恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
Incorporated in Hong Kong with limited liability
(Stock Code : 12)

2012 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of your Board, I am pleased to present my report on the operations of the Group for the financial year ended 31 December 2012.

Profit and Net Asset Value Attributable to Shareholders

The Group's underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the year ended 31 December 2012 amounted to HK$7,098 million, representing an increase of HK$1,538 million or 28% over HK$5,560 million for the corresponding year ended 31 December 2011. Underlying earnings per share were HK$2.97 (2011: HK$2.41).

Including the fair value change (net of non-controlling interests and deferred tax) of investment properties, the Group reported profit attributable to equity shareholders for the year ended 31 December 2012 was HK$20,208 million, representing an increase of HK$3,024 million or 18% over HK$17,184 million for the corresponding year ended 31 December 2011. Reported earnings per share were HK$8.47 (2011: HK$7.44).

At 31 December 2012, the net asset value attributable to equity shareholders amounted to HK$205,212 million (or HK$84.97 per share), 11% higher than the amount of HK$185,336 million (or HK$78.23 per share) at 31 December 2011. Net debt (including the amount of HK$6,125 million (2011: HK$8,583 million) due to a wholly owned subsidiary of Henderson Development Limited which is controlled by the private family trusts of Dr. Lee Shau Kee) amounted to HK$35,205 million (2011: HK$36,890 million) giving rise to a gearing ratio of 17.2% (2011: 19.9%).

Dividends

Your Board recommends the payment of a final dividend of HK$0.74 per share to shareholders whose names appear on the Register of Members of the Company on Tuesday, 11 June 2013, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK$0.32 per share already paid, the total dividend for the year ended 31 December 2012 will amount to HK$1.06 per share (2011: HK$1.00 per share).

The proposed final dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid shares in lieu of cash under the scrip dividend scheme ("Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the proposed final dividend and bonus shares, but will rank pari passu in all other respects with the existing shares. The circular containing details of the Scrip Dividend Scheme and the relevant election form will be sent to shareholders.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The final dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent to shareholders on Monday, 15 July 2013.

Issue of Bonus Shares

The Board proposes to make a bonus issue of one new share credited as fully paid for every ten shares held to shareholders whose names appear on the Register of Members on Tuesday, 11 June 2013. The relevant resolution will be proposed at the forthcoming annual general meeting, and if passed and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares, share certificates of the bonus shares will be posted on Monday, 15 July 2013.

Business Review - Hong Kong

In 2012, low interest rates, rising inflation as well as the low supply of housing units during the year led to the sustaining of high property prices. In response, the Government has launched a number of suppressive measures to cool down property prices. To illustrate one of the harshest measures imposed: for a non-local's purchase of a residential property at a price exceeding HK$20 million, it would attract a 15% "Buyer's Stamp Duty" on top of the doubling of the originally applicable 4.25% stamp duty with an additional 4.25% stamp duty. In other words, a total stamp duty of 23.5% on the stated consideration would be immediately payable upon purchase. Such measures have dampened the sentiments among homebuyers, resulting in a moderate downtrend in property price and drastic drop in property transactions. Given the high construction cost and the scanty supply of newly completed residential units, property prices are expected to stay steady. As for commercial properties, which do not appear to be greatly affected despite the increase in stamp duty, they are expected to have a slight increase in price. It transpires that such measures will cool down the overheated residential market and will facilitate its healthy development.

Property Sales

During the year under review, the Group actively promoted the pre-sale of a number of residential developments. "High West" at Sai Ying Pun was launched in July 2012 and nearly 90% of its total 133 boutique apartments were pre-sold at the year-end date. "Double Cove" (Phase 1) at Ma On Shan was launched in September 2012 with about 70% of its total 928 residential units pre-sold at the year-end date. Certain blocks of "The Reach" in Yuen Long were launched in October 2012 and out of the batch of 1,096 residential units offered, over 50% was pre-sold at the year-end date. Together with "La Verte" in Fanling, which was launched in early 2012 with all its 16 villas sold out, as well as an array of residential and office developments sold during the year, the Group's attributable sales revenue for the year amounted to HK$11,709 million.

Meanwhile, non-core investment properties were disposed of during the year under review and they included the entire 27,000-square-foot building of "579 Nathan Road", 17 houses of "Casa Marina" and 8 houses of "The Beverly Hills" at Tai Po, as well as the redevelopment site at 25 La Salle Road with an approved gross floor area of about 24,000 square feet. Proceeds arising from these disposals totalled HK$1,715 million. Including the aforesaid amount of sales revenue, the Group sold an attributable total of HK$13,424 million worth of properties for the year.

After the end of this financial year, the Group continued to release properties under development for sale in January 2013 including "High Place" at Kowloon City and "High Point" at Cheung Sha Wan, both under "The H Collection" (urban redevelopment boutique residences) series, with residential areas of about 27,000 square feet and 62,000 square feet, respectively. Both developments sold well and together with the sales of other projects, the total attributable contracted sales for the first two months of 2013 exceeded HK$2,730 million.

Hong Kong Ferry (Holdings) Company Limited, an associate of the Group, also put its "Green Code" at Fanling on sale in mid-March 2013. This project was well received by the market with 363 units, or approximately one half of its total residential units, sold last week. It shows that small- to medium-sized units of superior quality are highly sought after by the local end-users.

In the coming years, various categories of development projects (with the exception of a few earmarked for rental purposes) will provide the following areas for sale as follows:

(1) Unsold units from the major development projects offered for sale

There are 9 development projects with the remaining units available for sale:

	Project name and location	Site area (sq. ft.)	Gross Floor area (sq. ft.)	Land-use Purpose	Group's interest (%)	At 31 December 2012 No. of residential units remaining unsold	Gross area remaining unsold (sq. ft.)
1.	High West 36 Clarence Terrace Sai Ying Pun	7,310	58,471	Residential	100.00	17	11,104
2.	Double Cove (Phase 1) 8 Wu Kai Sha Road, Ma On Shan	467,959	784,464	Commercial/ Residential	59.00	286	325,519
3.	The Reach (Blocks 3, 5, 7, 8 and 11) 11 Shap Pat Heung Road Yuen Long	371,358 (Note 1)	1,299,744 (Note 1)	Residential	79.03	515	369,273
4.	Légende Royale The Beverly Hills – Phase 3 23 Sam Mun Tsai Road Tai Po	982,376 (Note 2)	1,165,240 (Note 2)	Residential	90.10	3	28,733
5.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	39 (Note 3)	130,309 (Note 3)
6.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	8	32,449
7.	Green Lodge Tong Yan San Tsuen Yuen Long	78,781	78,781	Residential	100.00	6	17,145
8.	The Gloucester 212 Gloucester Road Wanchai	11,545	113,977	Residential	100.00	9	17,065
9.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	103,982
					Sub-total:	**883**	**1,035,579**
						Gross area attributable to the Group:	**769,711**

Note 1: Representing the total site area and the total gross floor area for the whole project of The Reach.
Note 2: Representing the total site area and the total gross floor area for the whole project of The Beverly Hills.
Note 3: In addition, there are 17 residential units held for investment purpose.

(2) Projects pending sale in 2013

In the absence of unforeseen delays, the following projects are available for sale in 2013:

Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	No. of Residential Units	Gross floor area (sq. ft.)
1. The Reach (Remaining blocks) 11 Shap Pat Heung Road Yuen Long	371,358 (Note 1)	1,299,744 (Note 1)	Residential	79.03	1,484	743,008
2. High Place 33 Carpenter Road Kowloon City (Formerly known as 75-81 Sa Po Road) (launched in January 2013)	3,582	31,644	Commercial/ Residential	100.00	76	26,860
3. High Point 188 Tai Po Road Cheung Sha Wan (launched in January 2013)	8,324	70,340	Commercial/ Residential	100.00	138	62,323
4. Green Code 1 Ma Sik Road, Fanling (launched in March 2013)	95,800	538,723	Commercial/ Residential	31.36	728	412,820
5. High Park Grand 68 Boundary Street	6,750	60,750	Commercial/ Residential	100.00	41	50,625
6. High Park 51 Boundary Street (Formerly known as 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North)	5,880	52,919	Commercial/ Residential	100.00	59	44,099
7. 186-198 Fuk Wing Street, Sham Shui Po	7,500	63,282	Commercial/ Residential	100.00	110	56,250
8. Double Cove (Phase 2) 8 Wu Kai Sha Road, Ma On Shan (Note 2)	65,983	638,628	Residential	59.00	865	638,628
9. 19-21 Wong Chuk Hang Road (Note 2)	14,298	214,467	Office	50.00	Not applicable	214,467
10. 1-7A Gordon Road, North Point	7,386	61,612	Commercial/ Residential	100.00	119	56,207

Note 1: Representing the total site area and the total gross floor area for the whole project of The Reach.
Note 2: Pending the issue of sales consent

Sub-total:	**3,620**	**2,305,287**
Gross area attributable to the Group:		**1,497,048**
Total saleable area from the projects in categories (1) and (2):	**4,503**	**3,340,866**
Total gross area attributable to the Group:		**2,266,759**

(3) Remaining phases of Double Cove

In the absence of unforeseen delays, phases 3 and 4 are expected to be available for sale in 2014, whilst phase 5 will be available for sale in 2015:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	No. of Residential Units	Residential area (sq. ft.)
1.	Double Cove (Phase 3) 8 Wu Kai Sha Road, Ma On Shan	228,285	816,817	Commercial/ Residential	59.00	1,092	807,688
2.	Double Cove (Phase 4) 8 Wu Kai Sha Road, Ma On Shan	194,532	383,306	Residential	59.00	474	383,306
3.	Double Cove (Phase 5) 8 Wu Kai Sha Road, Ma On Shan	85,638	327,445	Residential	59.00	178	327,445
					Sub-total:	**1,744**	**1,518,439**
					Gross area attributable to the Group:		**895,879**

(4) Existing urban redevelopment projects for sales / leasing

The Group had a total of 5 existing projects under planning for redevelopment or land-use conversion, which are expected to provide about 1.36 million square feet in attributable gross floor area in the urban areas based on the Government's latest city planning and the dates of sale launch are not finalized as outlined below:

		Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's Interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1.	45-47 Pottinger Street and Ezra's Lane, Central Hong Kong (Note 1)	9,067	132,098	19.10	25,224
2.	29 Lugard Road The Peak, Hong Kong	23,649	11,824	100.00	11,824
3.	8 Wang Kwong Road Kowloon Bay, Kowloon (Notes 1 and 2)	21,528	258,336	100.00	258,336
4.	14-30 King Wah Road North Point, Hong Kong (Notes 1 and 3)	52,689	330,000	100.00	330,000
5.	Yau Tong Bay Kowloon (Note 4)	810,454	3,974,759	18.44	732,775
	Total:	**917,387**	**4,707,017**		**1,358,159**

Note 1: Investment property

Note 2: The existing industrial building (i.e. Big Star Centre) at this site is planned to be redeveloped into an office or industrial building with an enlarged gross floor area of about 258,000 square feet. However, such plan, as well as the related issue of land premium, are still subject to Government's approval.

Note 3: With the approval from the Town Planning Board to be redeveloped into an office tower, it is now subject to the finalization of land premium with the Government.

Note 4: Outline zoning plan was approved on 8 February 2013 by Metro Planning Committee of the Town Planning Board and it is still pending finalization of land premium with the Government.

