恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
Stock Code: 12

Annual Report 2012

BUILDING FOR TOMORROW'S COMMUNITIES

Commercial growth and corporate social responsibility are equally important imperatives for Henderson Land. With more than three decades of development excellence behind us, we continue to build on our strengths, creating vibrant projects for the communities of tomorrow in partnership with some of the world's most renowned architects and designers.

Contents

Forward-Looking Statements

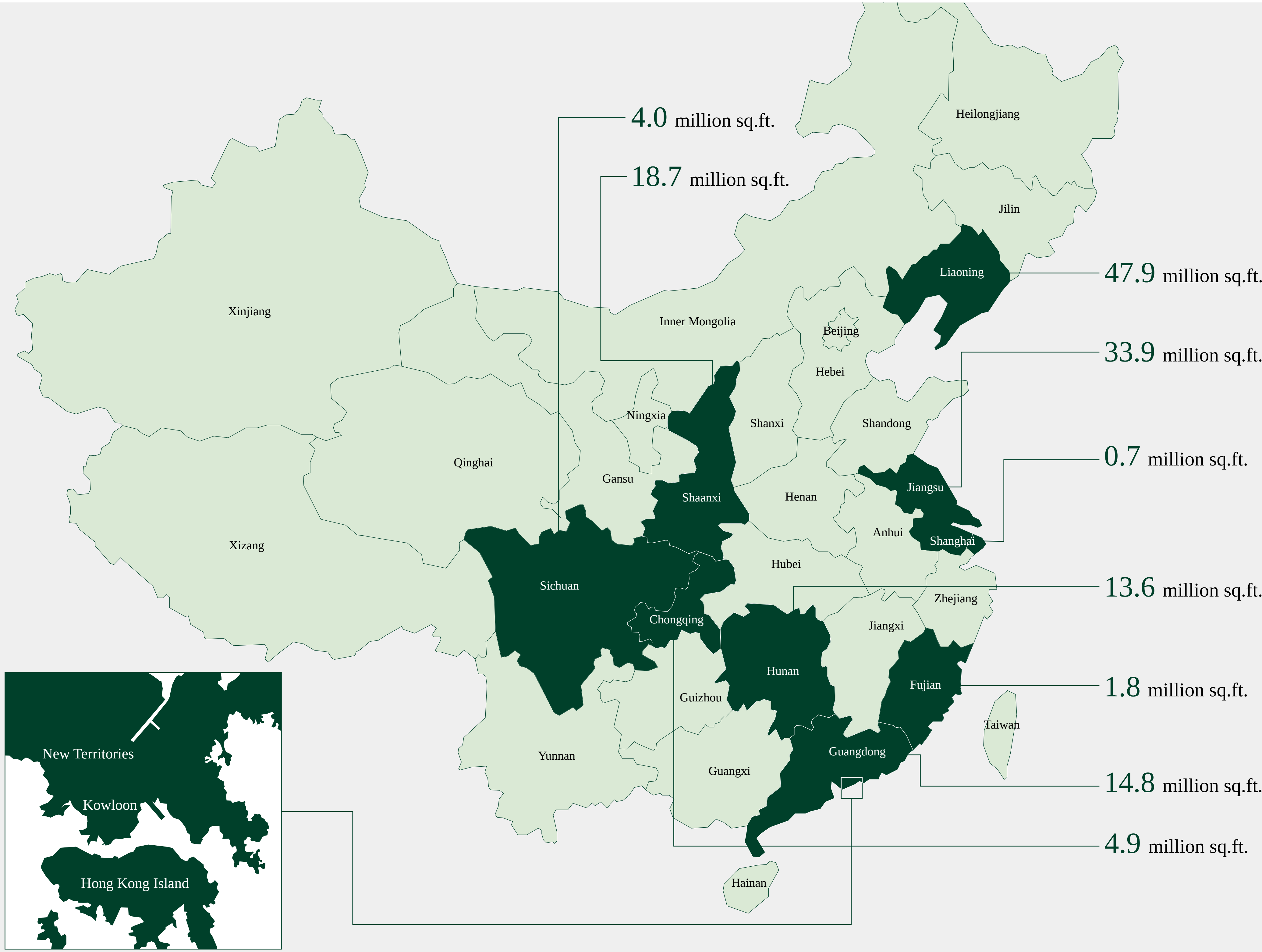
This annual report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which 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.

CORPORATE PROFILE

Founded in 1976 by its Chairman, Dr The Honourable Lee Shau Kee, GBM, Henderson Land Development Company Limited is a leading property group with a focus on Hong Kong and mainland China. Its core businesses comprise property development and property investment. In addition, it has direct equity interests in a listed subsidiary, Henderson Investment Limited, and three listed associates, The Hong Kong and China Gas Company Limited (which in turn has equity stakes in a listed subsidiary, Towngas China Company Limited), Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited.

Henderson Land has been listed in Hong Kong since 1981 where it is one of the largest property groups. As at 31 December 2012, Henderson Land had market capitalization of HK$132 billion and the combined market capitalization of the Company, its listed subsidiaries and associates was HK$342 billion.

The Company is vertically integrated, with project management, construction, property management, and financial services supporting its core businesses. In all aspects of its operations, Henderson Land strives to add value for its shareholders, customers and the community through its commitment to excellence in product quality and service delivery as well as a continuous focus on sustainability and the environment.



New Territories 4.5 million sq.ft.

Kowloon 3.9 million sq.ft.

Hong Kong Island 2.0 million sq.ft.

The diagram above provides an overview of the Group's substantial and diverse, yet balanced development land bank in Hong Kong and mainland China as at 31 December 2012. It illustrates the attributable developable gross floor area by location. Henderson Land's quality land reserve is earmarked for both commercial and residential projects, which are expected to provide handsome returns for the Group during the years to come.

Awards & Accolades

1. **Leadership in Energy and Environmental Design (LEED)**
   U.S. Green Building Council
   Gold Rating (Henderson Metropolitan, Shanghai)
   Gold Rating (Greentech Tower, Shanghai)

2. **Building Environmental Assessment Method (BEAM)**
   BEAM Society
   Provisional Platinum Standard (Henderson 688, Shanghai)
   Provisional Platinum Standard (The Reach)

3. **BEAM Plus for New Buildings**
   Hong Kong Green Building Council
   Provisional Gold Rating (High Point)

4. **Green Building Design Label**
   China Green Building Council and China Green Building (Hong Kong) Council
   3-Star Rating (The Gloucester)

5. **Intelligent Office Building of Year 2012**
   Asian Institute of Intelligent Buildings
   Distinction Rank (Henderson Metropolitan, Shanghai)
   Credit Rank (Centro, Shanghai)

6. **Quality Building Award 2012**
   The Hong Kong Institute of Housing, Hong Kong Construction Association, The Hong Kong Institute of Architects and six other institutes/disciplines
   Grand Award (Hong Kong Residential [Single Building] Category) (39 Conduit Road)
   Merit Award (Project Outside Hong Kong [Non-Residential] Category) (Henderson Metropolitan, Shanghai)

7. **Hang Seng Corporate Sustainability Index Series**
   Hang Seng Indexes Company Limited
   Constituent Company (Henderson Land, Hong Kong & China Gas, Towngas China)

8. **BCI Asia Top 10 Awards 2012**
   BCI Asia
   Top 10 Developers Awards 2012

9. **The Excellence of Listed Enterprise Awards 2012**
   CAPITAL WEEKLY
   Henderson Land, Hong Kong & China Gas

Green Building Design Label

China Green Building Council and China Green Building (Hong Kong) Council
3-Star Rating (Double Cove)

MIPIM Asia 2012

Reed MIDEM
Best Innovative Green Building - Bronze Prize (Double Cove)

Green Building Award 2012

Hong Kong Green Building Council and Professional Green Building Council
Merit Award (New Building Category [Building under Construction] - Hong Kong) (Double Cove)

10 **Most Trustworthy Company 2012**
China Influence Summit

11 **Caring Company 2011/12**
Hong Kong Council of Social Services
Henderson Land, Hong Kong & China Gas, Hong Kong Ferry, Miramar, Hang Yick, Well Born & Goodwill

12 **Galaxy Awards 2012**
MerComm, Inc.
Bronze Award (Annual Reports: Real Estate Dev. Svcs.)
Honors (Design: Covers - Annual Reports - Places/Products)

13 **2012 International ARC Awards**
MerComm, Inc.
Gold Award (Chairman's Letter: Real Estate Development/Service: Various & Multi-Use)

