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HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

BUSINESS REVIEW

Principal activities and development

HSBC Asia Pacific Holdings (UK) Limited (the Company) is an investment holding company. Its subsidiaries are engaged in financial services, securities, insurance brokerage services, commercial banking and the provision of accounting and other services in the Asia-Pacific region. During the year, the Company continued to strengthen its investments in the region. The Company acquired PT Bank Ekonomi Raharja Tbk ("Bank Ekonomi") in Indonesia during 2009.

Performance and position

The results and position of the Company for the year ended 31 December 2009 and the state of the Company's affairs at that date are set out on pages 6 to 29.

The results of the Company show a pre-tax profit of USD139 million for the year (2008: a loss of USD123 million). During the year, the Company earned dividend income from its subsidiaries of USD79 million (2008: USD73 million), recognised a reversal of impairment loss in one of its subsidiaries of USD142 million (2008: nil), and incurred an impairment loss of USD74 million in another subsidiary (2008: USD162 million), and incurred an impairment loss of USD2 million in its investment in available-for-sale financial investment (2008: USD18 million).

The Company had a net equity position of USD2,121 million for 2009 (2008: USD340 million). The Company's equity position improved with the issue of redeemable preference shares during the year. Amounts due to its immediate parent company of USD839 million were converted into redeemable preference shares and there was a further issue of redeemable preference shares of USD790 million, resulting in an increase in equity of USD1,629 million during 2009. Investment in subsidiaries increased with the acquisition of Bank Ekonomi for USD682 million. The Company made a capital injection into HSBC Bank (Taiwan) Limited of USD310 million which was reflected in other assets. Other major balances are mainly inter-company amounts.

Future outlook

No change in the Company's activities is anticipated. The Company shall continue to invest in its subsidiaries, including a further capital injection into HSBC Bank (Taiwan) Limited, which was incorporated in Taiwan upon approval from the Financial Supervisory Commission on 28 January 2010.

Principal risks and uncertainties

Being an investment holding company, the Company is subject to the risks of the performance of its subsidiaries which could result in impairment of these investments. For the major subsidiaries which provide financial services, performance has improved, especially HSBC Australia Holdings Pty Limited which has shown a favourable growth as the Australian economy picked up. The other subsidiaries which provide insurance brokerage services and securities services in Taiwan are maintaining steady performance. PT Bank Ekonomi Raharja Tbk which mainly provides commercial banking services, was acquired during the year and is expected to contribute more to the results of the Company in the future. HSBC Iris Investment (Mauritius) Ltd has shown some fluctuation in its net asset value mainly due to its available-for-sale investments in India. HSBC Securities (Japan) Limited has closed down its equity business resulting in a decrease in its operating income and expenses.

The management of the business and the execution of the Company's activities are subject to a number of other risks. These risks are stated in note 18 of the accounts and are mitigated by the Company's management policies.

Key performance indicators ("KPIs")

The Company is an investment holding company which derives its income from dividends which is the main indicator of its performance. Return on net assets is another key performance indicator, which shows a significant increase in 2009 to 7% (2008: -36%). Apart from these measures, given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using other KPIs is not necessary for an understanding of the development, performance or position of the business.

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in England and Wales. Its registered office and principal place of business is 8 Canada Square, London, E14 5HQ, United Kingdom.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008 nil).

DIRECTORS

The following directors served during the year

E D Ancona (resigned 1 September 2009)

R G Barber (Alternate P A Stafford)

I J Mackay (appointed 1 September 2009)

R C Picot

C D Spooner (Alternate S L Slater)

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

FINANCIAL INSTRUMENTS

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under Part I of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are set out in note 18 to the financial statements.

SUPPLIER PAYMENT POLICY

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

During the year, the Company only received goods and services from group undertakings. Part 5 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, setting out reporting requirements in relation to the policy and practice on payment of creditors is, therefore, not applicable.

DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

AUDITOR

KPMG Audit plc are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Company Act 1985 which continues in force under the Companies Act 2006.

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out in their report on page 5, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the auditors in relation to the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements for the year ended 31 December 2009 in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

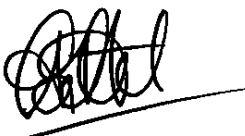
The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Company and the performance for that period. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



A A Patel
Secretary

HSBC Asia Pacific Holdings (UK) Limited
Registered Number 1113112
8 Canada Square
London
E14 5HQ

Dated 25 February 2010

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED**

We have audited the financial statements of HSBC Asia Pacific Holdings (UK) Limited (the Company) for the year ended 31 December 2009 set out on pages 6 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's ('APB's') Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jonathan Bingham, Senior Statutory Auditor
For and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
London, England
25 February 2010

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
Income Statement
for the year ended 31 December 2009

	<i>Note</i>	2009 US\$'000	2008 US\$'000
Dividend income	4	79,468	73,045
Net exchange (loss)/gain		(141)	51
General and administrative expenses	7	(5,546)	(14,659)
Loss on disposal of subsidiaries	5	-	(1,467)
Impairment loss on available-for-sale financial investment	13	(2,445)	(17,538)
Impairment loss on subsidiaries	6	(74,000)	(162,231)
Reversal of impairment loss on subsidiaries	6	<u>142,231</u>	<u>-</u>
Results from operating activities		139,567	(122,799)
Interest income	11	-	11,288
Interest expense	15	<u>-</u>	<u>(10,632)</u>
Profit/(loss) before tax		139,567	(122,143)
Tax expense	8	<u>(276)</u>	<u>(405)</u>
Profit/(loss) for the year		<u>139,291</u>	<u>(122,548)</u>
Profit/(loss) attributable to shareholders		<u>139,291</u>	<u>(122,548)</u>