(5) Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

There are 14 newly-acquired urban redevelopment projects with ownership fully consolidated and their expected gross floor areas, based on the Government's latest city planning, are as follows. In the absence of unforeseen delays, most of the projects are expected to be available for sale in 2014-2016:

	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	
<u>Hong Kong</u>				
1.	19-35 Shing On Street and 15 Tai Shek Street, Sai Wan Ho	7,514	78,635	(Note 1)
2.	23-25 Robinson Road, Mid-Levels (25.07% stake held by the Group)	31,380	39,334	(Note 1)
3.	1-11 Lai Yin Street and 2-12 Jones Street, Tai Hang (70% stake held by the Group)	6,529	45,686	(Note 1)
4.	208-210 Johnston Road, Wanchai	1,939	29,085	(Note 2)
5.	62-76 Main Street, Ap Lei Chau	7,953	65,763	(Note 1)
	Sub-total:	**55,315**	**258,503**	
<u>Kowloon</u>				
6.	11-33 Li Tak Street, Tai Kok Tsui	19,600	165,375	(Note 1)
7.	2-12 Observatory Road, Tsim Sha Tsui (50% stake held by the Group)	13,764	82,569	(Note 2)
8.	196-202 Ma Tau Wai Road, To Kwa Wan	4,905	41,328	(Note 1)
9.	1-15 Berwick Street, Shek Kip Mei	9,788	78,304	
10.	59-63 Wing Hong Street and 88-92 King Lam Street, Cheung Sha Wan	28,004	336,051	
11.	342-348 Un Chau Street, Cheung Sha Wan	4,579	38,922	
12.	352-354 Un Chau Street, Cheung Sha Wan	2,289	19,457	
13.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,590	(Note 1)
14.	565-577 Fuk Wah Street, Cheung Sha Wan	7,560	63,788	(Note 1)
	Sub-total:	**96,999**	**884,384**	
	Total:	**152,314**	**1,142,887**	

Note 1: Expected to be available for sale in 2014
Note 2: To be held for rental purposes upon completion of development

(6) Newly-acquired Urban Redevelopment Projects - with over 80% ownership secured

For the newly-acquired urban redevelopment projects with over 80% ownership acquired, their ownership would be consolidated by proceeding to the court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order being granted, the Group may not be able to complete the consolidation of the ownership for development. If legal procedures go smoothly and in the absence of unforeseen delays, most of the projects set out below are expected to be available for sale in 2015-2017. On the basis of the Government's latest city planning, the expected gross floor area is shown as follows:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)
Hong Kong			
1.	450-456G Queen's Road West, Western District	28,371	275,999
2.	85-95 Shek Pai Wan Road, Aberdeen	4,950	42,075
3.	4-6 Tin Wan Street, Aberdeen	1,740	14,790
4.	12-18 Tin Wan Street, Aberdeen	4,148	39,406
5.	9-13 Sun Chun Street, Tai Hang	2,019	18,171
6.	21-39 Mansion Street and 852-858 King's Road, North Point	17,720	168,640
	Sub-total:	**58,948**	**559,081**
Kowloon			
7.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan	23,031	207,272
8.	50-56 and 58-64 Ma Tau Kok Road and 162-168 Pau Chung Street, To Kwa Wan	11,404	101,791
9.	38-40A Hillwood Road, Tsim Sha Tsui (Note 1)	4,586	55,032
10.	2A-2F Tak Shing Street, Jordan	10,614	84,912
11.	456-462A Sai Yeung Choi Street North	12,298	103,531
12.	1-19 Nam Cheong Street, Sham Shui Po	8,625	77,626
13.	79-83 Fuk Lo Tsun Road, Kowloon City	3,630	30,855
14.	8-30A Ka Shin Street, Tai Kok Tsui	19,738	176,211
15.	21-27 Berwick Street and 212-220 Nam Cheong Street, Shek Kip Mei	10,538	84,304
16.	3-4 Yiu Tung Street, Shek Kip Mei	2,275	18,200
17.	7-8 Yiu Tung Street, Shek Kip Mei	2,275	18,200
18.	7-7G Victory Avenue, Homantin	9,865	83,853
	Sub-total:	**118,879**	**1,041,787**
	Total for 18 projects with over 80% ownership:	**177,827**	**1,600,868**

Note 1: To be held for rental purposes upon completion of development

(7) Project in Progress

The Group has successfully acquired over 60% interests in Merry Terrace at 4A-4P Seymour Road, which currently has a total of 196 housing units on a total site area of 52,466 square feet. The Group is working on a joint development agreement with another developer which also held some stakes. If the joint development is materialized, the aggregate ownership for this project may exceed 80% and it allows the application to the court for compulsory sale to proceed. Redevelopment of such a prestigious property, which is in a prime location at Mid-Levels with easy accessibility, will soon commence. Upon completion of redevelopment, the expected gross floor area attributable to the Group on the basis of the Government's latest city planning will be about 306,900 square feet.

Total gross floor areas from all of the above seven categories of developments are summarized as follows:

		No. of projects	Attributable gross floor area (million sq. ft.)	Note
1.	Major development projects offered for sale with units unsold	9	0.77	
2.	Projects pending sale in 2013	10	1.50	
		Sub-total:	**2.27**	Available for sale in 2013
3.	Remaining phases of Double Cove	3	0.90	Expected to be available for sale in 2014-2015
		Sub-total:	**0.90**	
4.	Existing urban redevelopment projects for sales / leasing	5	1.36	Date of sales launch not yet finalized and three of them are pending finalization of land premium with the Government
5.	Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated	14	1.14	Most of them are expected to be available for sale in 2014-2016
6.	Newly-acquired Urban Redevelopment Projects - with over 80% ownership secured	18	1.60	Most of them are expected to be available for sale in 2015-2017
7.	Project in Progress	1	0.30	Negotiation with another developer is underway, pending the finalization of legal documents
		Sub-total:	**4.40**	
		Total:	**7.57**	Gross floor area is fixed on the basis of the Government's latest city planning as well as the Company's development plans. For certain projects, it may be subject to change depending on the actual demand in future.

Forthcoming Projects

Further acquisitions involving another 37 projects spanning various highly accessible urban districts are in progress and to date, over 20% but less than 80% of their ownerships have been acquired for these projects. Based on the Government's latest city planning and in the absence of unforeseen delays, they are expected to provide a total attributable gross floor area of about 4.2 million square feet upon successful consolidation of ownership and completion of redevelopment. However, such acquisitions bear uncertainty and the Group may not be able to consolidate all their ownerships:

			Total land area of projects (sq. ft.)
1.	Hong Kong		
	Central & Western		85,063
	Island East		75,996
	Causeway Bay		17,974
	Aberdeen		11,118
	Wanchai		3,993
		Sub-total:	**194,144**
2.	Kowloon		
	Hung Hom		115,450
	Tai Kok Tsui		87,978
	Homantin		35,880
	Sham Shui Po		20,363
	Tsim Sha Tsui		12,283
	Kowloon City		4,424
		Sub-total:	**276,378**
		Total:	**470,522**

Land Bank

Instead of bidding for land at high prices through public auctions or tenders, the Group has chosen to replenish its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. Although such approach of land banking may involve a relatively longer period of time to accomplish as compared to that of public tenders, it ensures a more reliable source of land supply with a lower acquisition cost, which is beneficial to the Group's development returns in the long term.

The urban redevelopment project of "High West" at Sai Ying Pun launched for sale during the year under review may serve as a manifest example. In terms of gross floor area approved by Buildings Department, the average selling price for the units sold for this project is about HK$16,500 per square foot, whereas the acquisition cost is about HK$3,500 per square foot (excluding construction cost and other expenses). As for "Double Cove (Phase 1)" at Ma On Shan, New Territories, which was sourced from land-use conversion, the average selling price for the units sold stands at HK$10,000 per square foot, whereas its acquisition cost (including the cost for acquisition of New Territories land and the land conversion premium) is merely HK$3,600 per square foot (excluding construction cost and other expenses). Hence, it is evident that profit contributions from projects of urban redevelopment as well as New Territories land are highly satisfactory.

Area of Land Reserve

At 31 December 2012, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 20.9 million square feet, made up as follows:

	Attributable gross floor area (million sq. ft.)
Properties held for or under development	10.4
Stock of unsold property units	0.4
Completed investment properties (Note)	9.1
Hotel properties	1.0
Total：	**20.9**

Note: The Group held additional rentable car parking spaces with a total area of around 2.7 million square feet.

Land in Urban Area

In order to provide the Group with a steady pipeline of urban land supply in the coming years, the Group has been active in acquiring old tenement buildings for redevelopment purposes. As mentioned above, to date the Group has 32 urban redevelopment projects of old tenement buildings with entire or over 80% ownership and they are expected to provide a total attributable gross floor area of about 2.7 million square feet. The total land cost is estimated at about HK$12,200 million (inclusive of the pricy street shops), translating into a land cost of approximately HK$4,500 per square foot of attributable gross floor area.

Whilst the strategy of the Group to acquire old tenement buildings for redevelopment is in line with government policies, it will also contribute to the well-being of our society. As the conditions of old dilapidated buildings will seriously worsen with the passage of time, their redevelopment can greatly enhance the city image, creating a more pleasant urban landscape. In addition, the owners of aged buildings will have a chance to realize their worn-out properties at a higher price in pursuit of a better living condition through purchase of new homes. They no longer need to risk their lives to live in the dangerous and dilapidated flats. In the last four years, the Group made acquisitions of old tenement buildings consisting of more than 4,000 units in total.

During the year under review, progress was made in ownership consolidation for 12 projects. The Group by way of “Land (Compulsory Sale for Redevelopment) Ordinance” completed the acquisition with the ownership consolidated for three projects, namely, 62-72 Main Street at Ap Lei Chau, 11-33 Li Tak Street at Tai Kok Tsui and 196-202 Ma Tau Wai Road at To Kwa Wan. For the aforesaid project at Main Street, Ap Lei Chau, as well as the project at Shing On Street, Sai Wan Ho, their sites were both enlarged following the completion of the acquisition of the adjacent buildings. Meanwhile, the Group completed the acquisitions in the market with the ownerships consolidated for five projects. There were also added to the Group three projects with their sites being enlarged and their ownership reaching the compulsory sale application threshold for redevelopment.

In order to suppress the overheated market, “Buyer’s Stamp Duty” was newly introduced by the Government. In accordance with the bill presented by the Government to the Legislative Council, a refund of the “Buyer’s Stamp Duty” paid is allowed for developers of old tenement buildings upon completion of the redevelopment within 6 years from the date of the relevant acquisition, if certain conditions are satisfied. It is also proposed by Inland Revenue Department that the same relief will apply equally under the new regime of doubling of stamp duty.

New Territories land

At the end of December 2012, the Group held New Territories land reserves amounting to approximately 42.8 million square feet in land area, which was the largest holding among all property developers in Hong Kong.

For the long-term land supply, the Chief Executive committed to put forward the development of the three regions under “North East New Territories New Development Areas” and “Hung Shui Kiu New Development Area” as soon as possible. According to the earlier planning, the North East New Territories New Development Areas will provide about 533 hectares of developable land, including housing land for 53,800 units. This will be an important source of supply for public and private housing in the years to come. To meet public demands, the Government is studying the possibility of appropriately increasing the development density and proportion of public housing. The Government is also identifying sites for new Home Ownership Scheme flats and implements, as appropriate, the "Hong Kong property for Hong Kong residents" policy (under such policy, completed housing units in certain sites are restricted to be sold and subsequently transferred to Hong Kong residents only). With an area of 790 hectares, Hung Shui Kiu New Development Area can provide over 400 hectares of developable land according to preliminary assessment. According to the latest information from the Government, details for the development of North East New Territories will be announced in mid-2013.

The Group will continue to work in line with the Government’s development land policy and follow up closely on the Government’s development plans in the “North East New Territories New Development Areas” and “Hung Shui Kiu New Development Area”. The Group holds land lots of approximately 10.9 million square feet in total land area in these four new development areas as follows:

	Total land area (sq.ft.)
New Development Areas to be built in New Terrritories	
1. Wu Nga Lok Yeung	2,700,000
2. Ping Che	2,260,000
3. Kwu Tung North	440,000
4. Hung Shui Kiu	5,500,000
Total:	**10,900,000**

It is expected that these areas will become highly strategic locations, benefitting from the improved transport infrastructure and easier accessibility between Hong Kong and mainland China. It is preliminarily estimated that the allowed plot ratio for development for these areas will range from 1 to 3 times. Assuming a plot ratio of 2 times, the Group would have a total developable gross floor area of 21.8 million square feet. It allows the Group to build about 36,000 housing units of approximately 600 square feet each. The Group will actively negotiate with the Government for the land-use conversion for these sites at reasonable premiums. If a mutual agreement is reached with the Government, it will be a further boost to the Group's development land bank. However, there is also a possibility that the Government may resume certain parts of the lands in these areas through cash compensation in order to develop new towns.

For the wetland restoration and residential project in Wo Shang Wai, Yuen Long, it is planned to be developed into a low-density luxury residential development with a total gross floor area of approximately 895,000 square feet against a total land area of about 2.3 million square feet. The latest planning application has been approved by the Town Planning Board and the corresponding land-use conversion and land-premium applications are in progress with the Lands Department.

For the Group's 50%-owned residential project in Nam Sang Wai, it offers a total gross floor area of about 3.3 million square feet. The original development plan, which was already approved by the Privy Council, is in legal dispute with the Town Planning Board. Meanwhile, another development plan has also been submitted to Town Planning Board and feedback has yet to be received. In the event of obtaining the Town Planning Board's approval, the next task will fall on the finalization of land premium.

The Group is now studying the possibility of donating, with the sponsorship from the Chairman, certain land lots (which are not in the core development areas of the Group) in the New Territories to the Government for building small-sized housing units for the purpose of helping the younger generation to acquire their own properties. Such plans are still subject to negotiation with the Government.