14 **Hong Kong Green Awards 2012**
Green Council
Corporate Green Governance Award - Grand Award (Hong Kong & China Gas)

15 **2011/12 One Factory-One Year-One Environmental Project (1-1-1) Programme**
Federation of Hong Kong Industries and Hang Seng Bank
Hang Seng-Pearl River Delta Environmental Award - Green Medal (Hong Kong Shipyard)
Hang Seng-Pearl River Delta Environmental Award - Green Participant (Hongkong & Yaumati Ferry)

16 **metroBOX Prime Awards for Eco-Business 2012**
metroBOX
Miramar Shopping Centre & Tower

17 **HKCA Safety Award 2011**
Hong Kong Construction Association
HKCA Safety Merit Award 2011 (E Man, Heng Lai & Grandic)

18 **RICS Hong Kong Property Awards 2012**
Royal Institution of Chartered Surveyors
Merit Award (Property Management Team of the Year) (Goodwill)

Henderson Land Group Structure

Market capitalization as at 31 December 2012
Henderson Land Development Company Limited: HK$132 billion
Six listed companies of Henderson Land Group: HK$342 billion

Henderson Land Development Company Limited
Investment holding, property development and investment in Hong Kong and mainland China, hotel operation, project and property management, construction, department store operation and provision of finance

- *31.36%* **Hong Kong Ferry (Holdings) Company Limited**
  Property development and investment
- *67.94%* **Henderson Investment Limited**
  Infrastructure
- *39.88%* **The Hong Kong and China Gas Company Limited**
  Production and distribution of gas in Hong Kong and mainland China
  - *66.18%* **Towngas China Company Limited**
    Sale and distribution of liquefied petroleum gas and natural gas in mainland China
- *44.21%* **Miramar Hotel and Investment Company, Limited**
  Property investment, hotel operation, food and beverage operations, travel business and apparel business

Note: all percentage shareholdings shown above were figures as of 31 December 2012.

Highlights of 2012 Final Results

	Note	For the year ended 31 December 2012 HK$ million	 2011 HK$ million	Change
Property sales				
– Revenue	*1*	**8,942**	9,479	-6%
– Profit contribution	*1*	**2,291**	2,079	+10%
Property leasing				
– Gross rental income	*2*	**6,628**	5,805	+14%
– Net rental income	*2*	**4,898**	4,169	+17%
Profit attributable to shareholders				
– Underlying profit	*3*	**7,098**	5,560	+28%
– Reported profit		**20,208**	17,184	+18%
		HK$	HK$	
Earnings per share				
– Based on underlying profit	*3*	**2.97**	2.41	+23%
– Based on reported profit		**8.47**	7.44	+14%
Dividends per share		**1.06**	1.00	+6%
Allotment of bonus shares		**1 share for every 10 shares held**	Nil	Not applicable
		At 31 December 2012	**At 31 December 2011**	**Change**
		HK$	HK$	
Net asset value per share		**84.97**	78.23	+9%
Net debt to shareholders' equity		**17.2%**	19.9%	-2.7 percentage points
		At 31 December 2012 Million square feet	**At 31 December 2011 Million square feet**	
Hong Kong				
Land bank (attributable floor area)				
– Properties held for/under development		**10.4**	10.2	
– Stock of unsold properties		**0.4**	0.7	
– Completed investment properties (including hotel properties)	*4*	**10.1**	10.2	
		20.9	21.1	
New Territories land (total land area)		**42.8**	41.9	
Mainland China				
Land bank (attributable floor area)				
– Properties held for/under development		**140.3**	151.2	
– Stock of unsold properties		**1.2**	1.0	
– Completed investment properties	*4*	**6.4**	5.9	
		147.9	158.1	

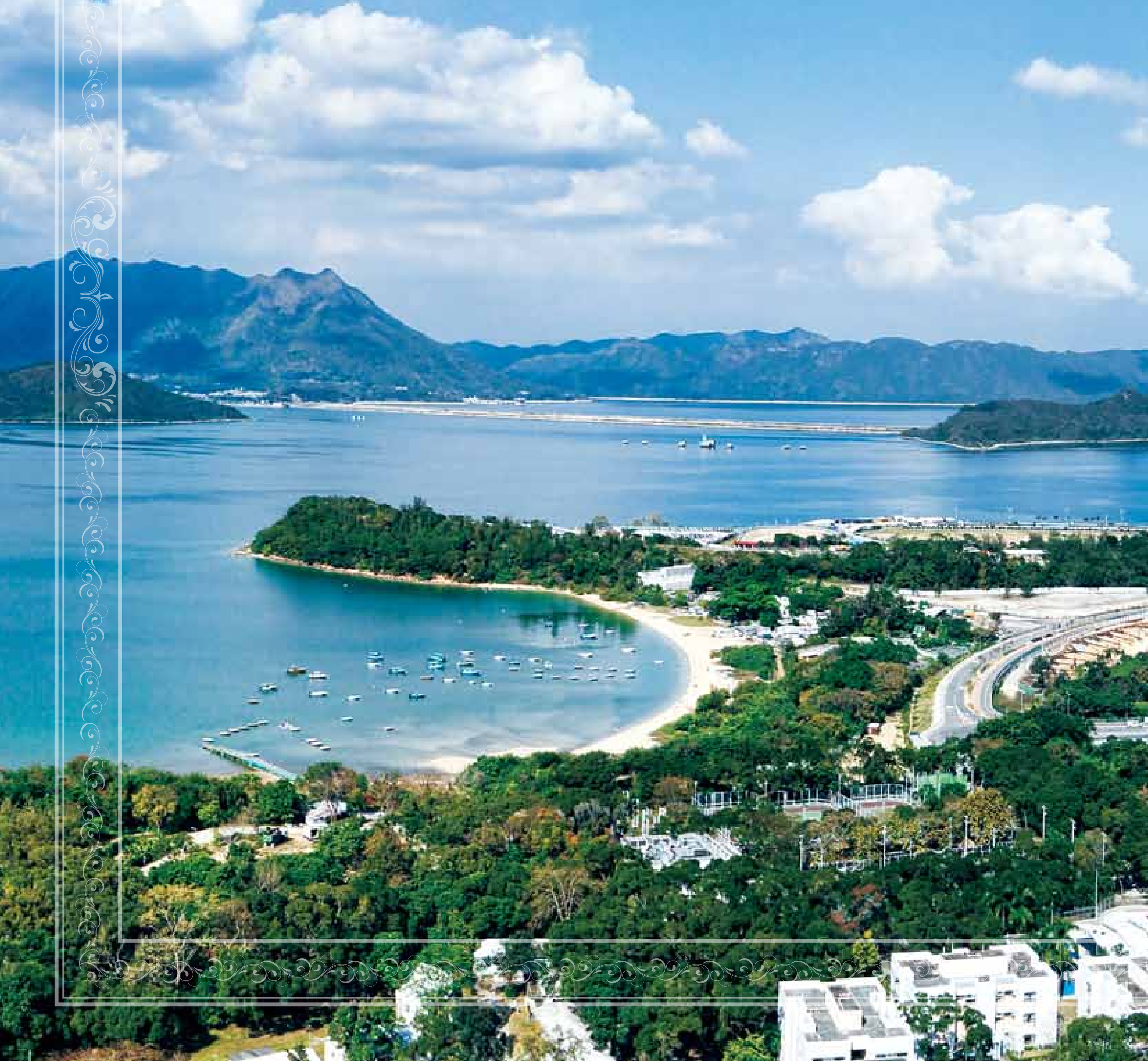
Note 1: *Representing the Group's attributable share of property sales revenue and their profit contribution (before taxation) in Hong Kong and mainland China by subsidiaries, associates and jointly controlled entities ("JCEs").*

Note 2: *Representing the Group's attributable share of gross rental income and net rental income (before taxation) from investment properties in Hong Kong and mainland China held by subsidiaries, associates and JCEs.*

Note 3: *Excluding the fair value change (net of deferred tax) of the investment properties held by subsidiaries, associates and JCEs.*

Note 4: *The Group held additional rentable car parking spaces with a total area of approximately 2.7 million square feet (2011: approximately 2.8 million square feet) in Hong Kong, and approximately 0.7 million square feet (2011: approximately 0.6 million square feet) in mainland China.*

(artist's impression)



Double Cove, Ma On Shan, Hong Kong

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

Dr The Honourable Lee Shau Kee, GBM
Chairman and Managing Director

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.