The notes on pages 11 to 29 form part of these financial statements

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
Statement of Comprehensive Income
for the year ended 31 December 2009

	<i>Note</i>	2009 US\$'000	2008 US\$'000
Profit/(loss) for the year		139,291	(122,548)
Increase in /(reversal of) cumulative fair value of available-for-sale financial investment	<i>13</i>	17,618	(15,041)
Income tax on other comprehensive income	<i>16</i>	<u>(4,933)</u>	<u>4,211</u>
Other comprehensive income for the year		12,685	(10,830)
Total comprehensive income for the year		<u>151,976</u>	<u>(133,378)</u>
Total comprehensive income for the year attributable to shareholders		<u>151,976</u>	<u>(133,378)</u>

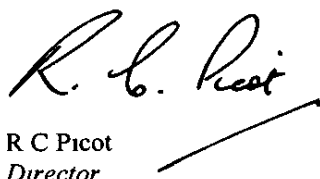
The notes on pages 11 to 29 form part of these financial statements

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
Statement of Financial Position
as at 31 December 2009

	<i>Note</i>	2009 US\$'000	2008 US\$'000
ASSETS			
Bank deposits placed with fellow subsidiary company		30,433	86,723
Amount due from subsidiaries	<i>11</i>	339,702	325,508
Other assets	<i>12</i>	<u>310,958</u>	<u>63,253</u>
Total current assets		<u>681,093</u>	<u>475,484</u>
Available-for-sale financial investment	<i>13</i>	41,735	25,744
Investments in subsidiaries	<i>14</i>	<u>1,444,960</u>	<u>736,306</u>
Total non-current assets		<u>1,486,695</u>	<u>762,050</u>
Total assets		<u>2,167,788</u>	<u>1,237,534</u>
LIABILITIES			
Amount due to immediate parent company	<i>15</i>	41,100	897,144
Tax liabilities		7	219
Other liabilities		<u>619</u>	<u>18</u>
Total current liabilities		<u>41,726</u>	<u>897,381</u>
Deferred taxation	<i>16</i>	<u>4,933</u>	-
Total non-current liabilities		<u>4,933</u>	-
Total liabilities		<u>46,659</u>	<u>897,381</u>
EQUITY			
Called up share capital	<i>17</i>	163	-
Share premium		1,998,050	369,213
Capital contribution reserve		14,719	14,719
Available-for-sale fair value reserve		12,685	-
Retained earnings		<u>95,512</u>	<u>(43,779)</u>
Total equity		<u>2,121,129</u>	<u>340,153</u>
Total equity and liabilities		<u>2,167,788</u>	<u>1,237,534</u>

Approved by the Board of Directors on 25 February 2010

Signed on behalf of the Board


R C Picot
Director

The notes on pages 11 to 29 form part of these financial statements

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
Statement of Changes in Equity
for the year ended 31 December 2009

	Called up share capital US\$'000	Share premium US\$'000	Capital contribution reserve US\$'000	Available -for-sale fair value reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance as at 1 January 2008	-	369,213	7,490	10,830	78,769	466,302
Changes in equity for 2008:						
Total comprehensive income for the year	-	-	-	(10,830)	(122,548)	(133,378)
Fair value adjustment on initial recognition of amount due to immediate holding company	-	-	7,229	-	-	7,229
Balance at 31 December 2008 and 1 January 2009	-	369,213	14,719	-	(43,779)	340,153
Changes in equity for 2009:						
Total comprehensive income for the year	-	-	-	12,685	139,291	151,976
Issue of redeemable preference shares	163	1,628,837	-	-	-	1,629,000
Balance at 31 December 2009	163	1,998,050	14,719	12,685	95,512	2,121,129

The notes on pages 11 to 29 form part of these financial statements

HSBC ASIA PACIFIC HOLDINGS (UK) LIMITED
Statement of Cash Flows
for the year ended 31 December 2009