Investment Properties

Leasing performance was impressive during the year with the overall occupancy for the Group's core rental properties rising to 98% by the end of 2012. The Group's attributable gross rental income[note] in Hong Kong for the year ended 31 December 2012 increased by 12% to HK$5,466 million, whilst attributable pre-tax net rental income[note] was HK$4,031 million, representing a growth of 12% over the previous year. (Note: this figure includes that derived from the investment properties owned by the Group's subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities) The International Finance Centre project, in which the Group has an attributable interest of 40.51%, performed well. Excluding the contribution from its hotel, it provided a total attributable gross rental income of HK$1,591 million (2011: HK$1,424 million) to the Group during the year under review.

At 31 December 2012, the Group held a total attributable gross floor area of approximately 9.1 million square feet in completed investment properties in Hong Kong, comprising 4.4 million square feet of shopping arcade or retail space, 3.4 million square feet of office space, 0.9 million square feet of industrial/office space and 0.4 million square feet of residential and apartment space. This quality rental portfolio is geographically diverse, with 25% in Hong Kong Island, 34% in Kowloon and the remaining 41% in the New Territories (with most of the latter being large-scale shopping malls in new towns).

Given the improvement in both local consumption and visitor spending, Hong Kong's retail sector fared well and all of the Group's major shopping malls, except those under renovation, recorded nearly full occupancy by the end of the financial year. In addition to conducting certain targeted marketing activities, such as organizing shopping tours for mainlanders and wide adoption of multi-media promotional channels, continual facility upgrades and improved tenant mix are all the keys to such remarkable success. For instance, Metro City Phase II in Tseung Kwan O, which recently brought in international fashion and beauty care brands to upgrade its market image, has drawn continuous interest from many popular restaurants to open their dining outlets in this mall. In order to further differentiate themselves from other competing malls in the neighbourhood, Metro City Phase II and Sunshine City Plaza in Ma On Shan are undergoing a series of renovation works which are set to give visitors a fresh shopping experience after the revamp. Trend Plaza in Tuen Mun attracted more shoppers after the completion of a facelift at its North Wing in 2012, whilst Skyline Plaza in Tsuen Wan also became a popular one-stop shopping hot spot in the region when one single tenant, which occupied the mall exclusively with a total gross floor area of over 150,000 square feet, commenced its department store business in October 2012.

Leasing demand for quality office space in Hong Kong also remained resilient on the back of persistent economic growth in both Hong Kong and mainland China. The Group's premier office developments in the core areas, such as ifc in Central, AIA Tower in North Point, as well as ING Tower and Golden Centre in Sheung Wan, have all performed well with a remarkable increase in rents from lease renewal. Meanwhile, the Group's approximately 2,000,000-square-foot portfolio of prime office and industrial/office premises in Kowloon East recorded nearly full occupancy by the end of 2012 and it is set to benefit further from the Government's commitment to reshape the district as a new business hub under the "Energizing Kowloon East" project. In order to stay ahead of the market and enhance their rental values, the Group regularly enhances the green features and upgrades the quality of its office developments. During the year, Golden Centre in Sheung Wan, following the previous success of ifc and Manulife Financial Centre, achieved the highest "platinum" rating under the globally recognized Hong Kong – Building Environmental Assessment Method (HK-BEAM), whilst facility upgrades for AIA Tower in North Point are planned to commence in 2013.

Leasing performance for the Group's luxury residences and serviced suites was satisfactory. Both Eva Court and 39 Conduit Road at Mid-Levels leased well, whilst the serviced suite hotel at Four Seasons Place, which offers premium accommodation to guests from all over the world, continued to achieve high occupancy and increased rent. An upcoming addition will be a 66,000-square-foot hotel development at 388 Jaffe Road, Wanchai. Completed in August 2012, this 90-room designer lifestyle hotel is now undergoing interior decoration works and upon its scheduled opening in the summer of 2013, it will be operated by Miramar Hotel and Investment Company Limited under the name of "Mira Moon".

The Group has a 20% attributable interest in a jointly controlled entity, which holds the project of Citygate in Tung Chung and recently won the bid for a commercial land lot in Tung Chung Town Centre for a consideration of about HK$2,300 million in March 2013. With the planned linkage to its adjacent Citygate, the site will be developed into a large-scale complex with a gross floor area of approximately 540,000 square feet.

Hotel and Retailing Operations

Hong Kong's hospitality industry had another thriving year with visitor arrivals reaching a record high of over 48 million in 2012. In this favourable business environment, Four Seasons Hotel Hong Kong registered a solid growth in average room rate with a consistently high occupancy. Being internationally acclaimed as one of the world's best hotels, Four Seasons Hotel Hong Kong continued to win numerous accolades such as the coveted 3-star designations for its two signature restaurants, namely, Caprice and Lung King Heen in the Michelin Guide to Hong Kong and Macau. Benefiting from the ever-rising mainland tourist arrivals which accounted for over 60% of their total room revenues during the year under review, the three Newton hotels owned by the Group, namely, Newton Hotel Hong Kong, Newton Inn North Point and Newton Place Hotel, have all achieved an increase in average room rate with a higher occupancy of over 80%. In the previous year, the Group recognized its share of a one-off gain on disposal of a hotel property, namely, Silvermine Beach Hotel held by Hong Kong Ferry (Holdings) Company Limited. After excluding such non-recurrent income, the Group's attributable share of profit contribution [note] from its hotel operations increased by 7% to HK$288 million during the year under review. (Note: this figure includes that derived from the hotels owned by the Group's subsidiaries, associates and jointly controlled entities)

Established in 1989 as a complementary business to the Group's shopping facilities, Citistore has developed into a retail network with five department store outlets and two "id:c" specialty stores in Hong Kong. During the year under review, Citistore's turnover and profit contribution increased by 7% to HK$373 million and 3% to HK$67 million, respectively.

Construction and Property Management

During the year under review, both 39 Conduit Road and Henderson Metropolitan won the biennial Quality Building Award, which are jointly organized by nine professional organizations in Hong Kong, in recognition of the Group's experienced construction team and dedication to quality that have produced some of the finest buildings both in Hong Kong and mainland China. Meanwhile, Double Cove and The Gloucester were the only private residential developments in Hong Kong to achieve the top honours of "3-star Green Building Label" from China Green Building Council. At the MIPIM Asia 2012, which is an annual property event for governments as well as real estate experts around the world to showcase their outstanding development projects, Double Cove was once again heralded as one of the Best Innovative Green Buildings.

Teamwork is central to the Group's success. Stakeholders and experts in different disciplines collaborate from the very beginning so as to ensure that local context, innovative architecture and environmental sustainability features are blended into all of the Group's new developments in both Hong Kong and mainland China. The Group strives for excellence throughout the construction process and advanced features recommended by the Leadership in Energy and Environmental Design (LEED) and BEAM Plus have been persistently integrated. For instance, against the prevailing backdrop of soaring material costs and a shortage of construction workers, pre-fabricated building components are commonly used to save manpower and minimize construction waste and disruption to the neighbourhoods. Foundation piling for the Group's development projects is now also completed on its own to ensure cost efficiency by accelerating development progress along with better quality control. Meanwhile, the Group considers site safety a top priority and apart from proactively promoting site safety within the industry, the Group is also an active supporter of the Construction Charity Fund, which provides immediate assistance to victims of tragic industrial accidents.

The following development projects in Hong Kong were completed during the financial year:

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	Attributable gross floor area (sq.ft.)
1.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	173,850
2.	388 Jaffe Road Wanchai	4,409	66,128	Hotel	100.00	66,128
3.	The Gloucester 212 Gloucester Road Wanchai	11,545	113,977	Residential	100.00	113,977
					Total:	**353,955**

The Group's commitment to quality has also been extended to its developments in mainland China. In addition to its tight grip over all key aspects of development such as selection of main contractors and subcontractors, material sourcing and tender awarding, the Construction Department also maintains an ongoing dialogue with contractors and conducts on-site inspections to ensure that all the mainland projects are completed on schedule, within budget and in line with the Group's stringent environmental and quality requirements.

The Group's property management companies, namely, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, collectively manage over 80,000 apartments and industrial/commercial units, 8 million square feet of shopping and office space, as well as 20,000 car parking units in Hong Kong and mainland China.

For the Group's boutique residences under "The H Collection", these property management subsidiaries will provide unparalleled home services upon their completion in order to offer discerning residents hassle-free urban living. Meanwhile, their commitment to service excellence has also been extended to the Group's property developments in mainland China. As a result, Hengbao Huating and Hengli Wanpan Huayuan were accredited, respectively, as "Excellent Property Management Community Showcase in Guangdong Province" and "Excellent Community Showcase in Guangzhou" in recent years.

Aligning with the Group's corporate culture, these property management subsidiaries also offer care to the public at large. In addition to their usual contribution to charity by way of "Hang Oi Charitable Foundation", their volunteer teams continued to take numerous concrete actions to help the needy after the preceding "Year of Care". The "Highest Voluntary Service Hour Award" championship is a testimony to their dedication to community services and corporate social responsibility.

Business Review - Mainland China

In 2012, the austerity policy governing the property sector in the mainland continued to be strictly adopted. Under the stringent implementation of measures such as differentiation in the terms of lending and restrictions on quantity of home purchases, speculative and investment housing demand had been effectively curbed. Coupled with the increased supply of land for low-income housing at the same time, the objective in promoting the long-term steady growth and healthy development of the property market is being achieved.

In early 2012, the property market was plagued by pessimistic sentiment which resulted in a drastic fall in transaction volumes. In response, many local governments lent their support for reasonable end-user demand through a revision of provident fund credit policy and increase in the mortgage loan to value ratio in respect of first-time home purchases. Besides, the overall credit environment improved in the wake of the fine-tuning of the monetary policy to stabilize domestic economic growth, which gave rise to a gradual recovery in the real estate market. Boosted by strong user demand, the property market took a positive turn in May, culminating in a slight peak in July. Riding on the stable resurgence of the macro economy on the mainland in October, the property market has become buoyant again from November onwards. As compared to the previous year, the sales results of developers registered a significant growth, leading to a marked improvement in their cashflow upon achieving their annual sales target. In the fourth quarter, property price rose steadily as there were fewer cases of price reductions by developers to boost sales.

During the year under review, although still affected by severe macro control measures, the Group launched a number of mainland projects for sale, with emphasis on its superiority in brand-name, environmentally friendly features, quality and facilities, which met with an overwhelming response. The Group sold and pre sold in total an attributable HK$6,548 million worth of mainland properties during the year under review, a significant increase of 244% over the previous year. Newly launched units from projects including “Palatial Crest” in Xian, “Grand Lakeview” in Yixing, “Treasure Garden” in Nanjing, “Riverside Park” in Suzhou, and “Xuzhou Lake Development” attracted a keen response from prospective purchasers and recorded remarkable sales. The majority of home-buyers were end-users, who had a discerning taste for brand recognition, building quality and associated facilities. Capitalizing on its past experience in design, engineering, construction, building quality as well as scenic landscaping, the Group is set to build ideal homes for end-users and better meet their needs in the subsequent phases of developments. An equal emphasis will also be laid on cost effectiveness.

With a view to fully implementing the standardisation of building plans, development cost control and strengthening the sales and marketing efforts, the delegation of project management and sales responsibilities to local management teams was completed during the year under review in fulfilling the Group’s policy of localisation. Notable enhancement had been observed in on-site management, sales and marketing capabilities as well as building quality. As to after-sales property management services, quality has been raised to preserve the sound reputation of each project. This would benefit subsequent sales.

The Group has a prime site in the heart of Haizhu Square, Guangzhou of an approximately 240,000-square-foot land lot, which will be developed into an integrated complex, comprising shopping mall, office and serviced apartments. Preliminary construction is expected to commence in mid-2013 and upon its scheduled completion in late 2017, it will be another flagship property in the Group’s rental portfolio.