The Reach, Yuen Long, Hong Kong (artist's impression)

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	At 31 December 2012 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. 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
				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**

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.

(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:

	Project name and location	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.)
	Hong Kong		
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**
	Kowloon		
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 Wa 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 "High West" urban redevelopment project at Sai Ying Pun, which was launched for sale during the year under review, may serve as a manifest example. In terms of gross floor area approved by the 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) was 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 is implementing, 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 a 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 Territories		
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.

ifc mall, Central, Hong Kong

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 the 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

Manulife Financial Centre, Kwun Tong, Hong Kong

Mira Moon, Wanchai, Hong Kong (artist's impression)

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, following the previous success of ifc and Manulife Financial Centre, Golden Centre in Sheung Wan achieved the highest "platinum" rating under the globally recognised 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 Citygate project 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 rates 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 recognised 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)*

Four Seasons Hotel Hong Kong, Central, Hong Kong

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 is jointly organised by nine professional organisations 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 Design 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 as well as 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 of 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 in 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 enhancements have 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 (High West), Project in Erlong Phoenix Area, 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, respectively, by 27% to HK$1,162 million and by 48% to HK$867 million 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 Henderson Centre also performed well with occupancy rate close to 90% at 31 December 2012.

Henderson Metropolitan, Huangpu District, Shanghai

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 recognised in the consolidated accounts of HIL. Nevertheless, taking into account those toll revenues which were accrued but not recognised, 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 an 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 1 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 Aviation Fuel Facility

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.

Mira Mall, Tsim Sha Tsui, Hong Kong

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 recognised 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 approximately 42.8 million square feet, the largest holding among all property developers in Hong Kong. In particular, for the Group's land holding 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

THE H COLLECTION

HEART
With passion and all our heart, we deliver functional and tasteful living spaces.

HALLMARK
With talented architects, designers and dedicated construction teams, we create stylish homes of substance.

HANDCRAFTED
We are dedicated to building the finest residential developments using quality materials and master craftsmanship.

HARMONY
We promote the spirit of cohesion between built environments and nature, while creating value in new neighbourhoods.

HOSPITALITY
Our professional property management teams provide a caring and sincere service that goes the extra mile.

The Gloucester, Wanchai, Hong Kong

Land Bank

2012 Highlights

- Progress was made in ownership consolidation for 12 urban redevelopment projects
- 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
- 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

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 "High West" urban redevelopment project at Sai Ying Pun, which was launched for sale during the year under review, may serve as a manifest example. In terms of gross floor area approved by the 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) was 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 is implementing, 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 a 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:

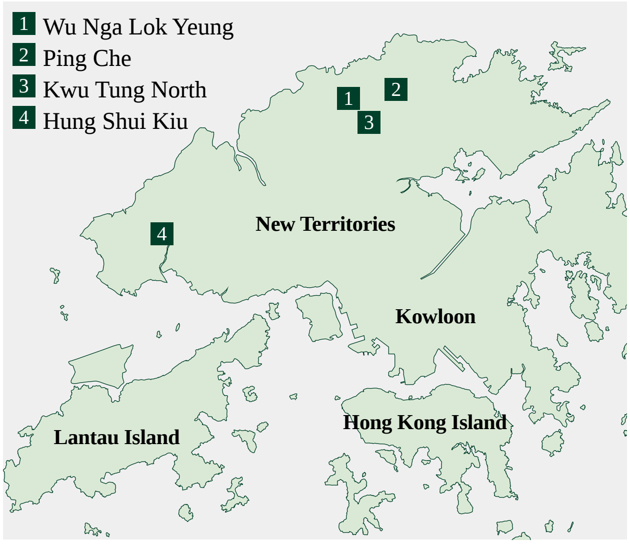
			Total land area (sq.ft.)
	New Development Areas to be built in New Terrritories		
1.	Wu Nga Lok Yeung		2,700,000
2.	Ping Che		2,260,000
3.	Kwu Tung North		440,000
4.	Hung Shui Kiu		5,500,000
		Total:	**10,900,000**

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.



New Development Areas to be built in New Territories

Property Development

2012 Highlights

- Sold an attributable total of HK$13,424 million worth of properties for the year
- The total attributable contracted sales for the first two months of 2013 exceeded HK$2,730 million

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.

The Reach, Yuen Long, Hong Kong (artist’s impression)

High Point, Cheung Sha Wan, Hong Kong (artist's impression)

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. It shows that small to medium-sized units of superior quality are highly sought after by the local end-users.

Various categories of development projects (with the exception of a few earmarked for rental purposes) which provide the areas for sale in the coming years are shown on pages 13 to 18 of the Chairman's Statement.

Green Code, Fanling, Hong Kong (artist's impression)

Status of property developments with anticipated completion during the period to the end of 2015

Double Cove, 8 Wu Kai Sha Road, Ma On Shan (59% owned)

Site area	:	**1,042,397 square feet**
Gross floor area	:	**2,950,660 square feet**
Residential units	:	**3,537**
Expected completion	:	**Second quarter of 2013 (Phase 1) Fourth quarter of 2013 (Phase 2) First quarter of 2015 (Phase 3) and to be determined for remaining phases**

"Double Cove" is located on a unique twin-cove peninsula which offers sweeping views across Tolo Harbour and is surrounded by substantial nature conservation areas with a multitude of interior and exterior green spaces. This colossal development enjoys direct access to Wu Kai Sha MTR station, plus an approximately 100,000-square-foot commercial area. Being the first Hong Kong residential development project designed by world-renowned master architect Lord Richard Rogers, "Double Cove" has been highly acclaimed and they included: a provisional Platinum Standard rating from the BEAM Society, as well as the first ever "3-star" top rating granted by the China Green Building (Hong Kong) Council to the private residential development project in Hong Kong. Being accredited by Hong Kong Green Building Council with Green Building Award 2012 "Merit Award", "Double Cove" was also one of the winners of the Best Innovative Green Building Award in the International MIPIM Asia 2012 Awards.

The Reach, 11 Shap Pat Heung Road, Yuen Long (79.03% owned)

Site area	:	**371,358 square feet**
Gross floor area	:	**1,299,744 square feet**
Residential units	:	**2,580**
Expected completion	:	**Third quarter of 2013**

This large-scale residential development is characterized by an iconic arch landmark at its main entrance between two of the twelve residential towers. Residents can enjoy panoramic views of the lush Tai Lam Country Park and the vibrant Yuen Long town centre, as well as an array of clubhouse facilities that fulfil the needs of new generation. This development also has solid green credentials and has been awarded a provisional Platinum standard rating by the BEAM society.

21 Wong Chuk Hang Road, Aberdeen (50% owned)

Site area	:	**14,298 square feet**
Gross floor area	:	**214,467 square feet**
Expected completion	:	**Second quarter of 2014**

Featuring an avant-garde architectural design, this 25-storey top grade development offers plenty of quality open office spaces, with many enjoying pristine views of Aberdeen and Shum Wan. Its stylish curtain wall design reinforces the impressive corporate ambience of the development, whilst its strategic location capitalizes on the forthcoming MTR South Island Line station at Wong Chuk Hang making it a new landmark of the district.

High Point, 188 Tai Po Road, Cheung Sha Wan (100% owned)

Site area	:	**8,324 square feet**
Gross floor area	:	**70,340 square feet**
Residential units	:	**138**
Expected completion	:	**Third quarter of 2014**

Located in the core area of West Kowloon, "High Point" offers unparalleled shopping and transportation convenience to its residents. Construction of the superstructure is underway and upon completion, the residential entrance lobby design of Italian sophistication, as well as modern Italian clubhouse, will set the property apart from all the other premises in the vicinity.

High West, 36 Clarence Terrace, Sai Ying Pun (100% owned)

Site area	:	7,310 square feet
Gross floor area	:	58,471 square feet
Residential units	:	133
Expected completion	:	Fourth quarter of 2014

"High West" is adjacent to the Hong Kong University MTR station that is now under construction and will commence operations in 2014. It is also close to a number of prestigious primary and secondary schools, as well as the University of Hong Kong. Construction has proceeded to the superstructure stage and upon its scheduled completion by the end of 2014, this 31-storey residential development will allow upper floor residences to enjoy vistas of the sparkling Victoria Harbour or lush verdant mountains.

High Place, 33 Carpenter Road, Kowloon City (100% owned)

Site area	:	3,582 square feet
Gross floor area	:	31,644 square feet
Residential units	:	76
Expected completion	:	Fourth quarter of 2014

Situated in a well-established district, which houses many famous and highly sought-after schools, "High Place" enjoys the potential embodied in the up-and-coming Kai Tak Cruise Terminal. Piling works were completed and its construction has proceeded to the superstructure stage.