	2009 US\$'000	2008 US\$'000
Cash flows from operating activities		
Profit / (loss) for the year	139,567	(122,143)
Adjustments for		
Dividend income from subsidiaries	(79,468)	(73,045)
Loss on disposal of a subsidiary	-	1,467
Interest income	-	(11,288)
Interest expense	-	10,632
Impairment loss on financial investment	2,445	17,538
Impairment loss on subsidiaries	74,000	162,231
Reversal of impairment loss on subsidiaries	(142,231)	-
Exchange difference	141	(51)
	<u>(5,546)</u>	<u>(14,659)</u>
Operating cash flows before changes in working capital		
Increase in amount due from a subsidiary	-	(66,700)
Increase in other assets	(247,709)	(53,992)
Increase/(decrease) in other liabilities	601	(6)
	<u>(252,654)</u>	<u>(135,357)</u>
Cash used in operations		
Overseas tax paid	(488)	(274)
	<u>(253,142)</u>	<u>(135,631)</u>
Net cash used in operating activities		
Cash flow from investing activities		
Purchase of available-for-sale financial investment	(818)	(2,645)
Proceeds from partial disposal of a subsidiary	-	63,862
Net cash outflow from acquisition of a subsidiary	(682,234)	-
Dividends received from subsidiaries	79,468	73,045
	<u>(603,584)</u>	<u>134,262</u>
Net cash (used in)/inflow from investing activities		
Cash flow from financing activities		
Proceeds from issue of redeemable preference shares	790,000	-
Increase in amount due to immediate parent company	12,425	228,269
Repayment of amount due to immediate parent company	(1,989)	(140,273)
	<u>800,436</u>	<u>87,996</u>
Net cash inflow from financing activities		
Net (decrease)/increase in cash and cash equivalents	(56,290)	86,627
Cash and cash equivalents at 1 January	86,723	96
Cash and cash equivalents at 31 December	<u>30,433</u>	<u>86,723</u>
Significant non-cash transaction		
Extinguishment of amounts due to immediate parent company as consideration for issue of redeemable preference shares	<u>839,000</u>	<u>-</u>

Notes on the Financial Statements

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2009, there were no unendorsed standards which were required to be implemented for the year ended 31 December 2009 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements for the year ended 31 December 2009 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

A summary of the significant accounting policies adopted by the Company is set out in note 2.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the following policies set out below:

- (a) financial instruments classified as available-for-sale (see note 2(c))
- (b) financial instruments designated as fair value hedges (see note 2(g))

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Note 14(c) and note 18 contain information about the assumptions and the risk factors relating to impairment of subsidiaries and fair value of financial instruments respectively. 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 company is a wholly owned subsidiary of another body corporate and is exempt under section 400 of the Companies Act 2006 from the obligation to prepare group financial statements.

In accordance with the criteria set out in International Accounting Standard ('IAS') 27 'Consolidated and Separate Financial Statements', the Company is exempt from the preparation of consolidated financial statements as HSBC Holdings plc, the ultimate controlling party of the Company, produces consolidated financial statements in accordance with IFRSs which are available for public use. HSBC Holdings plc is incorporated in the United Kingdom and its consolidated financial statements are available upon request from its registered office at 8 Canada Square, London E14 5HQ. They are also available on the HSBC Group's web site at www.hsbc.com. Consequently, these financial statements do not give all the information about the economic activities of the Group of which the Company is the parent which would have been disclosed had the Company prepared consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is the fair value of the consideration given or received). In certain circumstances, however, the fair value may be estimated, using a valuation technique or by using other observable current market transactions in the same instrument.

Subsequent to initial recognition, the fair values of financial instruments are determined as follows:

(i) Available-for-sale financial investment

The fair value of available-for-sale financial investment is determined by reference to financial information on the equity instrument.

(ii) Financial instruments designated as fair value hedges

The fair value of the hedging instrument, the loans from immediate parent company which were denominated in the same foreign currency as the hedged item, investments in subsidiaries, were determined by reference to the exchange rate ruling at the end of the reporting period.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the specific notes.

(b) Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is recognised in the financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated at cost less impairment losses (see note 2(e)). Reversals of impairment losses are recognised in the income statement if there has been a change in the estimates used to determine the recoverable amount of the investment. Investments in subsidiaries denominated in foreign currency which were hedged by effective hedging instruments were accounted for according to the accounting policy as set out in note 2(g).

(c) Financial investments

Investments are recognised/derecognised on the date the Company commits to purchase/sell the investments or they expire. Further details of the Company's policies for investment in financial investments are as follows:

Available-for-sale financial investment

The investment in a security held for non-trading purposes is classified as an available-for-sale financial investment and is initially recognised at fair value plus direct and incremental transaction costs. At the end of each reporting period, the fair value is re-measured, with any resultant gain or loss being recognised directly in other comprehensive income and presented within equity in the available-for-sale fair value reserve, except for impairment losses (see note 2(e)) which are recognised directly in the income statement. When the investment is derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities

(i) Financial assets – amounts due from subsidiaries

Amounts due from subsidiaries with a reliably estimated repayment date are initially recognised at fair value and are subsequently discounted using market interest rates to their amortised cost. Any adjustment is recognised as an increase in the investment in the subsidiary. The accretion of the adjustment is recognised as interest income over the duration of the loan (see note 11).

(ii) Financial liabilities – amounts due to immediate parent company

Amounts due to immediate parent company with a reliably estimated repayment date are initially recognised at fair value and are subsequently discounted using market interest rates to their amortised cost. Any adjustment is recognised as a capital contribution from the immediate holding company and is presented as part of the capital contribution reserve. The accretion of the adjustment is recognised as interest expense over the duration of the loan (see note 15).

(e) Impairment of assets

(i) Impairment of investment in financial investments and other receivables

Investments in financial investments and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial investments are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment of an equity instrument includes a significant or prolonged decline in the fair value below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For the available-for-sale financial investment, the cumulative loss that had been recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and the current fair value of the available-for-sale financial investment, less any impairment loss on that asset previously recognised in the income statement. Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.
- For receivables, an impairment loss is calculated as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the receivable's original effective interest rate.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investments in subsidiaries may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(f) Other assets

Deposits in relation to the capital injection to the Company's new subsidiary in Taiwan, HSBC Bank (Taiwan) Limited, are recognised at cost under "Other assets" (see note 12).

