the Group’s listed debt securities denominated in USD.
- As at 31 December 2008, the Group used HK\$39 million forward foreign exchange contracts to manage the foreign currency exposures in relation to the potential investments denominated in USD.

n/a – not applicable

## 23. Accounts Receivable

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$8 million (2008: HK\$10 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

## 24. Amounts due from/to Subsidiaries

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

## 25. Amount due from an Associate

The amount due from an associate is unsecured, interest-free and repayable on demand.

## 26. Short-Term Investments

	The Group	
	2009 HK\$ million	2008 HK\$ million
Held-to-maturity debt securities maturing within one year, at amortised cost		
Debt securities listed in Hong Kong	-	491
Debt securities listed in overseas	-	209
	-	700
Market value of held-to-maturity debt securities		
Debt securities listed in Hong Kong	-	491
Debt securities listed in overseas	-	209
	-	700

At 31 December 2008, the effective yield of the debt securities ranged from -1.34% to 0.06% per annum. All the investments in listed debt securities matured during the year.

## 27. Time Deposits/Cash and Bank Balances

	The Group	
	2009 HK\$ million	2008 HK\$ million
Time deposits	1,945	964
Cash and bank balances	39	51
Cash and deposits with banks shown in the consolidated statement of financial position	1,984	1,015
Less: Time deposits with original maturity over three months	(1,551)	-
Add: Held-to-maturity debt securities maturing within three months	-	700
Cash and cash equivalents shown in the consolidated statement of cash flows	433	1,715

Included in the Company's time deposits as at 31 December 2009, HK\$455 million (2008: nil) were time deposits with original maturity over three months. The bank balances and remaining time deposits of the Company were with original maturity of three months or less.

Time deposits, cash and bank balances comprise cash and bank deposits carrying effective interest rates ranging from 0.0001% to 1.17% (2008: 0.01% to 1.54%) per annum.

## 28. Accounts Payable

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$139 million (2008: HK\$90 million) were aged less than 90 days.

## 29. Amounts due to Minority Shareholders

The amounts due to minority shareholders are unsecured, interest-free and repayable on demand.

## 30. Borrowings

The analysis of the carrying amounts of borrowings is as follows:

	The Group			
	Current 2009 HK\$ million	2008 HK\$ million	Non-current 2009 HK\$ million	2008 HK\$ million
Unsecured bank loans	400	–	1,049	920
Floating rate notes	–	550	200	–
Fixed rate notes	–	–	1,980	2,003
Zero coupon notes	–	–	262	278
	400	550	3,491	3,201

In the current year, the average finance cost of the Group's total borrowings calculated based on their contracted interest rates was 4.2% (2008: 5.2%). To manage the interest rate and foreign exchange risks, the Group used certain derivatives to hedge part of the borrowings, which resulted in a reduction of the Group's average finance cost to 3.1% (2008: 4.4%). At 31 December 2009, the floating rate debt ratio was 64.9% (2008: 59.5%).

### (a) Unsecured bank loans

The unsecured bank loans of HK\$1,449 million (2008: HK\$920 million) are guaranteed as to principal and interest by the Company and are repayable as follows:

	The Group	
	2009 HK\$ million	2008 HK\$ million
Within 1 year	400	–
More than 1 year, but not exceeding 2 years	650	70
More than 2 years, but not exceeding 5 years	399	850
	1,449	920

All the Group's unsecured bank loans were variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) ranging from 0.35% to 1.48% (2008: 0.79% to 5.11%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to six months.

As disclosed in note 22(a), cross currency swaps and interest rate swaps were designated as cash flow hedges to hedge the foreign exchange and interest rate risks of part of the Group's unsecured bank loans at the end of the reporting period.

### (b) Floating rate notes

In the current year, HK\$550 million five-year floating rate notes matured and HK\$200 million five-year floating rate notes were newly issued by Hysan (MTN) Limited, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company, bear effective interest rates (which are equal to contracted interest rates) of 1.19% per annum at the end of reporting period and are repayable in full in 2014.

Both HK\$200 million and HK\$550 million five-year floating rate notes were not hedged by any derivative as at 31 December 2009 and 31 December 2008 respectively.

### 30. Borrowings continued

#### (c) Fixed rate notes

	The Group	
	2009 HK\$ million	2008 HK\$ million
Fixed rate notes – principal amount	1,981	1,981
Add: Net (gain) loss attributable to hedged risks	(1)	22
	<b>1,980</b>	<b>2,003</b>

Details of the Group's fixed rate notes at 31 December 2009 and 2008 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
US\$182 million*	7.00%	semi-annual basis	February 2002	February 2012
HK\$300 million	5.25%	quarterly basis	August 2008	August 2015
HK\$100 million	5.10%	annual basis	August 2008	August 2015
HK\$165 million	5.38%	annual basis	September 2008	September 2020

\* In February 2002, US\$200 million 10-year fixed rate notes were issued by Hysan (MTN) Limited. In 2006, a total nominal amount of US\$18 million was repurchased and cancelled. The outstanding nominal amount of the notes at the end of the reporting period was US\$182 million.