High Park Grand, 68 Boundary Street (100% owned)

Site area	:	6,750 square feet
Gross floor area	:	60,750 square feet
Residential units	:	41
Expected completion	:	Fourth quarter of 2014

Situated close to both Prince Edward and Mong Kok East MTR stations, this 29-storey residential-cum-commercial tower is a tribute to the heritage of Kowloon Tong's historic mansions, featuring spacious units. Residents will enjoy breathtaking views of the surrounding green parks and Lion Rock from most of the units, thanks to the shimmering façade design and features that maximize light and visibility. Superstructure works are in progress.

High Park, 51 Boundary Street (100% owned)

Site area	:	5,880 square feet
Gross floor area	:	52,919 square feet
Residential units	:	59
Expected completion	:	First quarter of 2015

"High Park" is at the transport nexus of Mong Kok, with MTR station and cross-border coach terminus just steps away. Also, the flower market and Mong Kok shopping avenue are both within walking distance, offering unrivalled living convenience to its residents. Superstructure works are in progress and it will be developed into a 32-storey residential-cum-commercial tower, overlooking the Police Sports and Recreation Club, as well as the lush greenery nearby.

2-12 Observatory Road, Tsim Sha Tsui (50% owned)

Site area	:	13,764 square feet
Gross floor area	:	165,137 square feet
Expected completion	:	First quarter of 2015

Foundation works are in progress and such development project, which boasts quality office and retail spaces, will be held for rental purposes.

59-63 Wing Hong Street and 88-92 King Lam Street, Cheung Sha Wan (100% owned)

Site area	:	28,004 square feet
Gross floor area	:	336,051 square feet
Expected completion	:	Second quarter of 2015

The prime location of being close to Lai Chi Kok MTR station, plus premium quality, innovative design and high specifications make this project a new benchmark for premium industrial premises in West Kowloon.

1-7A, Gordon Road, North Point (100% owned)

Site area	:	7,386 square feet
Gross floor area	:	61,612 square feet
Residential units	:	119
Expected completion	:	Fourth quarter of 2015

Located in an urban area with Victoria Park, MTR station and various amenities in its proximity, such prime site will be developed into a boutique apartment tower. Foundation works are underway.

186-198 Fuk Wing Street, Sham Shui Po (100% owned)

Site area	:	7,500 square feet
Gross floor area	:	63,282 square feet
Residential units	:	110
Expected completion	:	Fourth quarter of 2015

Situated close to both Cheung Sha Wan and Sham Shui Po MTR stations, it will be developed into a residential-cum-commercial property and foundation works are in progress.

Location of Various Categories of Development Projects

Major Development Projects Offered for Sale with Units Unsold

1 High West
2 Double Cove (Phase 1)
3 The Reach (Blocks 3, 5, 7, 8 and 11)
4 Legende Royale
5 39 Conduit Road
6 Hill Paramount
7 Green Lodge
8 The Gloucester
9 E-Trade Plaza

Projects Pending Sale in 2013

10 The Reach (Remaining blocks)
11 High Place
12 High Point
13 Green Code
14 High Park Grand
15 High Park
16 186-198 Fuk Wing Street, Sham Shui Po
17 Double Cove (Phase 2)
18 21 Wong Chuk Hang Road
19 1-7A Gordon Road, North Point

Remaining Phases of Double Cove

20 Double Cove (Phase 3)
21 Double Cove (Phase 4)
22 Double Cove (Phase 5)

Existing Urban Redevelopment Projects for sales / leasing

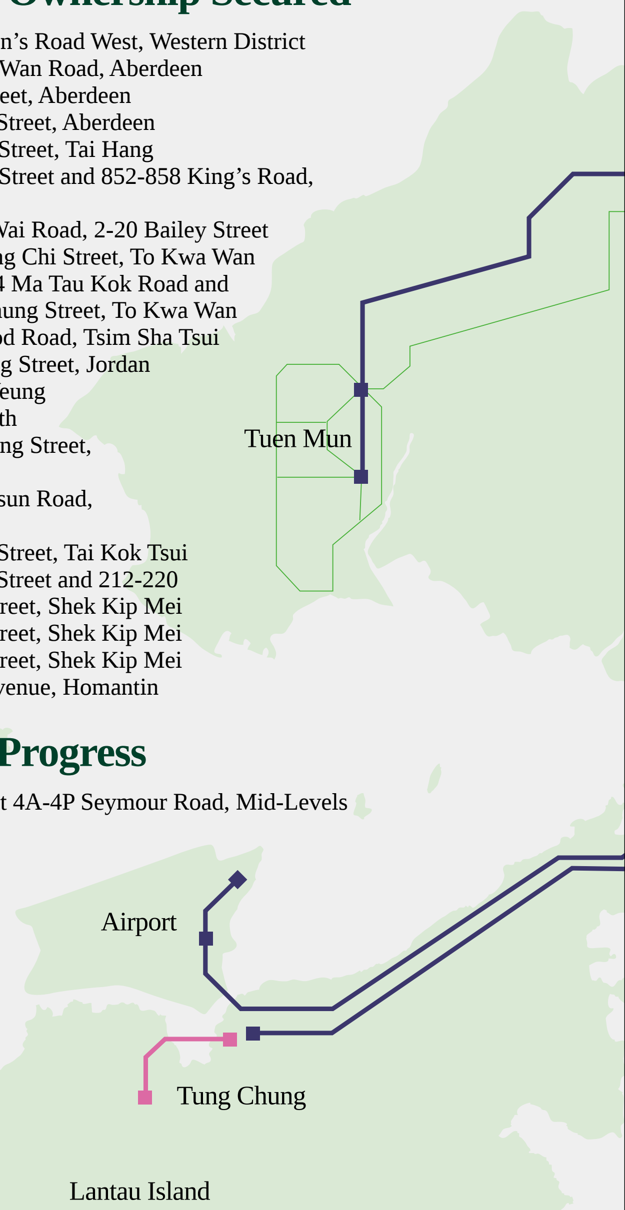
23 45-47 Pottinger Street and Ezra's Lane, Central
24 29 Lugard Road, The Peak
25 8 Wang Kwong Road, Kowloon Bay
26 14-30 King Wah Road, North Point
27 Yau Tong Bay

Newly-acquired Urban Redevelopment Projects – with Over 80% Ownership Secured

42 450-456G Queen's Road West, Western District
43 85-95 Shek Pai Wan Road, Aberdeen
44 4-6 Tin Wan Street, Aberdeen
45 12-18 Tin Wan Street, Aberdeen
46 9-13 Sun Chun Street, Tai Hang
47 21-39 Mansion Street and 852-858 King's Road, North Point
48 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan
49 50-56 and 58-64 Ma Tau Kok Road and 162-168 Pau Chung Street, To Kwa Wan
50 38-40A Hillwood Road, Tsim Sha Tsui
51 2A-2F Tak Shing Street, Jordan
52 456-462A Sai Yeung Choi Street North
53 1-19 Nam Cheong Street, Sham Shui Po
54 79-83 Fuk Lo Tsun Road, Kowloon City
55 8-30A Ka Shin Street, Tai Kok Tsui
56 21-27 Berwick Street and 212-220 Nam Cheong Street, Shek Kip Mei
57 3-4 Yiu Tung Street, Shek Kip Mei
58 7-8 Yiu Tung Street, Shek Kip Mei
59 7-7G Victory Avenue, Homantin