(g) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Company assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Company discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised, (b) the hedge no longer meets the criteria for hedge accounting, or (c) the Company revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised assets or liabilities that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in its fair value attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument (see note 18(d)).

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship, hedge accounting is discontinued prospectively.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Company carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Company adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other payables

Other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and demand deposits with banks and other financial institutions

(j) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. 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 future taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset

Deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement

(k) Revenue recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows

Dividends

- Dividend income is recognised when the shareholder's right to receive payment is established

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Translation of foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in the income statement if the gain or loss on the non-monetary item is recognised in the income statement.

(m) Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company, or
- (ii) the Company and the party are subject to common control, or
- (iii) the party is a subsidiary, an associate of the Company or a joint venture in which the Company is a venturer, or
- (iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals, or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Company. During the year, the Company adopted the following amendment to IFRS which is significant to the Company

IAS 1 (Revised 2007) 'Presentation of Financial Statements' aims to improve users' ability to analyse and compare information given in the financial statements. The adoption of the revised standard has no effect on the results reported in the financial statements. It does, however, result in certain presentational changes in the financial statements, including

- the presentation of all items of income and expenditure in two financial statements, the 'Income statement' and the 'Statement of comprehensive income',
- the presentation of the 'Statement of changes in equity' as a financial statement, which replaces the 'Movement on share capital and reserves' note on the financial statements

4. DIVIDEND INCOME

	2009 US\$'000	2008 US\$'000
Dividend income from subsidiaries	<u>79,468</u>	<u>73,045</u>

5. LOSS ON DISPOSAL OF SUBSIDIARIES

	2009 US\$'000	2008 US\$'000
Loss on partial disposal of HSBC Securities (Japan) Limited	<u>-</u>	<u>1,467</u>

6. (REVERSAL OF IMPAIRMENT LOSS) / IMPAIRMENT LOSS ON SUBSIDIARIES

	2009 US\$'000	2008 US\$'000
Impairment loss on investments in a subsidiary	74,000	148,037
Impairment loss on amount due from a subsidiary	-	14,194
Reversal of impairment loss on investments in a subsidiary	<u>(142,231)</u>	<u>-</u>
	<u>(68,231)</u>	<u>162,231</u>

Further details are set out in note 11 and note 14(c)

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2009 US\$'000	2008 US\$'000
Costs in relation to terminated acquisition of Korea Exchange Bank	-	14,348
Costs in relation to acquisition of PT Bank Ekonomi Raharja Tbk	5,260	273
Bank charges	218	-
Audit fees	18	21
Other expenses	<u>50</u>	<u>17</u>
	<u>5,546</u>	<u>14,659</u>

Non-audit fees are disclosed in the financial statements of The Hongkong and Shanghai Banking Corporation Limited and HSBC Holdings plc

8. TAXATION

	2009 US\$'000		2008 US\$'000
UK corporation tax at 28% (2008 28.5%)	(115)		116
Overseas taxation – withholding tax on dividends from subsidiaries	488		274
Total current year taxation	373		390
Prior year (over)/under provision	(97)		15
Total tax charge	276		405
<u>Analysis of overall tax charge</u>	US\$'000	%	US\$'000 %
Profit/(loss) on ordinary activities before tax	139,567		(122,143)
UK corporation tax at 28% (2008 28.5%)	39,079	28.0	(34,811) 28.5
Tax free gains	-	-	418 (0.3)
Double tax relief on dividends received from group companies	(11,073)	(7.9)	(20,818) 17.0
Dividends received from foreign group companies exempted from tax	(11,178)	(8.0)	- -
Impairment charges not (taxable)/deductible for tax purpose	(19,104)	(13.7)	46,236 (37.9)
Deferred tax temporary differences not provided	684	0.5	4,998 (4.1)
Amounts not deductible for tax purposes	1,481	1.1	4,093 (3.3)
Withholding tax on dividends from subsidiaries	488	0.3	274 (0.2)
Adjustments in respect of prior period liabilities	(97)	(0.1)	15 0.0
Other items	(4)	0.0	- -
Total tax charge	276	0.2	405 (0.3)

9. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

The Directors receive no emoluments in respect of their role in the Company. No staff were employed during the year (2008 nil), and consequently no employee costs were incurred.

10. DIVIDENDS

No dividend was paid or declared in respect of the year ended 31 December 2009 (2008 nil).