All the fixed rate notes were issued by Hysan (MTN) Limited. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 22, forward foreign exchange contracts, interest rate swaps, cross currency swaps and net basis swaps were used to hedge or manage the foreign exchange and interest rate risks of the Group's fixed rate notes at the end of the reporting period.

At 31 December 2009, the net gain of HK\$1 million represented (i) the change in fair value attributable to the hedged interest rate risk of the HK\$565 million fixed rate notes under fair value hedge and (ii) the unamortised fair value gain adjusted to the US\$117 million fixed rate notes upon the discontinuation of hedge accounting over the cross currency swaps (see note 22(b) for details).

At 31 December 2008, the net loss of HK\$22 million represented changes in fair value attributable to (i) the hedged interest rate and foreign exchange rate risks of the US\$117 million fixed rate notes under fair value hedge and (ii) the hedged interest rate risk of the HK\$300 million fixed rate notes under fair value hedge.

#### (d) Zero coupon notes

	The Group	
	2009 HK\$ million	2008 HK\$ million
Zero coupon notes	255	242
Add: Net loss attributable to hedged risk	7	36
	<b>262</b>	<b>278</b>

In February 2005, 15-year zero coupon notes of nominal amount of HK\$430 million were issued at an issue price of around 46.37% of the nominal amount by Hysan (MTN) Limited. The notes are guaranteed as to nominal amount by the Company, bear an effective yield (which is equal to contracted yield) at the rate of 5.19% per annum and are repayable at par in February 2020.

Hysan (MTN) Limited has the option to redeem the notes on 7 February 2015 at a price of about 77.4% of the nominal amount.

The Group has entered into an interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedge (see note 22(b) for details).

The net loss of approximately HK\$7 million (2008: HK\$36 million) represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

### 31. Deferred taxation

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Total HK\$ million
<b>The Group</b>				
At 1 January 2008	264	3,647	(1)	3,910
Charge (credit) to profit or loss (note 9)	1	(28)	(13)	(40)
Charge to equity for the year	–	1	–	1
Effect of change in tax rate	(15)	(208)	–	(223)
At 31 December 2008	250	3,412	(14)	3,648
Charge to profit or loss (note 9)	16	207	10	233
At 31 December 2009	<b>266</b>	<b>3,619</b>	<b>(4)</b>	<b>3,881</b>

At the end of the reporting period, the Group has unused estimated tax losses of HK\$534 million (2008: HK\$593 million), of which HK\$252 million (2008: HK\$250 million) has not been agreed by IRD, available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$24 million (2008: HK\$85 million) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK\$510 million (2008: HK\$508 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK\$55 million (2008: HK\$49 million) arisen from the revaluation of properties. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Company does not have any unused tax loss at the end of the reporting period.

### 32. Share Capital

	Number of shares		Share capital	
	2009	2008	2009 HK\$ million	2008 HK\$ million
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	<b>1,450,000,000</b>	1,450,000,000	<b>7,250</b>	7,250
Issued and fully paid:				
At 1 January	<b>1,041,114,578</b>	1,037,469,756	<b>5,206</b>	5,187
Issue of shares pursuant to scrip dividend schemes	<b>9,413,512</b>	3,528,155	<b>47</b>	18
Exercise of share options	<b>80,000</b>	116,667	<b>–</b>	1
At 31 December	<b>1,050,608,090</b>	1,041,114,578	<b>5,253</b>	5,206

## 32. Share Capital continued

### (a) Issue of shares pursuant to scrip dividend schemes

#### For the year ended 31 December 2009

On 9 June 2009 and 22 September 2009 respectively, the Company issued and allotted a total of 8,672,003 shares and 741,509 shares of HK\$5 each in the Company at HK\$14.852 and HK\$19.204 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2008 final and 2009 interim dividends pursuant to the scrip dividend schemes announced by the Company on 18 May 2009 and 27 August 2009. These shares rank pari passu in all respects with other shares in issue.

#### For the year ended 31 December 2008

On 18 June 2008 and 12 September 2008 respectively, the Company issued and allotted a total of 3,031,113 shares and 497,042 shares of HK\$5 each in the Company at HK\$23.10 and HK\$21.59 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2007 final and 2008 interim dividends pursuant to the scrip dividend schemes announced by the Company on 14 May 2008 and 21 August 2008. These shares rank pari passu in all respects with other shares in issue.

### (b) Issue of shares under share option schemes

#### For the year ended 31 December 2009

During the year ended 31 December 2009, options to subscribe for a total of 80,000 shares were exercised at the exercise prices of HK\$15.85 per share. These shares rank pari passu in all respects with other shares in issue. Details of options outstanding and movements during the year are set out in note 39.