The following development projects were completed during the year under review:

	Project name	Land-use purpose	Group's interest (%)	Approximate attributable gross floor area (sq.ft.)
1.	Greentech Tower, Shanghai	Commercial/ Office	100	407,000
2.	Phase 1A, Riverside Park, Suzhou	Residential	100	713,000
3.	Phases 1B (C1) and 2A, La Botanica, Xian	Residential	50	826,000
4.	Phase 1A, Palatial Crest, Xian	Residential	100	544,000
5.	Phase 1A, Grand Waterfront, Chongqing	Residential	100	1,117,000
			Total:	**3,607,000**

At 31 December 2012, the Group had about 1.2 million square feet in attributable gross floor area of completed property stock. In addition, the Group had a sizeable development land bank across 15 major cities with a total attributable gross floor area of about 140 million square feet, of which around 83% was planned for residential development for sale:

Land bank under development or held for future development

	Group's share of developable gross floor area* (million sq. ft.)
Prime cities	
Shanghai	0.7
Guangzhou	14.8
Sub-Total:	**15.5**
Second-tier cities	
Anshan	17.8
Changsha	13.6
Chengdu	4.0
Chongqing	4.9
Dalian	10.3
Fuzhou	1.8
Nanjing	2.9
Shenyang	11.1
Suzhou	16.0
Tieling	8.7
Xian	18.7
Xuzhou	5.3
Yixing	9.7
Sub-Total:	**124.8**
Total:	**140.3**

** Excluding basement areas and car parks*

Usage of development land bank

	Developable gross floor area (million sq. ft.)	Percentage
Residential	116.3	83%
Commercial	10.4	8%
Office	8.8	6%
Others (including clubhouses, schools and community facilities)	4.8	3%
Total:	**140.3**	**100%**

Property Sales

As mentioned above, the Group sold and pre-sold in total an attributable HK$6,548 million worth of mainland properties during the year under review. An array of residential projects spanning across various second-tier cities had been newly put up for pre-sale during the year under review:

	Project name	Group's interest (%)
1.	Phase 2, The Arch of Triumph, Changsha	99
2.	Phase1A, Sirius residences in Chengdu ICC	30
3.	Phase 2, Villa Green, Chongqing	100
4.	Phase 2, Grand Waterfront, Chongqing	100
5.	Haixia Ruyi City, Pingtan, Fuzhou	10
6.	Nanjing Straits City	10
7.	Treasure Garden, Nanjing	90.1
8.	Phases 1B and 2A, Riverside Park, Suzhou	100
9.	Phase 2AB, Palatial Crest, Xian	100
10.	Phases 1B and 3, Xuzhou Lakeview Development	100
11.	Phase 1, Grand Lakeview, Yixing	100

Investment Properties

Following the successive opening of World Financial Centre, Henderson Metropolitan and Centro in recent years, the latest milestone in the Group's growing mainland presence was the full completion of Greentech Tower in Shanghai in early 2012. At the year end, the Group's mainland investment property portfolio comprised a total attributable gross floor area [note] of 6.4 million square feet with the number of its major projects increased to a total of eight. Driven by both higher rents and increased contributions from new investment properties, the Group's attributable gross rental income and pre-tax net rental income increased by 27% to HK$1,162 million and by 48% to HK$867 million, respectively during the year under review. (Note: The Group held additional rentable car parking spaces with a total area of around 0.7 million square feet)

In Beijing, World Financial Centre, as its name denotes, houses many world-wide financial institutions such as Standard Chartered Bank, Rabobank and CITIC Prudential Insurance Company. This international Grade-A office complex recorded a 38% year-on-year growth in rental income to HK$455 million, with over 96% leasing rate by the end of 2012. Meanwhile, the shopping mall at Beijing Henderson Centre also performed well with occupancy rate close to 90% at 31 December 2012.

In Shanghai, Henderson Metropolitan located at the start of Nanjing Road East pedestrian avenue draws keen leasing response from many multinational companies such as Oracle Corporation and Deutsche Lufthansa AG and its over 400,000 square feet of prime office space was nearly fully let. Its 400,000-square-foot shopping mall, which features many branded retailer flagships such as Apple, Sa Sa and Azul by Moussy, is also the shopping Mecca in town. By staging a variety of impressive promotions throughout the year, this shopping mall has gained an increasing popularity and for the month of December 2012, business turnover for its retail tenants increased by 31% year-on-year to over HK$18 million. During the year under review, the total rental income for Henderson Metropolitan recorded a satisfactory growth of 28% year-on-year to HK$200 million. Grand Gateway Office Tower II, the landmark building in the Xujiahui commercial hub, also houses many multinational corporations such as Microsoft and Yum! Brands Inc. Total rental income for the year under review amounted to HK$187 million, with its leasing rate remaining high at over 90% as at 31 December 2012. In Zhabei District, the full complement of amenities such as banks, convenience stores and coffee shops at their commercial podia make Centro and Greentech Tower both preferred destinations for business and their office spaces were over 90% and 85% leased out respectively by the end of 2012. Skycity, a renowned shopping centre for mobile handset products in the same district, also enjoyed full occupancy for its four-level shopping arcade at the financial year end.

In Guangzhou, Heng Bao Plaza atop a busy subway station contains a vast array of fashion brands, dining outlets and large-scale retailers. Its leasing rate by the end of 2012 was over 92%.

Henderson Investment Limited ("HIL")

HIL's turnover for the year ended 31 December 2012 amounted to HK$63 million, representing a decrease of HK$236 million or 79% from that of HK$299 million for the corresponding year ended 31 December 2011. The decrease in turnover was due to the fact that, commencing from 20 March 2012, payment of toll fees in respect of Hangzhou Qianjiang Third Bridge to a joint venture company of HIL was provisionally suspended. Consequential upon the failure of the relevant authority to put forward any formal proposal or compensation offer regarding the toll fee collection right, for the sake of prudence, the toll fee income during the period from 20 March 2012 to 31 December 2012 in the amount of HK$254 million (after deduction of PRC business tax) has not been recognized in the consolidated accounts of HIL. Nevertheless, taking into account those toll revenues which were accrued but not recognized, the total toll revenue for the year ended 31 December 2012 generated by Hangzhou Qianjiang Third Bridge amounted to HK$317 million, representing a growth of HK$18 million or 6% when compared with that of HK$299 million for the corresponding year ended 31 December 2011.

Due to the aforementioned non-recognition of the toll fee income from 20 March 2012 onwards, HIL's profit attributable to equity shareholders for the year ended 31 December 2012 decreased by HK$83 million or 77% to HK$25 million as compared with that of HK$108 million for the corresponding year ended 31 December 2011.

The above issue of toll fee collection right is subject to arbitration by China International Economic and Trade Arbitration Commission ("CIETAC"). CIETAC on 12 November 2012 confirmed its acceptance to administer the above arbitration case. CIETAC's decision for the composition of arbitral tribunal, as well as its notification of commencement of proceedings, are both pending.

HIL may report a loss from operations in the current financial period, unless the arbitration proceedings result in a determination or the parties come to an agreement in each case satisfactory to HIL, or suitable investment that may be identified by HIL produces satisfactory income.

Associated Companies

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

Profit after taxation attributable to shareholders of Hong Kong and China Gas for the year 2012 amounted to HK$7,727.9 million, an increase of HK$1,578.3 million compared to 2011. Profit growth was mainly due to growth in profit of mainland businesses, a revaluation surplus from the International Finance Centre ("IFC") complex and a one-off net gain. Profit after taxation attributable to shareholders of Hong Kong and China Gas, excluding revaluation surplus from the investment property, amounted to HK$6,333.4 million.

During the year under review, Hong Kong and China Gas invested HK$5,905.5 million in production facilities, pipelines, plants and other fixed and intangible assets for the sustainable development of its various businesses in Hong Kong and mainland China.

GAS BUSINESS IN HONG KONG

Total volume of gas sales in Hong Kong for the year 2012 increased only slightly by 0.8% compared to 2011. Appliance sales for the year 2012 increased by 6.1% compared to 2011. As at the end of 2012, the number of customers was 1,776,360, an increase of 25,807 compared to 2011.

Hong Kong and China Gas will raise its standard gas tariff by HK1 cent per megajoule with effect from 1st April 2013, which represents 4.6% of the standard gas tariff, with a commitment to no further increase for this tariff in the coming two years.

Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is near completion with commissioning expected this year. Construction of a 9 km pipeline in the western New Territories to strengthen supply capability and reliability is also in progress. In tandem with the government's development of West Kowloon, South East Kowloon and a cruise terminal, network planning, design and construction in these locations are underway. Construction of a new submarine pipeline from Ma Tau Kok to North Point commenced in 2012. Meanwhile, the gas main extension to Lei Yue Mun is substantially complete.

UTILITY BUSINESSES IN MAINLAND CHINA

As at the end of December 2012, this group had an approximately 66.18% interest in Towngas China Company Limited ("Towngas China"; stock code: 1083). In January 2013, Towngas China issued and sold 150 million new ordinary shares by placement (the "Placing") at a price of HK$6.31 per share. Net proceeds from the Placing after deducting related commission and other expenses were HK$930 million. This group's interest in Towngas China was slightly diluted to 62.37% after the Placing.

Towngas China's profit after taxation attributable to its shareholders amounted to HK$841 million in 2012, an increase of approximately 19% over 2011.

In 2012, Towngas China acquired seven new piped-gas projects located in Wafangdian, Dalian city and Xinqiu district, Fuxin city, Liaoning province; in Binhai Science and Technology Industrial Park, Zhaoyuan city and Pingyin county, Jinan city, Shandong province; in Yifeng county, Yichun city, Jiangxi province; in Lingang Industrial Park, Shanhaiguan district, Qinhuangdao city, Hebei province; and in Changting county, Longyan city, this group's first in Fujian province. Towngas China also added a new midstream pipeline project in Wafangdian, Dalian city, Liaoning province to its portfolio in 2012. Towngas China is focused on developing city-gas businesses in cities with a high proportion of industrial gas consumption. Towngas China will continue to strive for rapid expansion through mergers and acquisitions.

With seven new projects successfully established by Towngas China in 2012, this group had 107 city-gas projects in mainland cities spread across 20 provinces, municipalities and autonomous regions at the end of 2012. The total volume of gas sales of these projects for 2012 was approximately 11,900 million cubic metres, an increase of 15% over 2011, and at the end of the year this group's gas customers on the mainland stood at approximately 14.82 million.

This group's midstream natural gas projects are making good progress. These include high-pressure natural gas pipeline joint ventures in Anhui province, in Hebei province, in Hangzhou city, Zhejiang province and in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; a natural gas valve station project in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a new pipeline project in Henan province.

As at the end of 2012, this group had invested in and was operating four water projects. These include water supply projects in Wujiang city, Jiangsu province and in Wuhu city, Anhui province; and an integrated water supply and wastewater joint venture project, together with an integrated wastewater treatment project for a special industry, in Suzhou Industrial Park, Suzhou city, Jiangsu province. During the first quarter of 2013, this group successfully added a water supply project in Zhengpugang Xin Qu, Maanshan city, Anhui province to its portfolio, making a total of five water projects in hand.

Overall, inclusive of projects of Towngas China, this group had 150 projects on the mainland, as at the end of 2012, twelve more than at the end of 2011, spread across 22 provinces, municipalities and autonomous regions. These projects encompass upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

This group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is progressing well. ECO's two major businesses in Hong Kong – an aviation fuel facility, servicing Hong Kong International Airport, and dedicated liquefied petroleum gas ("LPG") vehicular filling stations – are operating smoothly. Total turnover for the aviation fuel facility for 2012 was 5.56 million tonnes of aviation fuel. The profit margin for ECO's filling station business for 2012 was lower than in 2011 due to the impact of rising petroleum gas prices.

ECO's vehicular clean energy business on the mainland mainly focuses on the use of compressed or liquefied natural gas to replace diesel. A network of filling stations established by ECO is gradually taking shape in Shaanxi, Shanxi, Shandong, Henan and Liaoning provinces mainly servicing heavy-duty trucks. As at the end of 2012, nine filling stations were in operation and another five under construction.

Construction of a logistics port in Jining city, Shandong province, to link an upstream dedicated coal transportation railway with a nearby downstream canal connecting Beijing and Hangzhou, part of ECO's new "Energy Logistics" business sector, is nearly complete. The pilot run for bulk cargo transportation has commenced. The logistics port is expected to be fully commissioned during the fourth quarter of 2013. ECO is also planning to provide liquefied natural gas filling facilities for incoming and outgoing heavy-duty trucks and river transport vessels at the pier so they may progressively replace their use of diesel.

ECO's coalbed methane liquefaction facility located in Jincheng city, Shanxi province is operating smoothly; production increased by 36% in 2012 compared with the same period for 2011. ECO's methanol production plant in Erdos city, Inner Mongolia, which converts coal into methanol and has an annual production capacity of 200,000 tonnes, is now running smoothly at the pilot stage of production. To further enhance the economic benefits of this project, ECO plans to also convert the methanol into high value-added energy products.

ECO's new-energy research and development centre is also working proactively on technologies to convert resources of low value into high value-added energy. Industrial tests on a medium scale, focused on converting coal tar oil of medium to low temperature into petrol or diesel, were successfully completed in 2012 and planning is now in place to apply this technology to commercial projects in 2013. Furthermore, ECO is also developing its interests in methanol processing and in conversion prospects for coke oven gas, tar oil and biomass energy.