11. AMOUNT DUE FROM SUBSIDIARIES

	2009 US\$'000	2008 US\$'000
At 1 January	325,508	269,253
Advances in the year	-	157,000
Discount on initial recognition	-	(7,539)
Accretion of discount	-	11,288
Repayment	-	(90,300)
Reversal of impairment loss/(impairment loss) (note 14(c))	<u>14,194</u>	<u>(14,194)</u>
	<u>339,702</u>	<u>325,508</u>

The amount due from subsidiaries is non-interest bearing and repayable on demand. During the year ended 31 December 2008, advances of US\$279,700,000 were expected to be repaid in December 2008 and were measured on initial recognition at fair value of US\$263,826,000, while advances of US\$60,002,000 were repayable on demand and were measured at cost. The discount of US\$15,874,000 was recognised as an additional investment in the subsidiary, HSBC Iris Investments (Mauritius) Limited. The accretion of the discounts of US\$11,288,000 was recognised as interest income. As at 31 December 2008, the Company and HSBC Iris Investments (Mauritius) Limited agreed that there is no fixed repayment date for the advances and they were therefore stated at cost less impairment.

As at 31 December 2009, the amount due from subsidiaries was stated at cost less impairment. There is no accretion of discount recognised as interest income in 2009.

12. OTHER ASSETS

	2009 US\$'000	2008 US\$'000
Deposits in relation to the capital injection to HSBC Bank (Taiwan) Limited (see note 14(d))	310,006	-
Costs directly attributable to the acquisition of PT Bank Ekonomi Raharja Tbk	-	63,253
Others	<u>952</u>	<u>-</u>
	<u>310,958</u>	<u>63,253</u>

13. AVAILABLE-FOR-SALE FINANCIAL INVESTMENT

	2009 US\$'000	2008 US\$'000
Financial investment - not subject to repledge or resale by counterparties	<u>41,735</u>	<u>25,744</u>

	2009	2008
	Carrying amount US\$'000	Carrying Amount US\$'000
Equity security - available-for-sale	<u>41,735</u>	<u>25,744</u>

13. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS (CONTINUED)

	2009 US\$'000	2008 US\$'000
Available-for-sale equity security		
Fair value as at 1 January	25,744	55,678
Purchases	818	2,645
Changes in fair value recognised in the income statement		
- impairment loss	(2,445)	(17,538)
Changes in fair value recognised in other comprehensive income		
- gross unrealised gains	17,618	-
- reversal of cumulative fair value movement upon impairment	<u>-</u>	<u>(15,041)</u>
Fair value as at 31 December	<u>41,735</u>	<u>25,744</u>
Cost as at 31 December	<u>44,100</u>	<u>43,282</u>
Gross total gains for the year included/(reversed) in available-for-sale fair value reserve of other comprehensive income	17,618	(15,041)
Tax	<u>(4,933)</u>	<u>4,211</u>
Net total gains for the year included/(reversed) in available-for-sale fair value reserve of other comprehensive income	<u>12,685</u>	<u>(10,830)</u>
Total losses for the year included in the income statement	<u>(2,445)</u>	<u>(17,538)</u>

	2009 US\$'000	2008 US\$'000
Available-for-sale equity securities		
- Unlisted	<u>41,735</u>	<u>25,744</u>
Carrying amount at 31 December	<u>41,735</u>	<u>25,744</u>

The fair value of the investment in available-for-sale financial investment is determined by reference to the net asset value of the equity instrument at the end of the reporting period. It is a valuation technique with significant non-observable inputs.

14. INVESTMENTS IN SUBSIDIARIES

	<u>Cost</u> US\$'000	<u>Less Provision for impairment</u> US\$'000	<u>Total</u> US\$'000
At 1 January 2008	1,102,038	(12,000)	1,090,038
Disposals	(12,000)	12,000	-
Capital repayments	(65,329)	-	(65,329)
Adjustment on initial recognition of amount due from a subsidiary	7,539	-	7,539
Provision for impairment loss	-	(148,037)	(148,037)
Exchange and other movements	<u>(147,905)</u>	<u>-</u>	<u>(147,905)</u>
At 31 December 2008 and 1 January 2009	884,343	(148,037)	736,306
Purchases	682,234	-	682,234
Provision for impairment loss	-	(74,000)	(74,000)
Reversal of impairment loss	-	128,037	128,037
Exchange and other movements	<u>(27,617)</u>	<u>-</u>	<u>(27,617)</u>
At 31 December 2009	<u>1,538,960</u>	<u>(94,000)</u>	<u>1,444,960</u>

(a) The subsidiary undertakings of the Company at 31 December 2009 are

	<u>Country of incorporation</u>	<u>Principal activity</u>	<u>Issued and paid up capital</u>
HSBC Finance (Brunei) Berhad (99.94%)	Brunei	Financial services	BND25m
HSBC Insurance Brokers (Taiwan) Limited	Taiwan	Insurance brokerage services	TWD13.6m
HSBC Australia Holdings Pty Limited	Australia	Financial services	AUD671.9m
HSBC Fund Services (Korea) Limited (92.96%)	Korea	Provision of accounting and other services	KRW3,344.9m
HSBC Iris Investments (Mauritius) Ltd	Mauritius	Investment holding	US\$112m
HSBC Securities (Japan) Limited	United Kingdom	Securities	GBP119.1m
HSBC Securities (Taiwan) Corporation Limited	Taiwan	Securities	TWD1 billion
HSBC Investments New Zealand Limited	New Zealand	Financial services	-
PT Bank Ekonomi Raharja Tbk (98.96%)	Indonesia	Commercial banking	IDR267 billion

All the above subsidiaries are wholly owned except where indicated. The class of shares held is ordinary unless otherwise stated. The principal countries of operation are the same as the countries of incorporation except for HSBC Securities (Japan) Limited which operates mainly in Japan.