#### For the year ended 31 December 2008

During the year ended 31 December 2008, options to subscribe for a total of 114,667 shares and 2,000 shares were exercised at the exercise prices of HK\$15.85 and HK\$21.25 per share respectively. These shares rank pari passu in all respects with other shares in issue. Details of options outstanding and movements during the year are set out in note 39.

### 33. Reserves of the Company

The Company's reserves available for distribution to its owners as at 31 December 2009 amounted to HK\$5,860 million (2008: HK\$5,794 million), being its general reserve and retained profits at that date.

	Share premium HK\$ million	Share options reserve HK\$ million	Capital redemption reserve HK\$ million	General reserve HK\$ million (Note)	Retained profits HK\$ million	Total HK\$ million
At 1 January 2008	1,541	6	276	100	5,576	7,499
Issue of shares pursuant to scrip dividend schemes	63	–	–	–	–	63
Issue of shares under share option schemes	2	(1)	–	–	–	1
Recognition of equity-settled share-based payments	–	5	–	–	–	5
Forfeiture of share options	–	(1)	–	–	1	–
Profit for the year	–	–	–	–	761	761
Dividends paid during the year (note 14)	–	–	–	–	(644)	(644)
At 31 December 2008	1,606	9	276	100	5,694	7,685
Issue of shares pursuant to scrip dividend schemes	96	–	–	–	–	96
Issue of shares under share option schemes	1	–	–	–	–	1
Recognition of equity-settled share-based payments	–	6	–	–	–	6
Forfeiture of share options	–	(5)	–	–	5	–
Profit for the year	–	–	–	–	770	770
Dividends paid during the year (note 14)	–	–	–	–	(709)	(709)
At 31 December 2009	<b>1,703</b>	<b>10</b>	<b>276</b>	<b>100</b>	<b>5,760</b>	<b>7,849</b>

Note: General reserve was set up from the transfer of retained profits.

### 34. Retirement Benefits Plans

With effect from 1 December 2000, the Group set up an enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$6 million (2008: HK\$5 million). Forfeited contributions for the year amounted to HK\$1 million (2008: HK\$3 million) were refunded to the Group.

### 35. Contingent Liabilities

At the end of the reporting period, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Corporate guarantee to note holders				
– for issue of floating rate notes	–	–	200	550
– for issue of fixed rate notes	–	–	1,985	1,985
– for issue of zero coupon notes	–	–	430	430
	–	–	2,615	2,965
Guarantees to banks for providing financing facilities to subsidiaries	–	–	1,449	920

### 36. Capital Commitments

At the end of the reporting period, the Group and the Company had the following capital commitments in respect of its investment properties:

	The Group		The Company	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Authorised but not contracted for	432	2,068	6	–
Contracted but not provided for	1,768	123	–	–

### 37. Lease Commitments

#### (a) The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2009 HK\$ million	2008 HK\$ million
Within one year	1,252	1,266
In the second to fifth year inclusive	1,293	1,349
Over five years	49	–
	2,594	2,615

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

### 37. Lease Commitments continued

#### (b) The Company as lessee

At the end of the reporting period, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Company	
	2009 HK\$ million	2008 HK\$ million
Within one year	20	8
In the second to fifth year inclusive	27	3
	<b>47</b>	<b>11</b>

Operating lease payments represent rentals payable by the Company to its subsidiaries for its office premises which are negotiated and rentals are fixed for three years.

At the end of the reporting period, the Group had no commitment under non-cancellable operating lease.

### 38. Related Party Transactions and Balances

#### (a) Transactions and balances with related parties

The Group has the following transactions with related parties during the year and has the following balances with them at the end of the reporting period:

	Substantial shareholder		The Group		Directors	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Gross rental income received from (Note a)	3	2	25	24		
Amount due to a minority shareholder (Note b)	-	-	94	94		

Notes:

(a) The sum of transactions with substantial shareholder represented the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited, which holds 41.23% beneficial interest in the Company.

The sum of transactions with Directors represented the aggregate gross rental income received under various leases respectively with Directors of approximately HK\$964,000 (2008: HK\$882,000), and companies controlled by Directors or their associates in aggregate of approximately HK\$23,706,000 (2008: HK\$23,337,000).

(b) The sum represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited ("Barrowgate") by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company Limited, of which Hans Michael JEBSEN is a director and shareholder, as shareholders loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

The Company has the following balances with its subsidiaries at the end of the reporting period:

	The Company	
	2009 HK\$ million	2008 HK\$ million
Amounts due from subsidiaries	12,991	13,368
Less: Allowances on amounts due therefrom	(248)	(499)
	<b>12,743</b>	<b>12,869</b>
Amounts due to subsidiaries	192	59

Details of amounts due from/to subsidiaries are disclosed in note 24 to the financial statements.