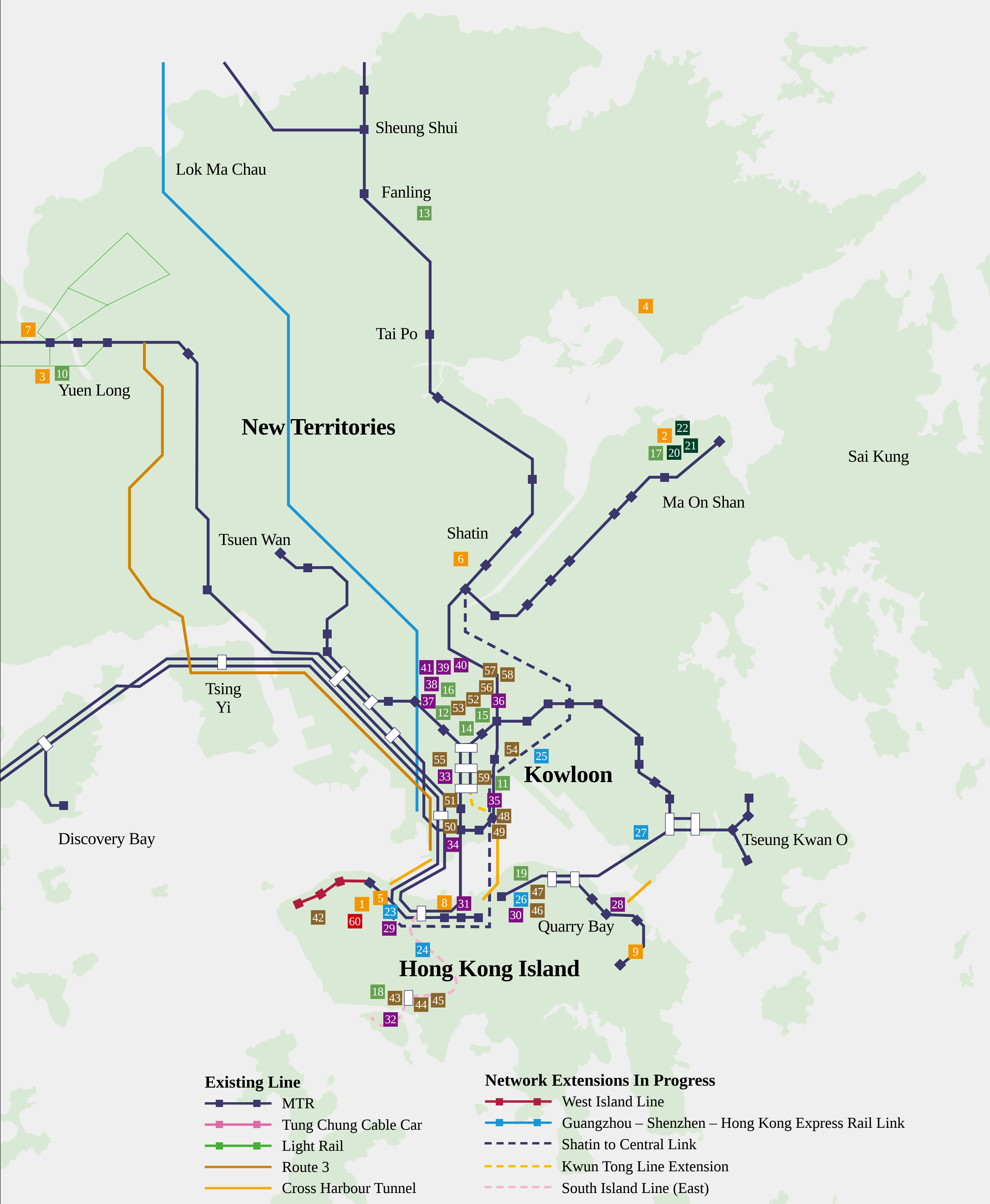
Project in Progress

60 Merry Terrace at 4A-4P Seymour Road, Mid-Levels



Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

28 19-35 Shing On Street and 15 Tai Shek Street, Sai Wan Ho
29 23-25 Robinson Road, Mid-Levels
30 1-11 Lai Yin Street and 2-12 Jones Street, Tai Hang
31 208-210 Johnston Road, Wanchai
32 62-76 Main Street, Ap Lei Chau
33 11-33 Li Tak Street, Tai Kok Tsui
34 2-12 Observatory Road, Tsim Sha Tsui
35 196-202 Ma Tau Wai Road, To Kwa Wan
36 1-15 Berwick Street, Shek Kip Mei
37 59-63 Wing Hong Street and 88-92 King Lam Street, Cheung Sha Wan
38 342-348 Un Chau Street, Cheung Sha Wan
39 352-354 Un Chau Street, Cheung Sha Wan
40 11-19 Wing Lung Street, Cheung Sha Wan
41 565-577 Fuk Wa Street, Cheung Sha Wan



Sheung Shui
Lok Ma Chau
Fanling
Tai Po
Yuen Long
New Territories
Sai Kung
Ma On Shan
Shatin
Tsuen Wan
Tsing Yi
Kowloon
Discovery Bay
Tseung Kwan O
Quarry Bay
Hong Kong Island
Existing Line
MTR
Tung Chung Cable Car
Light Rail
Route 3
Cross Harbour Tunnel
Network Extensions In Progress
West Island Line
Guangzhou – Shenzhen – Hong Kong Express Rail Link
Shatin to Central Link
Kwun Tong Line Extension
South Island Line (East)

Property Investment

2012 Highlights

- The Group's attributable gross rental income in Hong Kong increased by 12% to HK$5,466 million
- Held a total attributable gross floor area of approximately 9.1 million square feet in completed investment properties
- Quality portfolio with the overall occupancy for the core rental properties rising to 98% by the end of 2012

Property Investment

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).

The composition of the Group's diverse property investment portfolio at 31 December 2012 is shown in the accompanying chart.

Investment Properties

(gross floor area in million square feet)

Metro City Phase II, Tseung Kwan O, Hong Kong

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 the 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.

Trend Plaza, Tuen Mun, Hong Kong

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, following the previous success of ifc and Manulife Financial Centre, Golden Centre in Sheung Wan achieved the highest "platinum" rating under the globally recognised Hong Kong – Building Environmental Assessment Method (HK-BEAM), whilst facility upgrades for AIA Tower in North Point are planned to commence in 2013.

AIA Tower, North Point, Hong Kong

Mira Moon, Wanchai, Hong Kong (artist's impression)

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 Citygate project 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.

Major Completed Investment Properties

				Attributable gross floor area (square feet)					
Name	Location	Lease expiry	Group's interest (%)	Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office & Industrial	Total	Attributable no. of carpark
Hong Kong Island									
Eva Court	36 MacDonnell Road, Mid-Levels	2895	100.00	108,214	-	-	-	108,214	49
Golden Centre	170-188 Des Voeux Road, Central	2050	100.00	-	21,842	134,450	-	156,292	-
ING Tower	308-320 Des Voeux Road Central / 98-116 Wing Lok Street	2865	100.00	-	31,987	182,373	-	214,360	-
AIA Tower	183 Electric Road, North Point	2047	100.00	-	22,338	490,072	-	512,410	207
One International Finance Centre	1 Harbour View Street, Central	2047	40.51	-	53,124	317,793	-	370,917	71
Two International Finance Centre (excluding levels of 33 to 52, 55, 56 and 77 to 88)	8 Finance Street, Central	2047	40.51	-	206,151	448,975	-	655,126	189
Four Seasons Place	8 Finance Street, Central	2047	40.51	214,724	-	-	-	214,724	7
CentreStage	108 Hollywood Road	2072	100.00	-	16,084	-	-	16,084	64
39 Conduit Road	39 Conduit Road, Mid-Levels	2061	60.00	37,516	-	-	-	37,516	64
Kowloon									
Hollywood Plaza	610 Nathan Road, Mong Kok	2047	33.33	-	33,511	64,422	-	97,933	-
Kowloon Building	555 Nathan Road, Mong Kok	2060	100.00	-	28,656	84,626	-	113,282	-
Winning Centre	29 Tai Yau Street, San Po Kong	2047	100.00	-	-	-	150,212	150,212	-
Well Tech Centre	9 Pat Tat Street, San Po Kong	2047	100.00	-	-	-	171,805	171,805	40
Big Star Centre	8 Wang Kwong Road, Kowloon Bay	2047	100.00	-	-	-	175,447	175,447	20
Dragon Centre	79 Wing Hong Street, Cheung Sha Wan	2023	100.00	-	-	-	172,117	172,117	76
Manulife Financial Centre	223-231 Wai Yip Street, Kwun Tong	2050	88.50	-	47,860	919,004	-	966,864	394
78 Hung To Road	78 Hung To Road, Kwun Tong	2047	100.00	-	-	-	119,995	119,995	16
Bamboos Centre	52 Hung To Road, Kwun Tong	2047	100.00	-	-	-	125,114	125,114	-
AIA Financial Centre	712 Prince Edward Road East, San Po Kong	2047	100.00	-	-	216,593	-	216,593	70
Cité 33	33 Lai Chi Kok Road, Mong Kok	2026	100.00	-	13,620	-	-	13,620	-
The Sparkle	500 Tung Chau Street, Cheung Sha Wan	2055	100.00	-	53,443	-	-	53,443	-