ECO in mid-2012 acquired a 60% effective stake in the development of onshore oilfield blocks in central Thailand; ECO has already smoothly taken over the operational management of the oilfields and organised a professional team to formulate a plan for their comprehensive development. In addition, in Guizhou province, ECO has conducted an innovative test with promising results on surface extraction of coalbed methane for coal mines of low permeability. In Inner Mongolia, ECO's Xiaoyugou coal mine, with an annual production capacity of 1.2 million tonnes, is now at the pilot stage of production and is expected to be fully commissioned during the first quarter of 2013 while its open-pit Kejian coal mine has been operating normally as planned.

PROPERTY DEVELOPMENTS

For the commercial area of the Grand Waterfront property development project at Ma Tau Kok, as well as IFC complex in which this group has an approximately 15.8% interest, leasing is good.

FINANCING PROGRAMMES

This group continued issuing medium term notes, for a total amount equivalent to HK$4,400 million, during the year 2012 under its medium term note programme (the "Programme"). Inclusive of this group's first renminbi-denominated notes in Hong Kong issued in late March 2011 for a total amount of RMB1,000 million over a term of five years, this group had issued, as at the end of December 2012, medium term notes of an aggregate amount equivalent to HK$10,200 million under the Programme with tenors ranging from 5 to 40 years.

Hong Kong and China Gas predicts an increase of about 25,000 new customers in Hong Kong during 2013. Its increase in the standard gas tariff with effect from 1 April 2013 will offset some of the pressure on its own rising operating costs. The combined results of this group's emerging environmentally-friendly energy and mainland utility businesses have already overtaken the results of its Hong Kong gas business and are forecast to grow faster than the latter in the coming years.

***Hong Kong Ferry (Holdings) Company Limited* (“*Hong Kong Ferry*”)**

Hong Kong Ferry’s turnover for the year ended 31 December 2012 amounted to approximately HK$616 million, representing a slight decrease of 3% when compared to the previous year. This was mainly attributed to the decrease in the sales of The Spectacle. Its consolidated profit after taxation for the year amounted to approximately HK$398 million, a decrease of 30% as compared with the profit after taxation of HK$565 million last year. However, if the gain from the disposal of Silvermine Beach Hotel in 2011 (amounting to HK$245 million) is excluded, Hong Kong Ferry has achieved an increase of 24% in profit in 2012 as compared with that of 2011. During the year under review, its profit was mainly derived from the sale of the residential units of Shining Heights, rental income and the surplus from the revaluation of investment properties.

Hong Kong Ferry sold 14 flats in Shining Heights and 1 flat in The Spectacle which accounted for a total profit of approximately HK$162 million during the year. Rental and other income from its commercial arcades amounted to HK$54 million. The commercial arcades of Metro Harbour View and Shining Heights were fully let whereas the occupancy rate of the commercial portion of The Spectacle at year end was about 60%.

During the year, the superstructure works of its development project, Green Code at 1 Ma Sik Road, Fanling, New Territories (formerly known as Fanling Sheung Shui Town Lot No. 177) have been completed and the pre-sale of the property commenced in mid-March 2013. The response from the buyers was good. Up to 21 March 2013, the accumulated number of residential flats sold amounted to 363, or approximately one half of the total units of the project, with the sale proceeds amounting to approximately HK$1,607 million.

Construction works of the site at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom Inland Lot No. 555, with a site area of approximately 6,300 square feet, is progressing well. Foundation works are expected to be completed in the second quarter of 2013. The residential-cum-commercial tower will provide a total gross floor area of approximately 56,000 square feet and 95 residential units.

Foundation works of the property at 208 Tung Chau Street (formerly known as 204-214 Tung Chau Street) is in progress. It is expected that the aforesaid works would be completed by second quarter of 2013. The project will be re-developed into a residential-cum-commercial building with a total gross floor area of approximately 54,000 square feet.

The Ferry, Shipyard and related operations achieved an increase in operating profit to HK$28.1 million. This sum represents a five-fold as compared with the profit of HK$5.5 million last year. The increase was mainly due to increased leasing of its vehicular ferries as a result of more harbour works in Hong Kong. The turnover of the shipyard operations has also improved.

With increasing competition during the year under review, the Travel Operation achieved a profit of HK$0.6 million, a decrease of 78% compared with that for last year.

Although Hong Kong Ferry recorded an impairment loss of HK$34.4 million due to market fluctuation on available-for-sale securities in the first half of 2012, it derived an appreciation of approximately HK$116 million in the portfolio following market recovery at the year end date, which had been credited into the Securities Revaluation Reserve.

Hong Kong Ferry will continue to sell the residential flats of the “Green Code”, Fanling project in different lots. If its occupation permit can be obtained by the end of 2013, the profits from the sale of the project will be booked in its accounts for the year 2013.

Miramar Hotel and Investment Company, Limited (“Miramar”)

Miramar’s turnover rose by 19% to approximately HK$2,974 million for the financial year ended 31 December 2012 when compared to HK$2,496 million for the corresponding financial year ended 31 December 2011. Profit attributable to shareholders increased by 4% year-on-year to approximately HK$1,377 million (2011: HK$1,325 million). Excluding the net increase in the fair value of its investment properties, underlying profit attributable to shareholders grew by 9% to approximately HK$448 million (2011: HK$411 million).

Miramar continues to strengthen its five lifestyle businesses of hotel and serviced apartment, property rental, food and beverage, travel and apparel.

The Hotel and Serviced Apartment business benefited from the surge in visitor arrivals to Hong Kong in 2012. Its flagship hotel in Tsim Sha Tsui, The Mira Hong Kong, recorded an average occupancy rate of 84% in 2012, compared with 83% in 2011. The average room rate rose by approximately 9%. EBITDA (earnings before interest, taxes, depreciation and amortization) of The Mira Hong Kong grew by 13% to approximately HK$233.6 million. A new designer lifestyle hotel under its management, Mira Moon, is scheduled to open in Wan Chai during the summer of 2013. This hotel will provide approximately 90 guest rooms.

For the Property Rental business, Miramar owns a prestigious portfolio of commercial properties in Hong Kong and mainland China. As at the end of 2012, occupancy rate of Miramar Shopping Centre was approximately 99% and the average unit rate rose by 7% year-on-year. Mira Mall, the shopping centre at The Mira Hong Kong, unveiled its new face in a grand opening in the fourth quarter of 2012. As at the end of 2012, occupancy rate of Mira Mall was approximately 99%. Miramar Tower’s rental income recorded satisfactory growth following its renovation in 2011 and as at the end of 2012, occupancy rate of Miramar Tower was approximately 99%, while the average unit rate increased by 4% year-on-year.

Miramar adopts a multi-brand strategy for its Food & Beverage business. The wide selection includes Chinese restaurants of Tsui Hang Village, Yunyan Sichuan Restaurant and Cuisine Cuisine (a Michelin-Star-rated Chinese restaurant), The French Window (a French brasserie), Assaggio Trattoria Italiana, and Japanese restaurants of Hide-Chan Ramen (a Japanese Ramen restaurant), Saboten (a traditional Japanese pork cutlet restaurant) and its newly-opened Japanese sake bar, Zanzo. Miramar opened two Cuisine Cuisine restaurants in Beijing and Wuhan.

Its Travel business resumed growth momentum with an increase of 6% in turnover to HK$1,119.8 million in 2012. Segment EBITDA rose by 40% to HK$35.5 million in 2012.

Miramar diversified into the Apparel business in 2011 and set up directly-managed DKNY Jeans retail stores in Shanghai and Beijing. It has a network of franchised stores in major cities across mainland China by the end of 2012.

Corporate Finance

The Group has always adhered to prudent financial management principles, as evidenced by its gearing ratio which stood at 17.2% at 31 December 2012 (2011: 19.9%). In order to diversify the sources of funding and to extend the debt maturity profile, the Group established a US$3,000 million medium term note programme in August 2011 and since then issued medium term notes of four years, five years and seven years in the Singapore domestic debt capital market for a total amount of S$600 million at coupon rates ranging from 3.65% to 4.00%. The Group also issued five-year unrated public bonds for a total amount of US$700 million at a coupon rate of 4.75%. In addition, the Group also issued notes in Hong Kong Dollars through private placements with coupon rates fixed at 4.03% and 4.80% for notes of 10-year tenor and 20-year tenor respectively. In aggregate, the Group was able to obtain medium term and long term funding from the aforementioned note and bond issues that totally amounted to the equivalent of around HK$11,000 million, notwithstanding that unstable conditions prevailed in the international financial markets during the period. The sources of funding were diversified, whilst the Group's overall debt maturity profile was also extended. Bond proceeds that originated from fixed income investors of diversified sources were applied for refinancing short-to-medium term bank loan facilities of the Group.

In light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group has concluded Hong Kong dollar interest rate swap contracts for terms ranging from three to fifteen years. Such contracts were entered into for the purpose of converting part of the Group's Hong Kong dollar borrowings from floating interest rates into fixed interest rates at levels which are below the average for the past several years. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

In respect of the International Finance Centre project which was owned by a jointly controlled entity of the Group, a non-recourse 3-year term loan facility was signed in February 2012 for an amount of HK$10,000 million raised in the local syndicated loan market with favourable terms.

Prospects

The Group plans to launch ten projects for sale and, together with the remaining unsold units from the major developments, a total of about 2.27 million square feet of space will be ready for sale in 2013 and they are expected to bring satisfactory returns to the Group. Meanwhile, both “Double Cove (Phase 1)” and “The Reach”, which went on sale in the latter part of 2012 with the attributable sales revenue totalling HK$6,663 million by the end of February 2013, are set to be recognized in the accounts in 2013. Together with the continued sale of completed stocks, they are expected to bring significant property sales revenue to the Group for the forthcoming financial year 2013.

Turning to mainland China, it is expected that the macro economy will show a steady growth in 2013, notwithstanding the continuation of the tight control measures targeting speculative and investment demand in the housing market. Following the gradual advancement of urbanization, the scale of development for the residential property market will further expand. In 2013, the Group plans to launch various new projects for sale and the Group’s attributable sales revenue is expected to rise further. The Group’s mainland rental income has shown a substantial growth over the last two years. “Henderson 688”, an approximately 700,000-square-foot commercial complex in the Jingan District of Shanghai, is scheduled for completion in the last quarter of 2013. In Guangzhou, the prime site of 240,000 square feet at the Haizhu Square is set to commence its preliminary construction in mid-2013.

In Hong Kong, the Group has over the past few years made acquisitions of old tenement buildings of about 4,000 units in total (and one unit may house several families in certain cases). Their redevelopment can greatly enhance the environment and benefit the society, whilst mitigating the problems arising from living in the dangerous and dilapidated buildings. The redevelopment of old buildings in urban areas is a win-win move for the society, the people, as well as the Group itself. The Group will pursue its further developments in earnest.

The Group has three major earnings drivers. (I) **Rental**: The fast expanding rental portfolio in both Hong Kong and mainland China is an income pillar of the Group. (II) **Associates**: The three listed associates (in particular, Hong Kong and China Gas) serve as another pillar to support the Group’s sustainable earnings growth. (III) **Operation**: The above-mentioned development projects in categories (1) to (7) will ensure successive completion of over 7.5 million square feet in total attributable gross floor area to be available for sale or leasing. It also has a huge land reserve in the New Territories of over 42.8 million square feet, the largest holding among all property developers in Hong Kong. In particular, for the Group’s land holding of 5.4 million square feet in “North East New Territories New Development Areas”, which is suitable for residential development, it is expected that there will be a clearer direction when the Government announces the consultation conclusion in mid-2013. These projects, with its low costs and wide sources for acquisition, are sufficient for the Group’s development for the coming five to seven years and become another pillar for the Group’s long term superior returns.

The book net asset value attributable to equity shareholders calculated by the Group in accordance with generally accepted accounting principles was HK$84.97 per share. In contrast, the recent share prices of the Company carry a substantial discount to the book net asset value. Besides, such net asset value did not reflect the market value, if revalued, of the development sites, completed stocks, and its shareholding in The Hong Kong and China Gas Company Limited. We would like to draw the attention of shareholders to the huge potential of the Group’s assets. In the absence of unforeseen circumstances, the Group will report a satisfactory result in the coming year.

Appreciation

Sir Po-shing Woo resigned as a Non-executive Director on 29 February 2012 after his long and dedicated service to the Company for more than 30 years. I would like to express my sincere gratitude to him for his support, devotion and invaluable contribution to the Company during his tenure.