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Purchases

On 22 May 2009, the Company completed the acquisition of 88.89 per cent of PT Bank Ekonomi Raharja Tbk ("Bank Ekonomi"), in Indonesia, for cash consideration of US\$608 million, paid in US dollars and directly attributable cost of US\$7.1 million.

Following acquisition of the initial stake, the Company was required under Indonesian law to make a mandatory tender offer for a further holding of up to 10.11 per cent. The Company completed the mandatory tender offer on 23 July 2009 resulting in an additional 10.08 per cent being acquired for a cash consideration of US\$71.6 million and directly attributable cost of US\$1.5 million taking the Company's shareholding in Bank Ekonomi to 98.96 per cent. As a result of the outcome of the mandatory tender offer, the cash consideration for the acquisition of the 88.89 per cent was subsequently adjusted to US\$602 million in accordance with the mandatory tender offer agreement.

The capital contribution of NZD100 (US\$58) to HSBC Investments New Zealand Limited was reversed as, according to the constitution of the company, no money is payable for calls or otherwise on the company's issued shares.

(c) Impairment losses / reversal of impairment losses

An impairment test has been carried out to calculate the recoverable amounts of the investments in HSBC Securities (Japan) Limited and HSBC Iris Investments (Mauritius) Limited as there was an indication that the recoverable amount at 31 December 2009 for the former investment has decreased such that further impairment loss may be required, and the recoverable amount for the latter investment has improved such that the impairment loss previously recognised no longer exists or may have decreased. An impairment loss is the amount by which the carrying amount of the investment exceeds its recoverable amount. For HSBC Securities (Japan) Limited, a value in use calculation was performed to derive the recoverable amount and an additional impairment loss of US\$74,000,000 was recognised in 2009 (2008: US\$20,000,000). For HSBC Iris Investment (Mauritius) Limited, the recoverable amount equates to its net asset value and the impairment loss of US\$142,231,000 recognised in 2008 was reversed in 2009 (US\$128,037,000 into investment in subsidiaries and US\$14,194,000 into amount due from subsidiaries) (2008: impairment loss of US\$142,231,000 was recognised - US\$128,037,000 against the investment in this subsidiary and US\$14,194,000 against the amount due from this subsidiary) (see note 6 and note 11).

(d) Incorporation of a subsidiary in Taiwan

In November 2009, the Company obtained approval from the Financial Supervisory Commission ("FSC") in Taiwan to set up a locally incorporated subsidiary, HSBC Bank (Taiwan) Limited. As at 31 December 2009, US\$310 million (TWD10 billion) of capital injection has been transferred to a deposit account in Taiwan branch of The Hongkong and Shanghai Banking Corporation Limited pending approval from the local regulatory authority for completion of incorporation (see note 22).

15. AMOUNT DUE TO IMMEDIATE PARENT COMPANY

	2009 US\$'000	2008 US\$'000
At 1 January	897,144	953,650
Borrowings in the year	12,425	228,269
Discount on initial recognition	-	(7,229)
Accretion of discount	-	10,632
Repayment	(840,989)	(140,273)
Exchange differences	(27,480)	(147,905)
	<u>41,100</u>	<u>897,144</u>

15. AMOUNT DUE TO IMMEDIATE PARENT COMPANY (CONTINUED)

The amount due to the immediate parent company, The Hongkong and Shanghai Banking Corporation Limited, is non-interest bearing and repayable on demand. During the year ended 31 December 2008, borrowings of US\$265,700,000 were expected to be repaid in December 2008 and were measured on initial recognition at fair value of US\$250,981,000, while a loan amount of US\$631,444,000 was repayable on demand and was measured at cost. The discount of US\$14,719,000 was recognised as additional capital contribution from the immediate parent company. The accretion of discounts of US\$10,632,000 was recognised as interest expense in 2008. As at 31 December 2008, the Company and The Hongkong and Shanghai Banking Corporation Limited agreed that there is no fixed repayment date for the borrowings and they were therefore stated at cost less impairment.

As at 31 December 2009, the borrowings are measured at cost. There is no accretion of discount recognised as interest expense in 2009.

16. DEFERRED TAXATION

	2009 US\$'000	2008 US\$'000
Temporary differences		
- Fair value adjustments for available-for-sale financial investment	<u>4,933</u>	<u>-</u>
	2009 US\$'000	2008 US\$'000
At 1 January – as previously reported	-	4,211
Additional provisions	4,933	-
Provisions release	<u>-</u>	<u>(4,211)</u>
At 31 December	<u>4,933</u>	<u>-</u>

The above includes a provision increase of US\$4,933,000 (2008: provision release of US\$4,211,000) when the fair value of available-for-sale financial investment turned positive. The increase in provisions is debited directly to the available-for-sale fair value reserve.

A deferred tax asset of US\$684,000 (2008: US\$4,910,000) in respect of the impairment loss on the available-for-sale financial investment, amounting to US\$2,445,000 (2008: US\$17,538,000) has not been recognised for which no benefit is anticipated.