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet): Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office & Industrial	Total	Attributable no. of carpark
New Territories									
Fanling Centre	33 San Wan Road, Fanling	2047	100.00	-	151,513	-	-	151,513	302
Flora Plaza	88 Pak Wo Road, Fanling	2047	60.00	-	94,657	-	-	94,657	130
The Trend Plaza	Tuen Mun Heung Sze Wui Road, Tuen Mun	2047	100.00	-	195,280	-	-	195,280	78
Marina Cove	Lot No. 526 in D.D. No. 210, Sai Kung	2047	40.00	-	9,566 *(Note)*	-	-	9,566	151
City Landmark I	68 Chung On Street, Tsuen Wan	2047	74.96	-	138,555	156,981	-	295,536	100
City Landmark II	145-165 Castle Peak Road, Tsuen Wan	2047	100.00	-	155,022	-	-	155,022	85
Skyline Plaza	88 Tai Ho Road, Tsuen Wan	2047	100.00	-	154,259	-	-	154,259	104
Shatin Centre	2-16 Wang Pok Street, Sha Tin	2047	100.00	-	100,029	-	-	100,029	545
Shatin Plaza	21-27 Shatin Centre Street, Sha Tin	2047	77.55	-	114,730	-	-	114,730	67
Blocks A & B, Sunshine City	18 On Shing Street, Ma On Shan	2047	100.00	-	9,305	-	-	9,305	-
Blocks C & D Sunshine City	22 On Shing Street, Ma On Shan	2047	100.00	-	10,236	-	-	10,236	-
Blocks N, P, Q & R, Sunshine City	8 On Shing Street, Ma On Shan	2047	100.00	-	58,881	-	-	58,881	186
Sunshine City Plaza	18 On Luk Street, Ma On Shan	2047	100.00	-	532,637	-	-	532,637	829
Sunshine Bazaar	628 Sai Sha Road, Ma On Shan	2047	100.00	-	79,642	-	-	79,642	224
Citimall	1 Kau Yuk Road, Yuen Long	2047	100.00	-	140,341	-	-	140,341	51
La Cité Noble Shopping Arcade	1 Ngan O Road, Tseung Kwan O	2047	100.00	-	35,186	-	-	35,186	-
Dawning Views Plaza	23 Yat Ming Road, Fanling	2047	100.00	-	87,766	-	-	87,766	-
Metro City Phase 2 Shopping Arcade	8 Yan King Road, Tseung Kwan O	2047	100.00	-	956,849	-	-	956,849	669
The Metropolis, Metro City Phase 3 Shopping Arcade	8 Mau Yip Road, Tseung Kwan O	2047	100.00	-	266,954	-	-	266,954	233
Citygate	20 Tat Tung Road, Tung Chung, Lantau Island	2047	20.00	-	92,536	32,280	-	124,816	233
The Sherwood	8 Fuk Hang Tsuen Road, Tuen Mun	2052	100.00	-	30,139	-	-	30,139	250
			Total:	**360,454**	**3,942,699**	**3,047,569**	**914,690**	**8,265,412**	**5,504**

Note : In addition there are 121 pontoons and 30 hardstand spaces attributable to the Group.

Major Completed Investment Properties

Major Completed Investment Properties

1 Eva Court
2 Golden Centre
3 ING Tower
4 AIA Tower
5 One International Finance Centre
6 Two International Finance Centre
7 Four Seasons Place
8 CentreStage
9 39 Conduit Road
10 Hollywood Plaza
11 Kowloon Building
12 Winning Centre
13 Well Tech Centre
14 Big Star Centre
15 Dragon Centre
16 Manulife Financial Centre
17 78 Hung To Road
18 Bamboos Centre
19 AIA Financial Centre
20 Cité 33
21 The Sparkle
22 Fanling Centre
23 Flora Plaza
24 The Trend Plaza
25 Marina Cove
26 City Landmark l
27 City Landmark ll
28 Skyline Plaza
29 Shatin Centre
30 Shatin Plaza
31 Blocks A & B, Sunshine City
32 Blocks C & D, Sunshine City
33 Blocks N, P, Q, & R, Sunshine City
34 Sunshine City Plaza
35 Sunshine Bazaar
36 Citimall
37 La Cité Noble Shopping Arcade
38 Dawning Views Plaza
39 Metro City Phase 2 Shopping Arcade
40 The Metropolis
41 Citygate
42 The Sherwood

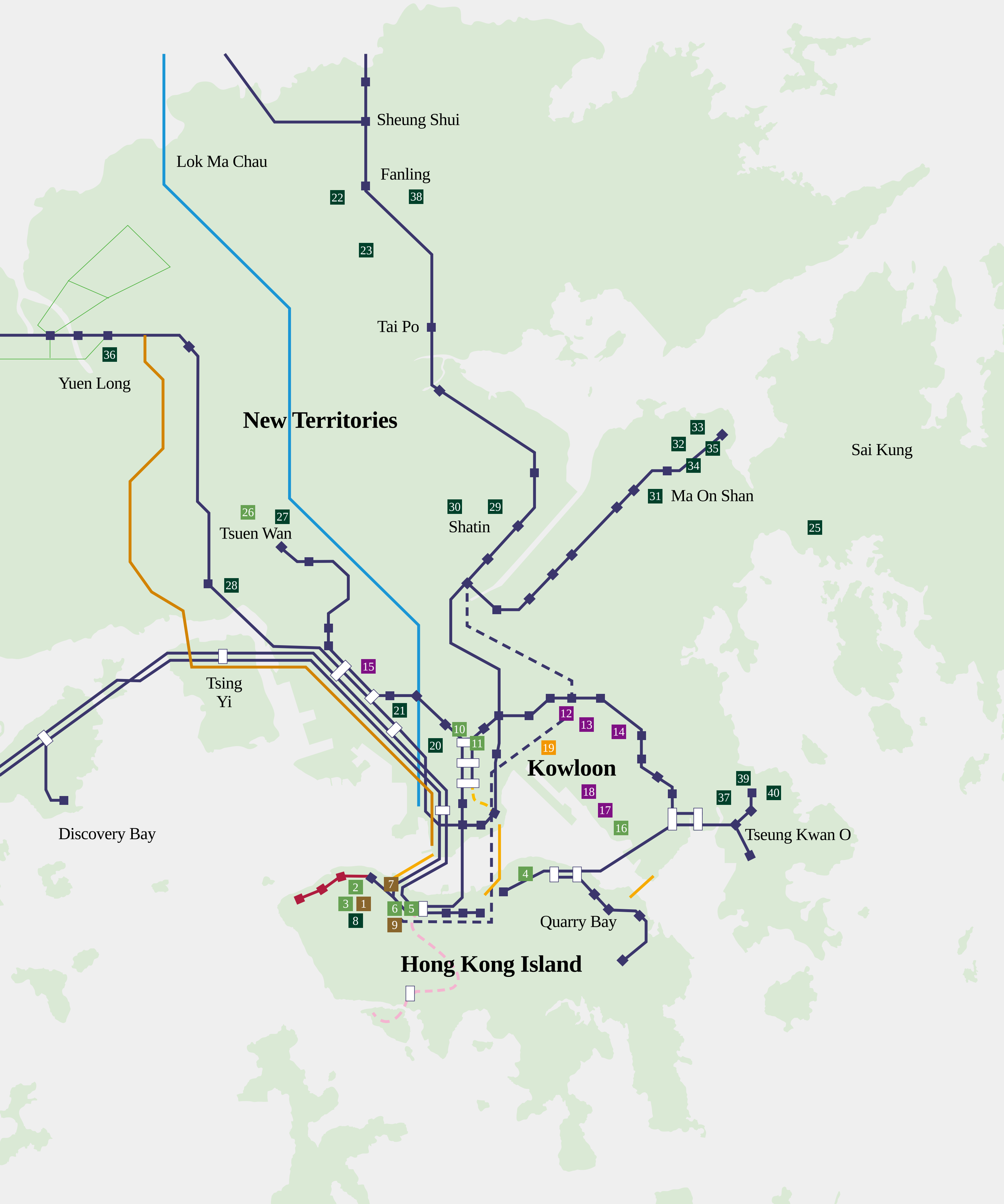
Residential / Hotel Serviced Suites
Commercial
Office
Industrial / Office & Industrial
Commercial & Office

Existing Line

MTR
Tung Chung Cable Car
Light Rail
Route 3
Cross Harbour Tunnel

Network Extensions In Progress

West Island Line
Guangzhou – Shenzhen – Hong Kong Express Rail Link
Shatin to Central Link
Kwun Tong Line Extension
South Island Line (East)


Sheung Shui
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Tseung Kwan O
Discovery Bay
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Quarry Bay
Hong Kong Island

Property Related Businesses

2012 Highlights

- Excluding non-recurrent income, the Group's attributable share of profit contribution from its hotel operations increased by 7% to HK$288 million with Four Seasons Hotel's signature Caprice and Lung King Heen restaurants winning the top Michelin 3-star honours consecutively
- "Citistore" recorded a 7% increase in turnover
- Three development projects in Hong Kong with a total gross floor area of about 350,000 square feet were completed
- Both Construction and Property Management Teams are on the frontline to fulfil the Group's pledge of providing green efforts and care to the community

Hotel Operation

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 rates with a higher occupancy of over 80%. In the previous year, the Group recognised 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)*

Lung King Heen, Four Seasons Hotel Hong Kong

Retailing Operation

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

During the year under review, both 39 Conduit Road and Henderson Metropolitan won the biennial Quality Building Award, which is jointly organised by nine professional organisations 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 Design 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 as well as 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.