I would like to express a warm welcome to new Independent Non-executive Directors, namely Mr Woo Ka Biu, Jackson, Professor Poon Chung Kwong and Dr Chung Shui Ming, Timpson who were appointed on 1 March 2012, 25 October 2012 and 8 November 2012, respectively. In addition, Mr Leung Hay Man and Mr Au Siu Kee, Alexander were re-designated from Non-executive Directors to Independent Non-executive Director on 22 August 2012 and 18 December 2012, respectively. I warmly welcome them to their new roles in the Company.

Lastly, I would like to take this opportunity to express my gratitude to my fellow directors for their guidance and to all staff for their dedication and hard work.

Lee Shau Kee
Chairman

Hong Kong, 25 March 2013

BUSINESS RESULTS

Consolidated Income Statement
for the year ended 31 December 2012

	Note	*2012* HK$ million	*2011* HK$ million
Turnover	3	**15,592**	15,188
Direct costs		**(8,167)**	(8,418)
		7,425	6,770
Other revenue	4	**584**	325
Other net income	5	**23**	76
Selling and marketing expenses		**(882)**	(937)
Administrative expenses		**(1,851)**	(1,687)
Profit from operations before changes in fair value of investment properties and investment properties under development		**5,299**	4,547
Increase in fair value of investment properties and investment properties under development	6	**8,813**	8,968
Profit from operations after changes in fair value of investment properties and investment properties under development		**14,112**	13,515
Finance costs	7(a)	**(1,239)**	(1,169)
Share of profits less losses of associates		**4,048**	3,711
Share of profits less losses of jointly controlled entities		**4,416**	2,924
Profit before taxation	7	**21,337**	18,981
Income tax	8	**(1,005)**	(1,618)
Profit for the year		**20,332**	17,363

Consolidated Income Statement
for the year ended 31 December 2012 (continued)

	Note	***2012*** **HK$ million**	*2011* HK$ million
Attributable to:			
Equity shareholders of the Company		**20,208**	17,184
Non-controlling interests		**124**	179
Profit for the year		**20,332**	17,363
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*10(a)*	***HK$8.47***	*HK$7.44*
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*10(b)*	***HK$2.97***	*HK$2.41*

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 9.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012

	Note	*2012* **HK$ million**	*2011* HK$ million
Profit for the year		**20,332**	17,363
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences: net movement in the exchange reserve		**(29)**	1,938
Cash flow hedges: net movement in the hedging reserve		**(424)**	(1,150)
Available-for-sale equity securities: net movement in the fair value reserve		**386**	(614)
Share of other comprehensive income of associates and jointly controlled entities		**176**	270
		109	444
Total comprehensive income for the year		**20,441**	17,807
Attributable to:			
Equity shareholders of the Company		**20,319**	17,587
Non-controlling interests		**122**	220
Total comprehensive income for the year		**20,441**	17,807

Consolidated Balance Sheet
at 31 December 2012

	Note	***2012***	*2011*
		HK$ million	HK$ million
Non-current assets			
Fixed assets		**101,072**	92,771
Intangible operating right		**415**	454
Interest in associates		**42,452**	40,117
Interest in jointly controlled entities		**29,588**	23,722
Derivative financial instruments		**595**	620
Other financial assets		**4,379**	3,617
Deferred tax assets		**804**	673
		179,305	161,974
Current assets			
Deposits for acquisition of properties		**5,645**	8,433
Inventories		**76,403**	68,204
Trade and other receivables	12	**5,814**	4,495
Cash held by stakeholders		**1,852**	514
Cash and cash equivalents		**12,538**	18,850
		102,252	100,496
Current liabilities			
Trade and other payables	13	**15,265**	9,030
Bank loans and overdrafts		**2,826**	19,699
Amount due to a fellow subsidiary		**546**	-
Tax payable		**858**	798
		19,495	29,527
Net current assets		**82,757**	70,969
Total assets less current liabilities		**262,062**	232,943

Consolidated Balance Sheet
at 31 December 2012 (continued)

	Note	*2012*	*2011*
		HK$ million	HK$ million
Non-current liabilities			
Bank loans		**20,491**	16,581
Guaranteed notes		**18,301**	10,877
Amount due to a fellow subsidiary		**5,579**	8,583
Derivative financial instruments		**2,378**	1,895
Deferred tax liabilities		**5,412**	5,082
		52,161	43,018
NET ASSETS		**209,901**	189,925
CAPITAL AND RESERVES			
Share capital		**4,830**	4,738
Reserves		**200,382**	180,598
Total equity attributable to equity shareholders of the Company		**205,212**	185,336
Non-controlling interests		**4,689**	4,589
TOTAL EQUITY		**209,901**	189,925

Notes:

1 Basis of preparation

The final results set out in this announcement do not constitute the Group's statutory accounts for the year ended 31 December 2012 but are extracted from those accounts.

The statutory accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The statutory accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the statutory accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- financial instruments classified as available-for-sale equity securities;
- derivative financial instruments; and
- investment properties and investment properties under development.

2 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to HKAS 12, *Income taxes - Deferred tax: recovery of underlying assets*, which the Group has already adopted in the prior year. In respect of the other developments, none of them has material impact on the accounts.

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these accounts. These include the following which may be relevant to the Group:

2 Changes in accounting policies (continued)

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	*Presentation of financial statements - Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10	*Consolidated financial statements*	1 January 2013
HKFRS 11	*Joint arrangements*	1 January 2013
HKFRS 12	*Disclosure of interests in other entities*	1 January 2013
HKFRS 13	*Fair value measurement*	1 January 2013
HKAS 27	*Separate financial statements (2011)*	1 January 2013
HKAS 28	*Investments in associates and joint ventures*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle		1 January 2013
Amendments to HKFRS 7	*Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32	*Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9	*Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the accounts except for the following:

2 Changes in accounting policies (continued)

— Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

— HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated accounts and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

— HKFRS 11, *Joint arrangements*

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method. Proportionate consolidation is no longer allowed as an accounting policy choice.

The Group has not completed its assessment of the full impact of adopting HKFRS 11 and therefore its possible impact on the Group's results and financial position has not been quantified.

2 Changes in accounting policies (continued)

— HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

— HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. HKFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required. The Group estimates that the adoption of HKFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 accounts.

3 Turnover

Turnover of the Group represents revenue from the sale of properties, rental income, income from construction, infrastructure business, hotel operation and management, department store operation and management, and others mainly including income from provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

	2012	*2011*
	HK$ million	HK$ million
Sale of properties	**8,708**	9,692
Rental income	**4,494**	3,920
Construction	**761**	44
Infrastructure	**63**	299
Hotel operation	**240**	224
Department store operation	**373**	347
Others	**953**	662
Total (note 11(b))	**15,592**	15,188

4 Other revenue

	2012	*2011*
	HK$ million	HK$ million
Bank interest income	**235**	189
Other interest income (note)	**260**	8
Others	**89**	128
	584	325

Note: Other interest income includes overdue interest of HK$247 million (2011: HK$Nil) on a refund of land deposit received during the year.

5 Other net income

	2012	*2011*
	HK$ million	HK$ million
Gain on disposal of a subsidiary	**187**	-
Net (loss)/gain on disposal of fixed assets	**(6)**	72
Net gain on disposal of available-for-sale equity securities	**109**	-
Impairment loss on trade debtors, net	**-**	(1)
Bad debts written off	**(1)**	(7)
Provision on inventories	**(36)**	(1)
Net foreign exchange (loss)/gain	**(168)**	76
Others	**(62)**	(63)
	23	76

6 Increase in fair value of investment properties and investment properties under development

The Group's investment properties and investment properties under development were revalued at 31 December 2012 by DTZ, an independent firm of professional valuers who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The Group's investment properties were valued in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential. The Group's investment properties under development were valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2012	*2011*
	HK$ million	HK$ million
(a) Finance costs:		
Bank interest	**1,059**	1,071
Interest on loans wholly repayable within five years	**671**	199
Interest on loans repayable after five years	**410**	335
Other borrowing costs	**194**	207
	2,334	1,812
Less: Amount capitalised *	**(1,095)**	(643)
	1,239	1,169

* The borrowing costs have been capitalised at rates ranging from 3.86% to 6.78% (2011: 2.60% to 6.84%) per annum.

	2012	*2011*
	HK$ million	HK$ million
(b) Directors' remuneration	**164**	161

	2012	*2011*
	HK$ million	HK$ million
(c) Staff costs (other than directors' remuneration):		
Salaries, wages and other benefits	**1,605**	1,496
Contributions to defined contribution retirement plans	**73**	68
	1,678	1,564

7 Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

	2012 **HK$ million**	*2011* HK$ million
(d) Other items:		
Depreciation	**181**	168
Less: Amount capitalised	**(9)**	(12)
	172	156
Net foreign exchange loss/(gain)	**128**	(84)
Cash flow hedges: net foreign exchange losses reclassified from equity	**40**	8
	168	(76)
Amortisation of intangible operating right	**39**	44
Cost of sales		
– completed properties for sale	**5,455**	6,482
– trading stocks	**296**	351
Auditors' remuneration	**20**	20
Operating lease charges: minimum lease payments in respect of leasing of building facilities	**170**	143
Rentals receivable from investment properties less direct outgoings of HK$1,193 million (2011: HK$1,119 million) (note)	**(2,780)**	(2,299)
Other rental income less direct outgoings	**(327)**	(321)
Dividend income from investments in available-for-sale equity securities		
– listed	**(74)**	(59)
– unlisted	**(225)**	(17)

Note: Included contingent rental income of HK$225 million (2011: HK$203 million).

8 Income tax

	2012 HK$ million	2011 HK$ million
Current tax - Provision for Hong Kong Profits Tax		
Provision for the year	**516**	655
Under/(over)-provision in respect of prior years	**1**	(26)
	517	629
Current tax - Provision for taxation outside Hong Kong		
Provision for the year	**191**	127
Over-provision in respect of prior years	**(14)**	(74)
	177	53
Current tax - Provision for Land Appreciation Tax		
Provision for the year	**61**	9
(Over)/under-provision in respect of prior years	**(2)**	18
	59	27
Deferred tax		
Origination and reversal of temporary differences	**252**	909
	252	909
	1,005	1,618

Provision for Hong Kong Profits Tax has been made at 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

9 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to profit for the year

	2012 **HK$ million**	*2011* HK$ million
Interim dividend declared and paid of HK$0.32 (2011: HK$0.3) per share	**768**	711
Final dividend proposed after the balance sheet date of HK$0.74 (2011: HK$0.7) per share	**1,787**	1,658
	2,555	2,369

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to profit for the previous financial year, approved and paid during the year

	2012 **HK$ million**	*2011* HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.7 (2011: HK$0.7) per share	**1,658**	1,644

10 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$20,208 million (2011: HK$17,184 million) and the weighted average number of 2,386 million ordinary shares in issue during the year (2011: 2,309 million ordinary shares), calculated as follows:

	2012	*2011*
	million	million
Number of issued ordinary shares at 1 January	**2,369**	2,176
Weighted average number of ordinary shares issued in respect of exercise of warrants	**-**	122
Weighted average number of ordinary shares issued in respect of scrip dividends	**17**	11
Weighted average number of ordinary shares for the year and at 31 December	**2,386**	2,309

Diluted earnings per share were the same as the basic earnings per share for the year as there were no dilutive potential ordinary shares in existence during the year.

In respect of the year ended 31 December 2011, diluted earnings per share were the same as the basic earnings per share as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during that year would have an anti-dilutive effect.

10 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company of HK$7,098 million (2011: HK$5,560 million), excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) during the year. A reconciliation of profit is as follows:

	2012	*2011*
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**20,208**	17,184
Effect of changes in fair value of investment properties and investment properties under development	**(8,813)**	(8,968)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development	**198**	490
Effect of share of changes in fair value of investment properties (net of deferred tax) of:		
– associates	**(1,243)**	(1,200)
– jointly controlled entities	**(3,310)**	(1,887)
Effect of share of non-controlling interests	**58**	(59)
Underlying profit attributable to equity shareholders of the Company	**7,098**	5,560
Underlying earnings per share	**HK$2.97**	HK$2.41

11 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Construction	:	Construction of building works
Infrastructure	:	Investment in infrastructure projects
Hotel operation	:	Hotel operation and management
Department store operation	:	Department store operation and management
Others	:	Provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before bank interest income, provision/(reversal of provision) on inventories, fair value adjustment of investment properties and investment properties under development, finance costs, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses.