### 38. Related Party Transactions and Balances continued

#### (b) Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group and the Company during the year were as follows:

	2009 HK\$ million	2008 HK\$ million
Salaries and other short-term employee benefits	20	26
Share-based payments	4	4
Retirement benefits scheme contributions	1	1
	<b>25</b>	<b>31</b>

The remuneration of the Directors and key executives is determined by the Emoluments Review Committee and Chief Executive Officer respectively having regard to the performance of individuals and market trends.

### 39. Share-Based Payment Transactions

#### (a) Equity-settled share option schemes

##### The 1995 Share Option Scheme (the "1995 Scheme")

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The purpose of the 1995 Scheme was to strengthen the links between individual staff and shareholder interests.

Under the 1995 Scheme, options may be granted to employees of the Company or any of its wholly-owned subsidiaries selected by the Board at its discretion to subscribe for ordinary shares of the Company.

The maximum number of shares in respect of which options may be granted under the 1995 Scheme (together with shares issued and issuable under the scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the scheme and any other share option scheme) from time to time. The maximum number of shares issued under the scheme and other scheme will not exceed 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the scheme and any other share option scheme).

The maximum entitlement of each participant is substantially below the limit set out under the scheme rules (being 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme). For the options granted under the 1995 Scheme currently outstanding, the basis for determining the exercise price is the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration on each grant of option was HK\$1 and was paid within 30 days from the date of grant of option, with full payment for exercise price to be made on exercise of the relevant option.

##### The 2005 Share Option Scheme (the "2005 Scheme")

The Company adopted the 2005 Scheme at its Annual General Meeting ("AGM") held on 10 May 2005, which has a term of 10 years and will be expiring on 9 May 2015 (together with the 1995 Scheme are referred to as the "Schemes").

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options may be granted to employees of the Company or any wholly-owned subsidiaries (including executive Directors) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries, to subscribe for ordinary shares of the Company.

### **39. Share-Based Payment Transactions** continued

#### **(a) Equity-settled share option schemes** continued

##### **The 2005 Share Option Scheme (the "2005 Scheme")** continued

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders' approval, being 10,499,636). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of option, with full payment for exercise price to be made on exercise of the relevant option.

#### **(b) Grant and vesting structures**

Under the Company's current policy, grants will be made on a periodic basis. Vesting period is 3 years in equal proportion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

### 39. Share-Based Payment Transactions continued

#### (c) Movement of share options

The following table discloses movements of the Company's share options held by the Directors and eligible employees during the current year:

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2009	Changes during the year			Balance as at 31.12.2009
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>1995 Scheme</b>								
<b>Executive Directors</b>								
Wendy Wen Yee YUNG	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	–	–	96,000
Ricky Tin For TSANG (Note c)	30.3.2005	15.850	30.3.2005 – 29.3.2015	80,000	–	(80,000) (Note d)	–	–
<b>Eligible employees</b> (Note e)	30.3.2005	15.850	30.3.2005 – 29.3.2015	13,000	–	–	(13,000)	–
<b>2005 Scheme</b>								
<b>Executive Directors</b>								
Peter Ting Chang LEE (Note f)	6.3.2007	21.380	6.3.2007 – 16.4.2010	235,000	–	–	–	235,000
	13.3.2008	21.450	13.3.2008 – 16.4.2010	260,000	–	–	–	260,000
	11.3.2009	11.760 (Note g)	11.3.2009 – 16.4.2010	–	500,000	–	–	500,000
Gerry Lui Fai YIM (Note h)	1.12.2009	22.800 (Note i)	1.12.2009 – 30.11.2019	–	218,000	–	–	218,000
Wendy Wen Yee YUNG	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	–	–	110,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760 (Note g)	11.3.2009 – 10.3.2019	–	300,000	–	–	300,000
Ricky Tin For TSANG (Note c)	30.3.2006	22.000	30.3.2006 – 29.3.2016	120,000	–	–	(120,000)	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	(95,000)	–
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	(100,000)	–
	11.3.2009	11.760 (Note g)	11.3.2009 – 10.3.2019	–	250,000	–	(250,000)	–

### 39. Share-Based Payment Transactions continued

#### (c) Movement of share options continued

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2009	Changes during the year			Balance as at 31.12.2009
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>2005 Scheme</b> continued								
<b>Eligible employees</b> (Note e)	30.3.2006	22.000	30.3.2006 – 29.3.2016	67,000	–	–	(44,000)	23,000
	6.3.2007	21.380	6.3.2007 – 30.6.2009	108,000	–	–	(108,000)	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	73,000	–	–	(42,000)	31,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	164,000	–	–	(76,000)	88,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	–	–	95,000
	9.9.2008	21.300	9.9.2008 – 8.9.2018	85,000	–	–	(85,000)	–
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	–	–	85,000
	31.3.2009	13.300 (Note j)	31.3.2009 – 30.3.2019	–	472,000	–	(61,000)	411,000
				<b>1,981,000</b>	<b>1,740,000</b>	<b>(80,000)</b>	<b>(994,000)</b>	<b>2,647,000</b>

Notes:

- Save otherwise stated, all options granted have a vesting period of 3 years in equal proportions.
- The options lapsed during the year upon resignations or retirement of certain Directors and eligible employees.
- Ricky Tin For TSANG resigned as Executive Director, Finance on 29 September 2009.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$19.240.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- Peter Ting Chang LEE passed away on 17 October 2009. The legal personal representative(s) of Peter Ting Chang LEE will be entitled to exercise the outstanding options until 16 April 2010.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 10 March 2009) was HK\$11.180.
- Gerry Lui Fai YIM was appointed as Executive Director on 1 December 2009.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 November 2009) was HK\$22.250.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2009) was HK\$12.900.