Property Management

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.

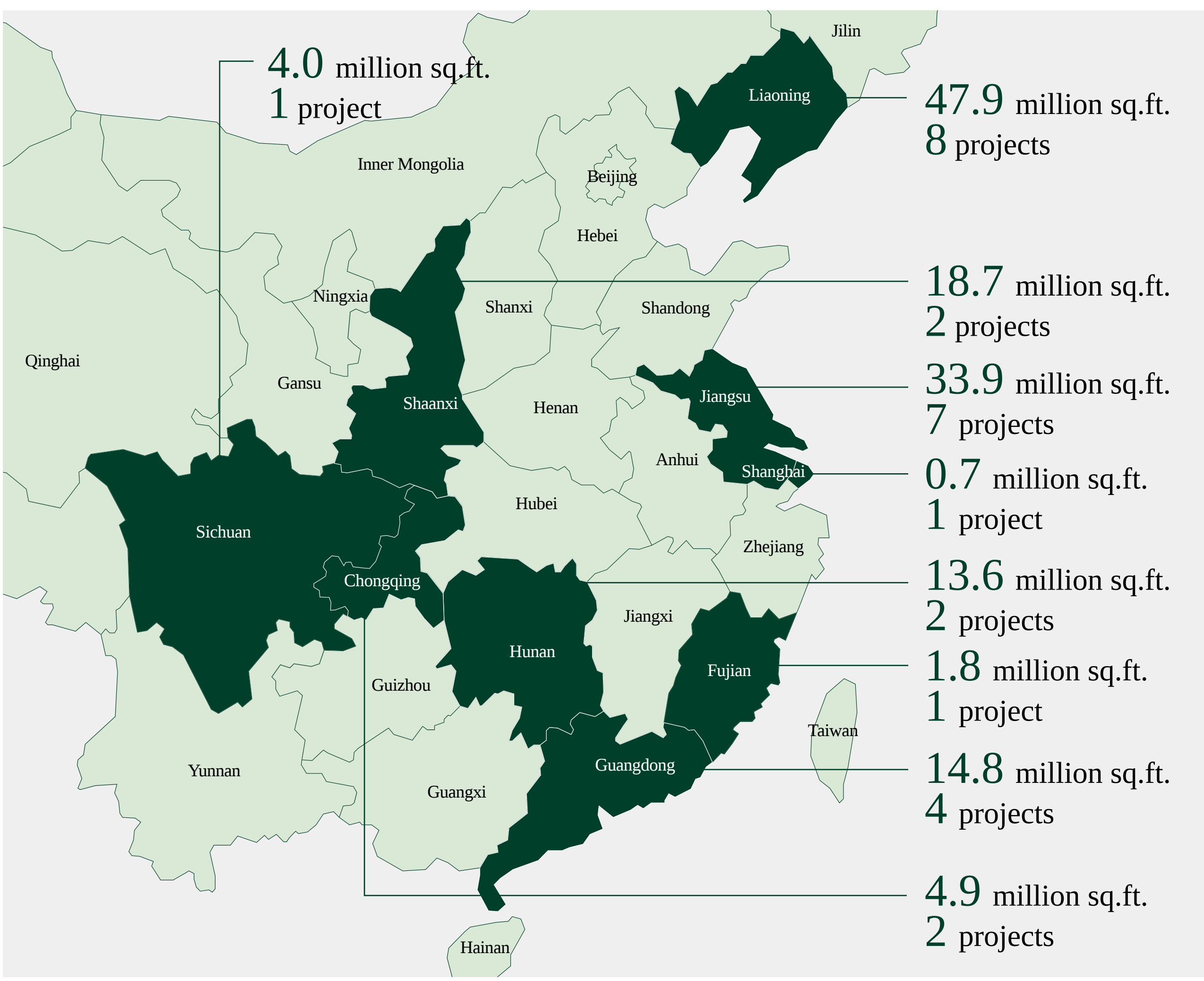
Aligning with the Group's corporate culture, these property management subsidiaries also offer care to the public at large. In addition to their usual contribution to charity by way of "Hang Oi Charitable Foundation", their volunteer teams continued to take numerous concrete actions to help the needy 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.

Island Palace, Yixing

Land Bank

2012 Highlights

- 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, plus about 1.2 million square feet in attributable gross floor area of completed property stock
- Completed over 3.6 million square feet of properties in 2012
- 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
- Following the completion of Greentech Tower in Shanghai in early 2012, the Group's mainland investment property portfolio comprised a total attributable gross floor area of 6.4 million square feet with the number of its major projects increased to a total of eight
- Attributable gross rental income increased by 27% to HK$1,162 million



* *The diagram above illustrates the Group's attributable developable gross floor area and number of projects by location.*

Land Bank

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 of 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 in 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 enhancements have 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.	Phase 1A, Sirius residences in Chengdu ICC	30
3.	Phase 2 (High West), Project in Erlong Phoenix Area, 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

Progress of Major Development Projects

Anshan

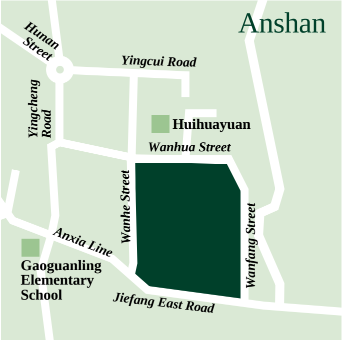
Old Stadium Site (100% owned)

Old Stadium Site, Anshan (artist's impression)

Adjacent to the scenic Yufoshan municipal park, an old stadium site of approximately 600,000 square feet in the city centre will be developed in phases into a high-end residential community with a total gross floor area of approximately 3,700,000 square feet. Construction of about 1,200,000 square feet of residences is now underway, whereas the 23,000 square-foot sales centre is scheduled for completion in the second quarter of 2013.

Project in Yingchengzi (100% owned)

Project in Yingchengzi, Anshan (artist's impression)



Located in the Tiedong District with a site area of approximately 5,500,000 square feet, it will be developed in phases into a large scale residential community with a total developable gross floor area of about 14,000,000 square feet. Preliminary design is in progress.

Changsha

The Arch of Triumph (99% owned)

The Arch of Triumph, Changsha (artist's impression)

The Arch of Triumph is a community development comprising around 7,000,000 square feet of premium residential units which will be built in three phases, with its 33-storey Arc de Triomphe-style building poised to become a landmark construction in this new town of Xingsha. Phase one of development, consisting of 1,270,000 square feet of residential flats, has mostly been handed over to the buyers since the fourth quarter of 2010, while over 30,000 square feet of commercial facilities have been completed and have been in operation since the end of 2011. Construction of another approximately 1,650,000 square feet of residential flats in Phase 2 began in July 2011, which have been released in batches for sale since June 2012. They are expected to be handed over to the buyers in January 2014 and March 2015, respectively. As at the end of 2012, over 190 units in Phase 2 had been sold, bringing a total sales revenue of approximately RMB96 million.

Chengdu

Chengdu ICC (30% owned)

Chengdu ICC, Chengdu (artist's impression)

Chengdu ICC is situated in a prime area of Dongdajie commercial and financial district near the second ring road and River Shahe, with a panoramic view of Tazishan Park. It will be connected to a metro station linking Line No. 2 and the proposed Line No. 8, and will be just two stops from the Chengdu East rail station, offering easy access to other parts of the country. This project will have over 13,000,000 square feet of gross floor area, including two distinctive 280-metre towers regarded as the "Tianfu Gateway". The development will include Grade-A offices, modern shopping malls, a five-star hotel, an observation deck and luxury residences. Construction of the first-phase deluxe residential development "Sirius" with about 1,600,000 square feet of gross floor area has already commenced. The first batch of "Sirius" residences was launched in April 2012 and met with a very good response. For the project, approximately 340 units with a total gross floor area of around 480,000 square feet were sold by the end of 2012, generating a gross revenue of approximately RMB447 million.