11 Segment reporting (continued)

(a) Results of reportable segments

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

2012

	Property development HK$ million (note 3)	Property leasing HK$ million (note (iii))	Construction HK$ million	Infra-structure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
External revenue	8,708	4,494	761	63	240	373	953	-	15,592
Inter-segment revenue	-	231	2,045	-	-	-	68	(2,344)	-
Reportable segment revenue	8,708	4,725	2,806	63	240	373	1,021	(2,344)	15,592
Reportable segment results	2,306	3,107	(50)	9	94	67	818		6,351
Bank interest income									235
Provision on inventories	(36)	-	-	-	-	-	-		(36)
Unallocated head office and corporate expenses, net									(1,251)
Profit from operations									5,299
Increase in fair value of investment properties and investment properties under development									8,813
Finance costs									(1,239)
									12,873
Share of profits less losses of associates (note (i))									4,048
Share of profits less losses of jointly controlled entities (note (ii))									4,416
Profit before taxation									21,337
Income tax									(1,005)
Profit for the year									20,332

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

2011

	Property development HK$ million (note 3)	Property leasing HK$ million (note (iii))	Construction HK$ million	Infra-structure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
External revenue	9,692	3,920	44	299	224	347	662	-	15,188
Inter-segment revenue	-	205	479	-	-	-	39	(723)	-
Reportable segment revenue	9,692	4,125	523	299	224	347	701	(723)	15,188
Reportable segment results	2,186	2,620	(61)	197	84	65	257		5,348
Bank interest income									189
Provision on inventories									(1)
Unallocated head office and corporate expenses, net									(989)
Profit from operations									4,547
Increase in fair value of investment properties and investment properties under development									8,968
Finance costs									(1,169)
									12,346
Share of profits less losses of associates (note (i))									3,711
Share of profits less losses of jointly controlled entities (note (ii))									2,924
Profit before taxation									18,981
Income tax									(1,618)
Profit for the year									17,363

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) During the year, the Group's share of revenue of associates arising from their activities of property development and property leasing amounted to HK$79 million (2011: HK$95 million) and HK$651 million (2011: HK$562 million), respectively.

Included in the Group's share of profits less losses of associates during the year is a profit of HK$32 million (2011: HK$39 million) contributed from the property development segment, and a profit of HK$1,669 million (2011: HK$1,582 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the year of HK$1,243 million (2011: HK$1,200 million)).

(ii) During the year, the Group's share of revenue of jointly controlled entities arising from their activities of property development and property leasing amounted to HK$439 million (2011: HK$373 million) and HK$1,495 million (2011: HK$1,336 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the year is a profit of HK$46 million (2011: HK$54 million) contributed from the property development segment, and a profit of HK$4,253 million (2011: HK$2,759 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties during the year of HK$3,310 million (2011: HK$1,887 million)).

(iii) Turnover for the property leasing segment comprises rental income of HK$3,983 million (2011: HK$3,448 million) and rental-related income of HK$511 million (2011: HK$472 million), which in aggregate amounted to HK$4,494 million for the year ended 31 December 2012 (2011: HK$3,920 million).

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's fixed assets, intangible operating right, interests in associates and jointly controlled entities (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of fixed assets, the location of the operation to which they are allocated in the case of the intangible operating right, and the location of operations in the case of interests in associates and jointly controlled entities.

	Revenue from external customers		**Specified non-current assets**	
	For the year ended 31 December		**At 31 December**	
	2012	*2011*	***2012***	*2011*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**12,377**	13,647	**142,908**	127,571
Mainland China	**3,215**	1,541	**30,619**	29,493
	15,592	15,188	**173,527**	157,064

11 Segment reporting (continued)

(c) Other segment information

	Amortisation and depreciation		Impairment loss/ (reversal of impairment loss) on trade debtors	
	For the year ended 31 December		For the year ended 31 December	
	2012	*2011*	***2012***	*2011*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**8**	1	**-**	-
Property leasing	**22**	20	**-**	(1)
Construction	**52**	39	**-**	-
Infrastructure	**40**	45	**-**	-
Hotel operation	**46**	50	**-**	-
Department store operation	**3**	3	**-**	-
Others	**40**	42	**-**	2
	211	200	**-**	1

12 Trade and other receivables

	2012	*2011*
	HK$ million	HK$ million
Instalments receivable	**1,570**	1,300
Debtors, prepayments and deposits	**3,922**	2,961
Gross amount due from customers for contract work	**82**	54
Amounts due from associates	**230**	165
Amounts due from jointly controlled entities	**10**	15
	5,814	4,495

(i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits and other receivables of HK$317 million (2011: HK$488 million) which are expected to be recovered after more than one year.

12 Trade and other receivables (continued)

(ii) At the balance sheet date, the ageing analysis of trade debtors (which are included in trade and other receivables) net of allowance for doubtful debts, is as follows:

	2012	*2011*
	HK$ million	HK$ million
Current or under 1 month overdue	**1,826**	1,438
More than 1 month overdue and up to 3 months overdue	**114**	209
More than 3 months overdue and up to 6 months overdue	**16**	9
More than 6 months overdue	**55**	104
	2,011	1,760

(iii) The trade debtors at 31 December 2012 included an amount of HK$Nil (2011: HK$26 million) in relation to the toll income receivable from Hangzhou Henderson Qianjiang Third Bridge Company, Limited (the “Joint Venture Company”), a 60% owned subsidiary of the Group which is engaged in the operation of a toll bridge in Hangzhou, mainland China. The toll income is collected on behalf of the Group by 杭州市城市“四自”工程道路綜合收費管理處 (Hangzhou City “Sizi” Engineering & Highway General Toll Fee Administration Office) (the “Hangzhou Toll Office”), which is the relevant government body in Hangzhou, mainland China to record the traffic flow and make payment of the toll fee of the toll bridge, pursuant to the terms of an agreement dated 5 February 2004 (the “Collection Agreement”) entered into between the Group and the Hangzhou Toll Office. On 20 March 2012, the Joint Venture Company received a letter dated 18 March 2012 from the Hangzhou Toll Office which stated that, because the General Office of the People’s Government of Zhejiang Province in 2003 provisionally fixed the period of entitlement to toll fee in respect of the toll bridge to end on 19 March 2012, they would, commencing from 20 March 2012, provisionally suspend payment of toll fee to the Joint Venture Company in respect of the toll bridge. In view of the uncertainty on the inflow of the toll revenue to the Joint Venture Company, the Group did not recognise in the accounts the toll revenue (after deduction of business tax) during the period from 20 March 2012 (being the commencement date for the provisional suspension of the toll fee payment from the Hangzhou Toll Office to the Joint Venture Company) to 31 December 2012 of RMB207 million, or equivalent to HK$254 million. Accordingly, the Group did not recognise any toll income receivable from the toll bridge collected on behalf of the Group by the Hangzhou Toll Office at 31 December 2012.

12 Trade and other receivables (continued)

(iii) (continued)

Besides, in order to protect the interest of the Group, the Group had, in accordance with the terms of the Collection Agreement, filed an arbitration application with China International Economic and Trade Arbitration Commission ("CIETAC", 中國國際經濟貿易仲裁委員會) on 17 September 2012 against the Hangzhou Toll Office and Hangzhou Municipal People's Government for an arbitration award that, inter alia, they should continue to perform their obligations under the Collection Agreement by paying toll fees of the toll bridge to the Joint Venture Company and be liable for the damages for the breach of contract and the relevant outstanding toll fees together with the legal and arbitration costs incurred. CIETAC on 12 November 2012 confirmed its acceptance to administer the above arbitration case.

(iv) Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses have been made for estimated irrecoverable amounts.

(v) The amounts due from associates and jointly controlled entities are unsecured and interest-free, have no fixed terms of repayment and are neither past due nor impaired.

13 Trade and other payables

	2012 **HK$ million**	*2011* HK$ million
Creditors and accrued expenses	**6,033**	4,195
Gross amount due to customers for contract work	**271**	3
Rental and other deposits	**1,230**	1,078
Forward sales deposits received	**7,562**	3,585
Derivative financial instruments	**40**	-
Amounts due to associates	**83**	100
Amounts due to jointly controlled entities	**46**	69
	15,265	9,030

13 Trade and other payables (continued)

(i) All of the Group's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$658 million (2011: HK$615 million) which is expected to be settled after more than one year.

(ii) At the balance sheet date, the ageing analysis of trade creditors (which are included in trade and other payables) is as follows:

	2012	*2011*
	HK$ million	HK$ million
Due within 1 month or on demand	**1,775**	1,067
Due after 1 month but within 3 months	**1,000**	503
Due after 3 months but within 6 months	**187**	149
Due after 6 months	**1,264**	1,214
	4,226	2,933

(iii) The amounts due to associates and jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

14 Review of results

The financial results for the year ended 31 December 2012 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated accounts for the year ended 31 December 2012.

Turnover and profit

	Turnover		Contribution / (Loss) from Operations	
	Year ended 31 December		Year ended 31 December	
	2012	2011	**2012**	2011
	HK$ million	HK$ million	**HK$ million**	HK$ million
Reportable segments				
- Property development	**8,708**	9,692	**2,306**	2,186
- Property leasing	**4,494**	3,920	**3,107**	2,620
- Construction	**761**	44	**(50)**	(61)
- Infrastructure	**63**	299	**9**	197
- Hotel operation	**240**	224	**94**	84
- Department store operation	**373**	347	**67**	65
- Other businesses	**953**	662	**818**	257
	15,592	15,188	**6,351**	5,348

	Year ended 31 December	
	2012	2011
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company		
- excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**7,098**	5,560
- including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**20,208**	17,184

The Group's turnover of HK$15,592 million for the year ended 31 December 2012 represents an increase of HK$404 million, or 3%, over that of HK$15,188 million in the previous year. Such increase was mainly attributable to the increase in revenues from (i) property leasing in the amount of HK$574 million; (ii) construction segment in the amount of HK$717 million; and (iii) other businesses in the amount of HK$291 million, which were partially offset by the decrease in revenues from (iv) property development in the amount of HK$984 million; and (v) infrastructure segment in the amount of HK$236 million.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties and investment properties under development) of HK$7,098 million for the year ended 31 December 2012 represents an increase of HK$1,538 million, or 28%, over that of HK$5,560 million in the previous year. Such increase was mainly attributable to the increase in profit contributions from operations of HK$1,003 million during the year as well as the increase in the Group's share of post-tax underlying profits from associates and jointly controlled entities in the aggregate amount of HK$363 million.

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties and investment properties under development held by the Group's subsidiaries, associates and jointly controlled entities, the Group profit attributable to equity shareholders of HK$20,208 million for the year ended 31 December 2012 represents an increase of HK$3,024 million, or 18%, over that of HK$17,184 million in the previous year. Such increase in the Group profit attributable to equity shareholders was partly attributable to the increase in the Group's attributable share of fair value change of the investment properties and investment properties under development of HK$1,486 million during the year and partly due to the increase in the Group underlying profit attributable to equity shareholders of HK$1,538 million as mentioned above.

Discussions on the major reportable segments are set out below.

Property development

The gross revenue from property sales during the year ended 31 December 2012 amounted to HK$8,708 million (2011: HK$9,692 million). Gross revenue from property sales in Hong Kong and Mainland China during the year ended 31 December 2012 amounted to HK$6,784 million (2011: HK$9,428 million) and HK$1,924 million (2011: HK$264 million) respectively, representing a decrease of HK$2,644 million (or 28%) and an increase of HK$1,660 million (or 629%) respectively when compared with the previous year.

During the year ended 31 December 2012, the Group's share of aggregate net pre-tax profit from subsidiaries (after deducing non-controlling interests), associates and jointly controlled entities in relation to property development segment amounted to HK$2,291 million (2011: HK$2,079 million), comprising pre-tax profit contributions of :-

(i) HK$2,176 million from subsidiaries (after deducting non-controlling interests) (2011: HK$1,974 million);

(ii) HK$36 million from associates, mainly in relation to the sales of units of Shining Heights held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry") (2011: HK$42 million); and

(iii) HK$79 million from jointly controlled entities, mainly in relation to the sales of units of "La Botanica" in Xian, mainland China in which the Group has 50% equity interest (2011: HK$63 million).

Property leasing

Turnover and profit contribution from property leasing for the year ended 31 December 2012 increased by HK$574 million (or 15%) and HK$487 million (or 19%), respectively, over that in the previous year. In particular, such increases are mainly attributable to the following :-

(i) an increased turnover of HK$328 million and an increased profit contribution of HK$204 million in relation to the portfolio of investment properties in Hong Kong due to the overall year-on-year increase in average rentals during the year ended 31 December 2012; and

(ii) an increased turnover of HK$246 million and an increased profit contribution of HK$283 million in relation to the portfolio of investment properties in mainland China, of which an increased turnover of HK$209 million and an increased profit contribution of HK$251 million were generated from World Finance Centre in Beijing as well as Centro and Henderson Metropolitan in Shanghai due to the year-on-year improvement in their occupancies during the year ended 31 December 2012, and from the contribution generated by Greentech Tower in Shanghai following its completion January 2012. In this regard, the increase in profit contribution exceeded the increase in turnover mainly for the reason of a reduced level of leasing commission expenditure incurred by the abovementioned investment properties during the year when compared with the previous year.