### 39. Share-Based Payment Transactions continued

#### (c) Movement of share options continued

The following table discloses movements of the Company's share options held by the Directors and eligible employees in prior year:

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2008	Changes during the year			Balance as at 31.12.2008
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>1995 Scheme</b>								
<b>Executive Directors</b>								
Ricky Tin For TSANG (Note c)	30.3.2005	15.850	30.3.2005 – 29.3.2015	120,000	–	(40,000) (Note d)	–	80,000
Wendy Wen Yee YUNG (Note c)	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	–	–	96,000
<b>Eligible employees</b> (Note e)	30.3.2005	15.850	30.3.2005 – 29.3.2015	87,667	–	(74,667) (Note f)	–	13,000
<b>2005 Scheme</b>								
<b>Executive Directors</b>								
Peter Ting Chang LEE	6.3.2007	21.380	6.3.2007 – 5.3.2017	235,000	–	–	–	235,000
	13.3.2008	21.450 (Note g)	13.3.2008 – 12.3.2018	–	260,000	–	–	260,000
Ricky Tin For TSANG (Note c)	30.3.2006	22.000	30.3.2006 – 29.3.2016	120,000	–	–	–	120,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960 (Note h)	31.3.2008 – 30.3.2018	–	100,000	–	–	100,000
Wendy Wen Yee YUNG (Note c)	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	–	–	110,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960 (Note h)	31.3.2008 – 30.3.2018	–	100,000	–	–	100,000
Pauline Wah Ling YU WONG (Note i)	6.3.2007	21.380	6.3.2007 – 30.6.2009	108,000	–	–	–	108,000

### 39. Share-Based Payment Transactions continued

#### (c) Movement of share options continued

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2008	Changes during the year			Balance as at 31.12.2008
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>2005 Scheme</b> continued								
<b>Eligible employees</b> (Note e)	30.3.2006	22.000	30.3.2006 – 29.3.2016	99,000	–	–	(32,000)	67,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	132,000	–	(2,000)	(57,000) (Note j)	73,000
	31.3.2008	21.960 (Note h)	31.3.2008 – 30.3.2018	–	178,000	–	(14,000)	164,000
	2.5.2008	23.900 (Note k)	2.5.2008 – 1.5.2018	–	95,000	–	–	95,000
	9.9.2008	21.300 (Note l)	9.9.2008 – 8.9.2018	–	85,000	–	–	85,000
	2.10.2008	20.106 (Note m)	2.10.2008 – 1.10.2018	–	85,000	–	–	85,000
				<u>1,297,667</u>	<u>903,000</u>	<u>(116,667)</u>	<u>(103,000)</u>	<u>1,981,000</u>

Notes:

- (a) Save otherwise stated, all options granted have a vesting period of 3 years in equal proportions.
- (b) The options lapsed during the year upon resignations of certain eligible employees.
- (c) Ricky Tin For TSANG and Wendy Wen Yee YUNG were appointed as Executive Directors on 1 April 2008.
- (d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$22.700.
- (e) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- (f) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$22.337.
- (g) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 12 March 2008) was HK\$22.100.
- (h) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2008) was HK\$21.950.
- (i) Pauline Wah Ling YU WONG retired from the Board of the Company by rotation as from the conclusion of 2008 Annual General Meeting held on 14 May 2008. She remained as Senior Advisor to the Company until 31 December 2008 when she retired from the Company and her outstanding options remain exercisable until 30 June 2009.
- (j) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$22.950.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 April 2008) was HK\$22.600.
- (l) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 September 2008) was HK\$21.300.
- (m) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 September 2008) was HK\$19.980.