17. CAPITAL AND RESERVES

(a) Ordinary shares

	31 December 2009	31 December 2009	31 December 2009
	Number of shares	£	US\$
Authorised			
Ordinary shares of £1 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,622,549,545</u>
Allotted, called-up and fully paid share capital			
Ordinary shares of £1 each	<u>5</u>	<u>5</u>	<u>8</u>
	31 December 2008	31 December 2008	31 December 2008
	Number of shares	£	US\$
Authorised			
Ordinary shares of £1 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,458,599,832</u>
Allotted, called-up and fully paid share capital			
Ordinary shares of £1 each	<u>5</u>	<u>5</u>	<u>7</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Redeemable preference shares

	31 December 2009	31 December 2009
	Number of shares	US\$
Authorised		
Redeemable preference shares of US\$100 each	<u>5,000</u>	<u>500,000</u>
Allotted, called-up and fully paid share capital		
Redeemable preference shares of US\$100 each	<u>1,629</u>	<u>162,900</u>

During the year ended 31 December 2009, the Company issued 1,629 redeemable preference shares of US\$100 each at a premium of US\$999,900 (2008: nil) to the immediate parent company, The Hongkong and Shanghai Banking Corporation Limited. All issued shares are fully paid.

The holders of redeemable preference shares are entitled, in priority to the payment of any dividend to the holders of Ordinary Shares in the Company's share capital, to a non-cumulative, preferential dividend payable at such rate, on such dates and on such other terms and conditions as may be determined by the Company. There is no date fixed for redemption. As the Company has the sole discretion on the redemption of shares and the dividend payment, there is no contractual obligation to deliver cash or another financial asset to the holder of the shares.

17. CAPITAL AND RESERVES (CONTINUED)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium is governed by Section 610 (2-3) of the Companies Act 2006

(ii) Available-for-sale fair value reserve

The available-for-sale fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial investment held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(c)

(iii) Capital contribution reserve

The capital contribution reserve comprises the adjustment on non-interest bearing amounts due to immediate parent company which is recognized as an additional capital contribution from the immediate parent company (see note 15)

(d) Capital management

In line with HSBC Group's policy, the Company is to maintain a strong capital base to support the development of its business. The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity. The Company is not subject to externally imposed capital requirements.

An annual group capital plan is prepared and approved by the HSBC Group's Board. The Company manages its own capital within the context of the plan, which determines an appropriate amount and mix of capital required to support planned business growth. As part of HSBC's capital management policy, capital generated in excess of planned requirements is returned to shareholders, normally by way of dividends.

The principal forms of capital are included in the following balances on the statement of financial position: called up share capital, share premium, capital contribution reserve, available-for-sale fair value reserve and retained earnings.

18. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, foreign currency and equity price risks arises in the normal course of the Company's business. These risks are limited by the Company's financial management policies and practices described below.

(a) Credit risk

Credit risk represents the potential loss that the Company would incur if counterparties fail to perform pursuant to the terms of their obligations to the Company. Credit risk for the Company arises mainly from balances due from subsidiaries or from other group companies. Management has a policy to monitor the credit risks of these exposures on an ongoing basis. At the end of the reporting period, there was no significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. See note 11 for details of impaired amounts. No amounts were past due.

18. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, including the terms of borrowings from other group entities, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities or committed lines of funding (from major financial institutions or other group companies) to satisfy its contractual and reasonably foreseeable obligations as they fall due

The following table presents the earliest contractual settlement dates of the Company's financial liabilities at the end of the reporting period based on undiscounted contractual cash flows

	2009		
	<i>More than 3 months but less than 6 months US\$'000</i>	<i>No fixed term of repayment US\$'000</i>	<i>Total US\$'000</i>
Creditors and accruals			
- tax liabilities	7	-	7
- other liabilities	619	-	619
Amounts due to immediate parent company	-	41,100	41,100
	<u>626</u>	<u>41,100</u>	<u>41,726</u>
	2008		
	<i>More than 3 months but less than 6 months US\$'000</i>	<i>No fixed term of repayment US\$'000</i>	<i>Total US\$'000</i>
Creditors and accruals			
- tax liabilities	219	-	219
- other liabilities	18	-	18
Amounts due to immediate parent company	-	897,144	897,144
	<u>237</u>	<u>897,144</u>	<u>897,381</u>

The amount due to creditors and accruals are covered by the Company's cash and cash equivalents. The loans from the immediate parent company are mainly used for acquisition and investments in subsidiaries (see note 14). In 2009, US\$839 million of these loans were converted to share capital in the form of redeemable preference shares (see note 17).

(c) Interest rate risk

Cash and cash equivalents of the Company are subject to short term interest rate repricing and are not subject to significant interest rate risk. Other financial assets and liabilities are non-interest bearing.

18. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

(i) Fair value hedges

The Company is exposed to foreign currency risk primarily through investments in Asia Pacific where the investment costs are denominated in foreign currencies other than the functional currency of the Company. The currencies giving rise to this risk are primarily Australian dollars, Korean won, New Taiwan dollars and Brunei dollars. The Company is exposed to changes in the fair value of its investments as a result of movement in exchange rates of the above currencies. It was the Company's strategy to reduce the exposure to movements in exchange rates by using loans from the immediate parent company denominated in the same currency as the investment as the hedging instrument to hedge its currency risk and classified these as fair value hedges. In March 2009, these hedge relationships were de-designated when the foreign currency borrowings used to hedge such risks were repaid by the issue of US\$ redeemable preference shares. The fair value of the loans from immediate parent company in foreign currency at the date of de-designation was US\$534,686,000 (2008 US\$562,303,000) and the movements in foreign exchange on the investment and the liabilities up to that date have been taken to the income statement, with 100% effectiveness being achieved.