In terms of the amounts attributable to the Group, gross rental revenue attributable to the Group during the year ended 31 December 2012 amounted to HK$6,628 million (2011: HK$5,805 million), of which HK$5,466 million (2011: HK$4,889 million) was generated in Hong Kong and HK$1,162 million (2011: HK$916 million) was generated in mainland China. In this regard, the Group's share of gross rental revenue comprises contributions from (i) subsidiaries (after deducing non-controlling interests) of HK$4,482 million (2011: HK$3,907 million); (ii) associates of HK$651 million (2011: HK$562 million); and (iii) jointly controlled entities of HK$1,495 million (2011: HK$1,336 million).

On the same basis, the Group's share of pre-tax net rental income in aggregate amounted to HK$4,898 million (2011: HK$4,169 million), of which HK$4,031 million (2011: HK$3,585 million) was generated in Hong Kong and HK$867 million (2011: HK$584 million) was generated in mainland China. In this regard, the Group's share of pre-tax net rental income comprises contributions from (i) subsidiaries (after deducing non-controlling interests) of HK$3,101 million (2011: HK$2,614 million); (ii) associates of HK$563 million (2011: HK$475 million); and (iii) jointly controlled entities of HK$1,234 million (2011: HK$1,080 million).

Construction

Turnover for the year ended 31 December 2012 increased significantly by HK$717 million, or 1,630%, over that in the previous year which is mainly attributable to the revenue contribution during the year from the construction contracts undertaken for Double Cove and The Reach (both being the Group's property development projects in Hong Kong) as well as a new property development project of HK Ferry in Hong Kong.

The loss from operations for the year ended 31 December 2012 decreased by HK$11 million, or 18% from that in the previous year which is mainly attributable to the increase in the operating profits generated by the abovementioned construction contracts of HK$28 million during the year, and which was partially offset by the net increase in administrative and operating expenses of HK$17 million (including the additional depreciation charge of HK$8 million relating to the construction plant and machinery acquired by the Group during the year).

Infrastructure

The Group's infrastructure business represents the operation of a toll bridge in Hangzhou, mainland China, which is held by Henderson Investment Limited, a subsidiary of the Company.

For the financial performance of the Group's infrastructure business for the year ended 31 December 2012, please refer to the paragraph headed "Henderson Investment Limited ("HIL")" in the Chairman's statement of the Company's 2012 final results announcement of which this Financial Review forms a part. Notwithstanding the provisional suspension in the payment of toll revenue by the Hangzhou Toll Office (as such term is defined therein) to the Group for the period from 20 March 2012 to 31 December 2012 for the reasons as described therein and as a result of which the Group recorded toll revenue of HK$63 million (2011: HK$299 million) representing a decrease of HK$236 million or 79% from that of the previous year, the toll revenue generated by the toll bridge held by Henderson Investment Limited during the year ended 31 December 2012 amounted to HK$317 million which represents an increase of HK$18 million or 6% over that for the corresponding year ended 31 December 2011.

Hotel operation

Turnover and profit contribution for the year ended 31 December 2012 increased by HK$16 million (or 7%) and HK$10 million (or 12%) respectively over that in the previous year. Such increases are mainly attributable to the increase in the average occupancy rates and average room tariffs of guestrooms during the year when compared with the previous year, due to the benefit of the continued inflow of visitors from Mainland China which contributed to over 60% of the total room revenues during the year.

Department store operation

Turnover and profit contribution for the year ended 31 December 2012 increased by HK$26 million (or 7%) and HK$2 million (or 3%) respectively over that in the previous year. Such increases are mainly attributable to the continuing positive market sentiment of Hong Kong's retail sector during the year when compared with the previous year, as well as the promotional events, improved merchandise mix and enhanced customer service standards during the year.

Other businesses

Other businesses mainly comprise provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Turnover for the year ended 31 December 2012 increased by HK$291 million, or 44%, over that in the previous year which is mainly attributable to the recognition of a dividend income of HK$215 million during the year (2011: HK$Nil) from the Group's investment in a property development project in Hong Kong.

Profit contribution for the year ended 31 December 2012 increased by HK$561 million, or 218%, over that in the previous year which is mainly attributable to (i) the abovementioned dividend income of HK$215 million recognised during the year; and (ii) the interest income of HK$247 million (2011: HK$Nil) in relation to the refund by the municipal government of a land deposit regarding a land site in mainland China.

Associates

The Group's share of post-tax profits less losses of associates during the year ended 31 December 2012 amounted to HK$4,048 million (2011: HK$3,711 million), representing an increase of HK$337 million, or 9%, over that in the previous year. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates of HK$1,243 million during the year ended 31 December 2012 (2011: HK$1,200 million), the Group's share of the underlying post-tax profits less losses of associates for the year ended 31 December 2012 amounted to HK$2,805 million (2011: HK$2,511 million), representing an increase of HK$294 million, or 12%, over that in the previous year. Such increase was mainly attributable to the following :-

(i) the Group's share of increase in the underlying post-tax profit contribution from The Hong Kong and China Gas Company Limited of HK$362 million, mainly due to the share of increase in profit contributions from the utility business in Mainland China and new energy business of HK$209 million, as well as the share of negative goodwill of HK$238 million arising from the acquisition of an energy project in Thailand;

(ii) the Group's share of decrease in the underlying post-tax profit contribution from HK Ferry of HK$80 million, mainly due to the fact that the share of the one-off gain on disposal of a hotel property (Silvermine Beach Hotel) of HK$75 million was recognised in the corresponding year ended 31 December 2011 but did not recur for the year ended 31 December 2012; and

(iii) the Group's share of increase in the underlying post-tax profit contribution from Miramar Hotel and Investment Company, Limited of HK$12 million, mainly due to the share of increase in profit contributions from property leasing of HK$30 million following the opening of the Mira Mall during the year and the share of gain on disposal of investment properties and fixed assets of HK$19 million (2011: HK$Nil), which were partially offset by the share of increase in losses from the food and beverage operation and apparel operation of HK$28 million.

Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities during the year ended 31 December 2012 amounted to HK$4,416 million (2011: HK$2,924 million), representing an increase of HK$1,492 million, or 51%, over that in the previous year. Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK$3,310 million during the year ended 31 December 2012 (2011: HK$1,887 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the year ended 31 December 2012 amounted to HK$1,106 million (2011: HK$1,037 million), representing an increase of HK$69 million, or 7%, over that in the previous year. Such increase was mainly attributable to the Group's share of increase in the underlying post-tax profit contribution of HK$64 million from the IFC Complex, primarily due to the increase in the average rentals and the favourable rental reversions upon lease renewals of the offices and the shopping mall during the year ended 31 December 2012.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the year ended 31 December 2012 were HK$1,239 million (2011: HK$1,169 million). Finance costs before interest capitalisation for the year ended 31 December 2012 were HK$2,334 million (2011: HK$1,812 million). During the year ended 31 December 2012, the Group's effective borrowing rate was approximately 4.31% per annum (2011: approximately 3.13% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$8,813 million in the consolidated income statement for the year ended 31 December 2012 (2011: HK$8,968 million).

Financial resources and liquidity

Medium Term Note Programme

At 31 December 2012, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$11,300 million (2011: HK$3,890 million), with maturity terms ranging from two years and twenty years (2011: five years to twenty years). These notes are included in the Group's bank and other borrowings at 31 December 2012 as referred to in the paragraph "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	2012	2011
	HK$ million	HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**2,826**	19,699
- After 1 year but within 2 years	**5,883**	3,225
- After 2 years but within 5 years	**23,197**	13,903
- After 5 years	**9,712**	10,330
Amount due to a fellow subsidiary	**6,125**	8,583
Total debt	**47,743**	55,740
Less: Cash and bank balances	**12,538**	18,850
Net debt	**35,205**	36,890
Shareholders' funds	**205,212**	185,336
Gearing ratio (%)	**17.2%**	19.9%

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio decreased from 19.9% at 31 December 2011 to 17.2% at 31 December 2012.

The interest cover of the Group is calculated as follows:

	Year ended 31 December	
	2012	2011
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation)	**10,139**	8,898
Interest expense (before interest capitalisation)	**2,140**	1,605
Interest cover (times)	**5**	6

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the balance sheet date for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Sterling ("£") and Singapore dollars ("S$"), certain bank borrowings which are denominated in United States dollars ("USD borrowings") and Japanese Yen ("¥") ("Yen borrowings"), as well as the fixed coupon rate bond ("Bond") which are denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond, the USD borrowings and the Yen borrowings in the aggregate principal amounts of US$982,500,000**,** £50,000,000**,** S$200,000,000 and ¥10,000,000,000 at 31 December 2012 (2011: US$982,500,000 and £50,000,000), interest rate swap contracts and cross currency swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$13,000,000,000 at 31 December 2012 (2011: HK$13,000,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

On 18 May 2012, the Group disposed of a subsidiary whose principal asset is an investment property in Hong Kong for a cash consideration of HK$550 million (subject to adjustments). The disposal was completed on 1 June 2012 and based on the final adjusted consideration of HK$545 million, the Group recognised a gain on disposal of HK$187 million.

Save as disclosed above, the Group did not undertake any other significant acquisitions or significant disposals of subsidiaries or assets during the year ended 31 December 2012.

Charge on assets

Assets of the Group were not charged to any third parties at both 31 December 2012 and 31 December 2011.

Capital commitments

At 31 December 2012, capital commitments of the Group amounted to HK$31,380 million (2011: HK$37,401 million). In addition, the Group's attributable share of capital commitments in relation to its jointly controlled entities amounted to HK$956 million (2011: HK$832 million).

Contingent liabilities

At 31 December 2012, the Group's contingent liabilities amounted to HK$1,784 million (2011: HK$374 million), of which :-

(i) an amount of HK$831 million (2011: HK$37 million) relates to performance bonds to guarantee for the due and proper performance of the subsidiaries' obligations and the increase of which is mainly attributable to the increased level of construction activities undertaken for "The Reach" (being the Group's property development project in Hong Kong) during the year;

(ii) an amount of HK$466 million (2011: HK$233 million) relates to guarantees given by the Company in respect of certain bank loans and borrowings entered into by an entity whose shares were held by the Company as available-for-sale equity securities at 31 December 2012; and

(iii) an amount of HK$479 million (2011: HK$96 million) relates to guarantees given by the Group to financial institutions on behalf of purchasers of property units in Mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2012 (and such guarantees will be released upon the issuance of the Building Ownership Certificate).

Employees and remuneration policy

At 31 December 2012, the Group had approximately 8,000 (2011: 8,000) full-time employees. The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the year ended 31 December 2012 amounted to HK$1,819 million (2011: HK$1,704 million), which comprised (i) staff costs included under directors' remuneration of HK$141 million (2011: HK$140 million); and (ii) staff costs (other than directors' remuneration) of HK$1,678 million (2011: HK$1,564 million).

OTHER INFORMATION

Closure of Register of Members

1. Book Close for determining the entitlement to attend and vote at the annual general meeting

   The Register of Members of the Company will be closed from Thursday, 30 May 2013 to Monday, 3 June 2013, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 29 May 2013.

2. Book Close for determining the qualification for the proposed final dividend and bonus shares

   The Register of Members of the Company will be closed from Friday, 7 June 2013 to Tuesday, 11 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and bonus shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Thursday, 6 June 2013.

Purchase, Sale or Redemption of the Company’s Listed Securities

Except for the issue of shares regarding the scrip dividend schemes, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Audit Committee

The Audit Committee met in March 2013 and reviewed the systems of internal control and compliance and the annual report for the year ended 31 December 2012.

Corporate Governance

During the year ended 31 December 2012, the Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012)(the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that the roles of the chairman and the chief executive officer of the Company have not been segregated as required under code provision A.2.1 of the CG Code. The Board of Directors is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code.

Forward-Looking Statements

This announcement contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 25 March 2013

As at the date of this announcement, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Lam Ko Yin, Colin, Lee Ka Shing, Yip Ying Chee, John, Suen Kwok Lam, Lee King Yue, Fung Lee Woon King, Lau Yum Chuen, Eddie, Li Ning, Kwok Ping Ho and Wong Ho Ming, Augustine; (2) non-executive directors: Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Woo Ka Biu, Jackson, Leung Hay Man, Poon Chung Kwong, Chung Shui Ming, Timpson and Au Siu Kee, Alexander.