### 39. Share-Based Payment Transactions continued

#### (d) Fair values of share options

The Group has applied HKFRS 2 “Share-based Payments” to account for its share options granted after 7 November 2002 and vested after 1 January 2005. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group’s share options reserve. In the current year, the Group recognised the share option expenses of HK\$6 million (2008: HK\$5 million) in relation to share options granted by the Company, of which HK\$4 million (2008: HK\$3 million) related to the Directors (see note 12), with a corresponding adjustment recognised in the Group’s share options reserve.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the “Model”). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management’s best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

Date of grant	1.12.2009	31.3.2009	11.3.2009	2.10.2008	9.9.2008	2.5.2008	31.3.2008	13.3.2008
Closing share price at the date of grant	HK\$22.800	HK\$13.100	HK\$11.760	HK\$19.160	HK\$21.300	HK\$23.900	HK\$21.800	HK\$21.450
Exercise price	HK\$22.800	HK\$13.300	HK\$11.760	HK\$20.106	HK\$21.300	HK\$23.900	HK\$21.960	HK\$21.450
Risk free rate (Note a)	2.16%	1.94%	1.97%	2.94%	2.83%	2.67%	2.61%	2.49%
Expected life of option (Note b)	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected volatility (Note c)	35.09%	47.74%	48.24%	38.86%	38.19%	35.51%	34.25%	33.03%
Expected dividend per annum (Note d)	HK\$0.526	HK\$0.526	HK\$0.526	HK\$0.463	HK\$0.463	HK\$0.463	HK\$0.463	HK\$0.463
Estimated fair value per share option	HK\$8.560	HK\$4.299	HK\$3.671	HK\$6.940	HK\$8.130	HK\$8.990	HK\$7.390	HK\$6.970

Notes:

- Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- Expected life of option: being the period of 10 years commencing on the date of grant, based on management’s best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past one year immediately before the date of grant, except for the options granted on or after 1 December 2009 which the management considered that it was more appropriate that the expected volatility should be the approximate historical volatility of closing prices of the shares of the Company in the past 10 years immediately before the date of grant in order to match the expected life of the options of 10 years.
- Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

# FINANCIAL RISK MANAGEMENT

For the year ended 31 December 2009

## 1. Financial Risk Management Objectives and Policies

The Group's major financial instruments include cash and bank balances, time deposits, held-to-maturity investments, amount due from an associate, accounts receivable, other receivables, available-for-sale financial assets, accounts payable, accruals, rental deposits from tenants, amounts due to minority shareholders, borrowings and derivative financial instruments. The Company's major financial instruments include cash and bank balances, time deposits, other receivables, amounts due from/to subsidiaries, other payable and accruals. Details of these financial instruments are disclosed in respective notes to the financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Credit risk

The credit risk of the Group and the Company are primarily attributable to rents receivable from tenants, amounts due from subsidiaries, amount due from an associate, principal-protected deposits, derivative financial instruments, held-to-maturity investments, time deposits and bank balances. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company is arising from:

- (i) the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's statement of financial position; and
- (ii) the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 35 of the notes to the financial statements section.

For rents receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For derivative financial instruments, principal-protected deposits, time deposits and bank balances, the Group and the Company only deals with financial institutions that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution, exposure limit was set with each financial institution according to their credit rating with regular review by management. The Group's listed debt securities investments are issued by Hong Kong Monetary Authority or national government with high sovereign credit rating.

Credit exposure to financial institutions are monitored and reported regularly to the management. The table below provides a high level summary to management about the Group's exposure to each financial institution based on the amount of time deposits and the net positive value of financial assets and liabilities (including derivatives and principal-protected deposits) as at 31 December 2009.

Category of financial institutions	2009		2008	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	5	79 to 389	6	40 to 201
Credit rating A- to A+	7	4 to 288	7	30 to 100

To minimise the credit risk of amounts due from subsidiaries and an associate, the management of the Group and the Company review the recoverable amount of each individual balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts. Other than concentration of credit risk on amount due from an associate, the Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and tenants.

## 1. Financial Risk Management Objectives and Policies continued

### (b) Liquidity risk

The Group and the Company closely monitors their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group and the Company for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company is required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into Hong Kong dollars.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
<b>The Group</b>						
<b>As at 31 December 2009</b>						
<b>Non-derivative financial liabilities</b>						
Accounts payable and accruals	(314)	(314)	(314)	-	-	-
Rental deposits from tenants	(400)	(400)	(127)	(122)	(126)	(25)
Amounts due to minority shareholders	(327)	(327)	(327)	-	-	-
Unsecured bank loans	(1,449)	(1,476)	(410)	(656)	(410)	-
Floating rate notes	(200)	(211)	(2)	(2)	(207)	-
Fixed rate notes	(1,980)	(2,442)	(129)	(128)	(1,550)	(635)
Zero coupon notes	(262)	(430)	-	-	-	(430)
	(4,932)	(5,600)	(1,309)	(908)	(2,293)	(1,090)
<b>As at 31 December 2008</b>						
<b>Non-derivative financial liabilities</b>						
Accounts payable and accruals	(320)	(320)	(320)	-	-	-
Rental deposits from tenants	(388)	(388)	(158)	(88)	(132)	(10)
Amounts due to minority shareholders	(327)	(327)	(327)	-	-	-
Unsecured bank loans	(920)	(970)	(21)	(85)	(864)	-
Floating rate notes	(550)	(557)	(557)	-	-	-
Fixed rate notes	(2,003)	(2,570)	(128)	(129)	(1,648)	(665)
Zero coupon notes	(278)	(430)	-	-	-	(430)
	(4,786)	(5,562)	(1,511)	(302)	(2,644)	(1,105)