(ii) Gains or losses arising from fair value hedges

	2009 US\$'000	2008 US\$'000
Gains / (losses) arising from		
– change in fair value of hedging instruments	27,617	147,905
– change in fair value of hedged investments attributable to the hedged risk	(27,617)	(147,905)

(e) Equity price risk

The Company is exposed to equity price changes arising from the equity investment classified as available-for-sale financial investment (see note 13). The investment is unquoted and is held for long term investment purposes. The performance of the investment is assessed quarterly based on the financial information on the equity instrument.

The following table indicates the approximate change in the Company's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the net asset value of the equity investment.

	2009			2008		
	<i>Increase/ (decrease) in the relevant risk variable</i>	<i>Effect on available -for-sale fair value reserve \$'000</i>	<i>Effect on statement of compre- hensive income \$'000</i>	<i>Increase/ (decrease) in the relevant risk variable</i>	<i>Effect on available -for-sale fair value reserve \$'000</i>	<i>Effect on statement of compre- hensive income \$'000</i>
Net asset value in respect of unlisted investment	20%	8,347	-	20%	5,149	-
	(20)%	(8,347)	-	(20)%	-	(5,149)

18. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Equity price risk (continued)

The sensitivity analysis has been determined assuming that the reasonably possible changes in the net asset value had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair value of the Company's equity investment would change in accordance with the net asset value. As a result of a reasonably possible decrease in the net asset value with all other variables remaining constant, none of the Company's available-for-sale investment would be considered impaired. The stated changes represent management's assessment of reasonably possible changes in the net asset value over the period until the next annual reporting period.

As an impairment loss had been recognised in the income statement in respect of available-for-sale financial investment, the possible increase in the net asset value with all other variables remaining constant, would result in a change in the available-for-sale fair value reserve under other comprehensive income, whereas the possible decrease in the net asset value would result in a change in the income statement, which is in accordance with the accounting policies in note 2(e)(i).

19. CAPITAL COMMITMENTS

	2009 US\$'000	2008 US\$'000
Expenditure contracted for	<u>5,430</u>	<u>6,554</u>

The capital commitments mainly relate to the commitment to increase the investment in a private equity fund.

In addition, the Directors have approved the following capital injection:

Capital injection into HSBC Bank (Taiwan) Limited

Total capital injection of up to TWD26 billion (US\$788 million) into HSBC Bank (Taiwan) Limited by the Company has been approved in March 2009. An initial capital injection of TWD10 billion (US\$310 million) has been made as at 31 December 2009. The Company is committed to make a further capital injection of TWD16 billion (US\$478 million) (see note 14(d) and note 22).

20. RELATED PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in these financial statements, the Company did not enter into any material related party transactions during the year.

21. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The Company's immediate parent is The Hongkong and Shanghai Banking Corporation Limited, which is incorporated in Hong Kong and the Company's ultimate parent is HSBC Holdings plc, which is incorporated in the United Kingdom. Both the immediate and ultimate parent companies produce consolidated financial statements for public use.

Copies of the financial statements of HSBC Holdings plc may be obtained from its registered office at 8 Canada Square, London E14 5HQ, or from www.hsbc.com. Copies of the financial statements of The Hongkong and Shanghai Banking Corporation Limited are available upon request from Level 32, HSBC Main Building, 1 Queen's Road Central, Hong Kong, or from www.asiapacific.hsbc.com.

22. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the incorporation of HSBC Bank (Taiwan) Limited with a capital of TWD30 billion was approved by the Ministry of Economic Affairs on 28 January 2010. The Company will further inject approximately TWD20 billion (US\$606 million) by 1 May 2010.

23. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations have been issued which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

A revised IFRS 3 'Business Combinations' was issued by the IASB on 10 January 2008 but has been endorsed by the EU. The revisions to the standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual financial reporting period beginning on or after 1 July 2009. The main changes under the standards that are relevant to the Company are that:

- acquisition-related costs are recognised as expenses in the income statement in the period they are incurred, and
- equity interests held prior to control being obtained are remeasured to fair value at the time control is obtained, and any gain or loss is recognised in the income statement.

The effect that the changes will have on the results and financial position of the Company will depend on the incidence and timing of business combinations occurring on or after 1 January 2010.

The IASB has issued standard IFRS 9 'Financial Instruments' ('IFRS 9') relating to the classification and measurement of financial assets in November 2009, which will replace the corresponding requirements in IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'). The requirements under IFRS 9 are effective for annual periods beginning on or after 1 January 2013. IFRS 9 is intended to ultimately replace IAS 39 in its entirety. The Company is currently assessing the effect of this standard on the financial statements.

The Company is in the process of making an assessment of what the impact of other amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Company does not expect that the adoption of them will have a significant impact on the Company's results of operations and financial position.