## 1. Financial Risk Management Objectives and Policies continued

### (b) Liquidity risk continued

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
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#### The Company

##### As at 31 December 2009

#### Non-derivative financial liabilities

Other payable and accruals	(34)	(34)	(34)	-	-	-
Amounts due to subsidiaries	(192)	(192)	(192)	-	-	-
	(226)	(226)	(226)	-	-	-

##### As at 31 December 2008

#### Non-derivative financial liabilities

Other payable and accruals	(31)	(31)	(31)	-	-	-
Amounts due to subsidiaries	(59)	(59)	(59)	-	-	-
	(90)	(90)	(90)	-	-	-

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows (outflows) on the derivative instruments that settle on a net basis and undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into Hong Kong dollars.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
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#### The Group

##### As at 31 December 2009

#### Derivative settled net

Interest rate swaps and basis swaps	5	118	3	2	16	97
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#### Derivative settled gross

Forward foreign exchange contracts	1					
Outflow		(324)	(244)	(66)	(14)	-
Inflow		326	245	66	15	-
Cross currency and net basis swaps	55					
Outflow		(1,891)	(27)	(26)	(1,838)	-
Inflow		1,991	69	69	1,853	-

## 1. Financial Risk Management Objectives and Policies continued

### (b) Liquidity risk continued

	Carrying amount HK\$ million	Total contractual undiscouted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
<b>As at 31 December 2008</b>						
<b>Derivative settled net</b>						
Interest rate swaps	40	139	5	4	28	102
<b>Derivative settled gross</b>						
Forward foreign exchange contracts	2					
Outflow		(366)	(282)	(35)	(49)	–
Inflow		368	283	35	50	–
Cross currency and net basis swaps	75					
Outflow		(1,758)	(43)	(36)	(1,679)	–
Inflow		1,856	70	68	1,718	–

At the end of the reporting period, the Company has no derivative financial instruments.

### (c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. Accordingly, the Group entered into (i) interest rate swaps to hedge the interest rate risk of the Group's floating rate borrowings including bank loans and floating rate notes; and (ii) cross currency swaps and interest rate swaps to hedge the interest rate risk of certain amounts of the Group's fixed rate notes. The Group reviews the continuing effectiveness of hedging instruments at least at the end of each reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. The Group mainly used comparison of change in fair value of the hedging instruments and the hedged items attributable to the hedged risk for assessing the hedging effectiveness.

As at 31 December 2009, about 64.9% (2008: 59.5%) of the Group's gross debts were effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to (i) cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes; and (ii) fair value interest rate risk in relation to its held-to-maturity investments in fixed-rate debt securities. Other than the concentration of interest rate risk related to the movements in HIBOR, the Group has no significant concentration of interest rate risk.

### Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -5 basis points ("bps") (2008: +50 and -50 bps) was applied to the yield curves at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions. The increase in positive change reflected potential interest rate increase in 2010 and the decrease in negative change is due to the low level of prevailing market interest rates at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

## 1. Financial Risk Management Objectives and Policies continued

### (c) Interest rate risk continued

	The Group			
	Increase (decrease) in profit or loss 100 bps increase HK\$ million	5 bps decrease HK\$ million	Increase (decrease) in equity 100 bps increase HK\$ million	5 bps decrease HK\$ million
As at 31 December 2009	(24)	1	29	(2)
	50 bps increase HK\$ million	50 bps decrease HK\$ million	50 bps increase HK\$ million	50 bps decrease HK\$ million
As at 31 December 2008	(1)	2	11	(12)

### (d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements. The majority of the Group's assets are located and all rental income are derived in Hong Kong, and denominated in Hong Kong dollars. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in USD.

	The Group			
	2009		2008	
	US\$ million	HK\$ million	US\$ million	HK\$ million
<b>Assets</b>				
Time deposits	23	178	–	–
Principal-protected deposits	8	62	–	–
Listed debt securities	–	–	27	209
	<b>31</b>	<b>240</b>	27	209
<b>Liabilities</b>				
Unsecured bank loans	51	399	26	200
Fixed rate notes	182	1,394	182	1,403
	<b>233</b>	<b>1,793</b>	208	1,603

At the end of the reporting period, all of the Company's assets and liabilities were denominated in Hong Kong dollars with the exception of US\$15 million (2008: nil) time deposits.

Other than concentration of currency risk of the above items denominated in USD, the Group and the Company have no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 22 of the notes to the financial statements section, to hedge against the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of each reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

## 1. Financial Risk Management Objectives and Policies continued

### (d) Currency risk continued

#### Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 500 bps (2008: 650 bps) was applied to the HKD:USD spot and forward rates at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in foreign exchange rates.

	The Group			
	Increase (decrease) in profit or loss 500 bps increase HK\$ million	500 bps decrease HK\$ million	Increase (decrease) in equity 500 bps increase HK\$ million	500 bps decrease HK\$ million
As at 31 December 2009	1	(1)	-	-
	650 bps increase HK\$ million	650 bps decrease HK\$ million	650 bps increase HK\$ million	650 bps decrease HK\$ million
As at 31 December 2008	(2)	-	3	-

### (e) Equity price risk

The Group is exposed to equity price risks in relation to its available-for-sale investments in listed securities which are measured at fair value at the end of each reporting period with reference to the listed share price. The management will monitor the price movements and take appropriate actions when it is required.

#### Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in the corresponding equity prices had occurred at the end of the reporting period and had been applied to the investments that would have affected the equity. A change of 25% (2008: 25%) in stock prices was applied at the end of the reporting period. The applied change of percentage represented management's assessment of the reasonably possible change in stock prices.

	The Group Increase (decrease) in equity	
	25% increase HK\$ million	25% decrease HK\$ million
As at 31 December 2009	249	(249)
	25% increase HK\$ million	25% decrease HK\$ million
As at 31 December 2008	246	(246)

## 2. Categories of Financial Instruments

	The Group		The Company	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
<b>Financial assets</b>				
Fair value through profit or loss ("FVTPL")				
– designated as at FVTPL	200	125	–	–
– held for trading	62	–	–	–
Derivative instruments under hedge accounting	35	158	–	–
Available-for-sale financial assets	1,002	1,022	2	2
Held-to-maturity investments	–	700	–	–
Loans and receivables (including cash and cash equivalents)	2,467	1,728	13,321	13,014
	<b>3,766</b>	<b>3,733</b>	<b>13,323</b>	<b>13,016</b>
<b>Financial liabilities</b>				
Fair value through profit or loss				
– held for trading	9	10	–	–
Derivative instruments under hedge accounting	27	31	–	–
Amortised cost	4,532	4,398	226	90
	<b>4,568</b>	<b>4,439</b>	<b>226</b>	<b>90</b>

## 3. Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of listed investments traded in active liquid markets are determined with reference to the published price quotations;
- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments are based on quoted prices from independent financial institutions or calculated using discounted cash flow analysis based on the applicable yield curve derived from quoted interest rates and based on the quoted spot and forward foreign exchange rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised costs in the consolidated and the Company's financial statements approximate their fair values, except for the carrying amount of HK\$1,980 million (2008: HK\$2,003 million) fixed rate notes as stated in note 30 to the financial statements with fair value of HK\$2,128 million (2008: HK\$2,117 million).

### 3. Fair Value continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	Level 1 HK\$ million	2009 Level 2 HK\$ million	Total HK\$ million
<b>Financial assets</b>			
<b>Derivatives under hedging accounting</b>			
Forward foreign exchange contracts	-	1	1
Cross currency swaps	-	2	2
Interest rate swaps	-	31	31
Basis swaps	-	1	1
<b>Other derivatives classified as held for trading (not under hedge accounting)</b>			
Cross currency swaps	-	62	62
<b>Financial assets at FVTPL</b>			
Principal-protected deposits	-	200	200
<b>Available-for-sale financial assets</b>			
Listed equity securities	997	-	997
Unlisted club debentures	-	2	2
	<b>997</b>	<b>299</b>	<b>1,296</b>
<b>Financial liabilities</b>			
<b>Derivatives under hedging accounting</b>			
Interest rate swaps	-	27	27
<b>Other derivatives classified as held for trading (not under hedge accounting)</b>			
Net basis swaps	-	9	9
	<b>-</b>	<b>36</b>	<b>36</b>

There were no transfers between Levels 1 and 2 in the current year.

#### 4. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to adjusted capital ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less short-term investments, time deposits, cash and bank balances. Adjusted capital comprises all components of equity attributable to owners of the Company, adjusted by cumulative deferred tax provided on fair value gain on the investment and owner-occupied properties.

The management reviews the Group's net debt to adjusted capital ratio regularly and adjust the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to adjusted capital ratio at the year end was as follows:

	The Group	
	2009 HK\$ million	2008 HK\$ million
Unsecured bank loans	1,449	920
Floating rate notes	200	550
Fixed rate notes	1,980	2,003
Zero coupon notes	262	278
<b>Borrowings</b>	<b>3,891</b>	<b>3,751</b>
Less: Held-to-maturity debt securities	-	(700)
Time deposits	(1,945)	(964)
Cash and bank balances	(39)	(51)
<b>Net debt</b>	<b>1,907</b>	<b>2,036</b>
Equity attributable to owners of the Company	33,668	31,469
Add: Group's share of cumulative deferred tax on properties revaluation	3,389	3,191
<b>Adjusted capital</b>	<b>37,057</b>	<b>34,660</b>
<b>Net debt to adjusted capital</b>	<b>5.1%</b>	<b>5.9%</b>

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.