Chongqing

Grand Waterfront (100% owned)

Grand Waterfront, Chongqing (artist's impression)

Adjacent to a municipal park in the Nan'an District, Grand Waterfront will be a luxury riverside residential development, complemented by a commercial area, a kindergarten and clubhouse facilities. The uniquely-designed, rhythmic grouping of its 23 apartment towers will offer most of its 3,050 residential units an expansive southern view of the Yangtze River. The whole project, with a total gross floor area of approximately 3,600,000 square feet, will be completed in four phases. Phase 1 of approximately 1,100,000 square feet featuring about 892 apartments was completed in the third quarter of 2012. The first batch was launched for sale in October 2011. Phase 2, which provides 1,358 apartments with a total gross floor area of about 1,600,000 square feet, is now under construction and planned for completion in the third quarter of 2014. About 528 apartments with a total gross floor area of about 600,000 square feet will be provided in Phase 3 and are now also under construction and planned for completion in the third quarter of 2015. Phase 4 of approximately 300,000 square feet featuring 272 apartments is scheduled for completion in the third quarter of 2015. During the year of 2012, a total of over 1,000 apartments had been sold at RMB680 million in aggregate.

Project in Erlong Phoenix Area (100% owned)

Project in Erlong Phoenix Area, Chongqing (artist's impression)

Located on a site next to the Chengdu-Chongqing Expressway with many scenic attractions such as Caiyun Lake and Jade Park in the proximity, this 2,870,000-square-foot development is planned to comprise residential apartments, clubhouse, kindergarten and shopping facilities, providing homes for 2,068 families. The entire project will be completed in four phases. Phase 1 of the development, including 306 residential units with a total gross floor area of about 520,000 square feet, was named "Villa Green" and completed in November 2011. Cumulatively, nearly 90% of it has been sold since its launch in late 2010. Remaining phases were all named "High West". Phase 2 of the development, comprising 994 apartments with a total gross floor area of about 1,300,000 square feet, is now under construction and planned for completion in the fourth quarter of 2014. About 768 apartments with a total gross floor area of about 850,000 square feet will be provided in Phase 3 and they are now under construction and planned for completion in the fourth quarter of 2014. There is a single office tower in Phase 4 with a total gross floor area of about 200,000 square feet, which is now under construction and planned for completion in the first quarter of 2015. During the year of 2012, about 140 apartments were sold in Phase 1, with sale revenue of RMB126 million.

Dalian

Jin Shi Tan project (100% owned)

Jin Shi Tan project, Dalian (artist's impression)

Located in Jin Shi Tan with a land lot of about 3,200,000 square feet, it is to be developed into a low-density luxury residential project, complemented by a resident clubhouse and commercial facilities, providing an aggregate gross floor area of about 1,600,000 square feet for around 400 houses. Preliminary works are in progress.

Xiao Yao Bay Composite Development (100% owned)

Designed by world-renowned Aedas Limited, this composite commercial and residential development project will have over 8,700,000 square feet of gross floor area.

Guangzhou

Project at Haizhu Square (100% owned)

Located at the heart of Central Business District in Yuexiu District, Guangzhou, this prestigious mixed-use development has convenient access to the Pearl River, as well as the Haizhu Square and its Metro Station, which will offer excellent transport connections and beautiful riverfront scenery. With a site area of 240,000 square feet, it will be made up of Grade A offices, an up-market shopping mall, top-grade office buildings and a historic building that will be revitalized. This development will be a major landmark in Guangzhou, and an integrated complex comprising commercial, entertainment, leisure and cultural facilities. Preliminary construction will commence in mid-2013, and the development is targeted for completion in late 2017, when it will then become another flagship property in the Group's rental portfolio.

Nanjing

Treasure Garden (90.1% owned)

Treasure Garden, Nanjing (artist's impression)

Located in the downtown area of Qixia District, this site has an area of approximately 600,000 square feet and will be developed into a residential development with a total gross floor area of about 900,000 square feet. With Maigaoqiao Metro Station nearby, this project is situated close to plenty of lifestyle and daily amenities such as shopping, healthcare, cultural and sports facilities. Construction commenced in the second quarter of 2011 and pre-sales were launched in the third quarter of 2012. For the project, about 380 units with a total gross floor area of around 520,000 square feet were sold by the end of 2012, generating a gross revenue of approximately RMB647 million. It is planned for completion by the fourth quarter of 2013.

Emerald Valley (100% owned)

Emerald Valley, Nanjing (artist's impression)

Located in Nanjing Xianlin New District, this approximately 1,600,000 square feet land lot is planned to be developed into a high-end residential project, complemented by a nursery, amenities and a community centre and other facilities, providing an aggregate gross floor area of about 1,200,000 square feet. With the relocation of universities and colleges into this district and the opening of Xianlin subway station in May 2010, this university town's community facilities and transportation network are being further enhanced. Construction for its Phase 1 development commenced in the second quarter of 2010 with planned completion by the first quarter of 2013. Pre-sales were launched in the fourth quarter of 2011. Over 190 units with a total gross floor area of about 230,000 square feet were sold during the year of 2012, making a gross revenue of approximately RMB235 million.

Shanghai

Henderson 688 (formerly known as Lot 688, Nanjing Road West, Jingan District) (100% owned)

Henderson 688, Shanghai (artist's impression)

"Henderson 688" is designed by internationally renowned Japanese architect Tange Associates and its innovative, quartz-like façade makes it stand out in the busy Nanjing Road West of Jingan District. Upon scheduled completion in the fourth quarter of 2013, it will have a total gross floor area of approximately 700,000 square feet comprising a 22-storey Grade-A office tower plus a two-level retail podium. Marketing and pre-leasing had been launched and greeted with keen market interest.

Shenyang

Shenyang International Finance Centre (100% owned)

Shenyang International Finance Centre, Shenyang (artist's impression)

The Shenyang International Finance Centre project is located in the Shenyang Finance & Trade Development Zone. To the northwest is the Shenyang North Railway Station, whilst a subway station is also within walking distance, bringing added convenience to this project. This project will comprise serviced apartment buildings, a suite hotel, an office tower and a shopping mall, providing a total gross floor area of about 3,140,000 square feet.

Golden Riverside (100% owned)

Golden Riverside, Shenyang (artist's impression)

Located in the scenic Puhe New District Development with many beautiful natural landmarks such as Yueya Lake, Pu River, parks and hills within the vicinity, the site will be developed in phases into a low-rise, low-density and multi-storey apartments for residential development with a total gross floor area of about 7,930,000 square feet. Its first phase of development, with a total gross floor area of about 290,000 square feet for its 68 low-rise residential units, is due for completion in the second quarter of 2014 and pre-sales will be launched in 2013. Construction of its second phase of development, comprising 316 low-rise, low-density and multi-storey apartments with a total gross floor area of around 1,270,000 square feet, is also underway, whereas the first batch of 134 units will be launched for pre-sale in 2013, with the planned completion in the second quarter of 2014.

Suzhou

Riverside Park (100% owned)

Riverside Park, Suzhou (artist's impression)

Riverside Park, a community development project in Xiangcheng District, is supported by increasingly improved facilities. Benefiting from Suzhou's picturesque beauty and reputation as the "Venice of the East", its residential development nestles among scenic water-themed surroundings. The entire residential project will have over 6,800,000 square feet of gross floor area to be completed in five phases. Phase 1 of about 600 luxury residences with a total gross floor area of about 700,000 square feet was completed in the first half of 2012. Pre-sale of Phase 2 was launched in the fourth quarter of 2012. During the year of 2012, about 730 units with a gross floor area of close to 880,000 square feet in aggregate were sold, bringing a total sales revenue of RMB695 million.

Adjacent to the large-scale luxury residential community of Riverside Park, a site of 1,600,000 square feet will be developed in phases by the Group as a leading composite commercial development in Xiangcheng District, Suzhou. Upon completion, there will be retail avenue, shopping mall, catering and entertainment facilities, office tower, serviced suites, plaza for outdoor activities, as well as other supporting facilities, providing a total gross floor area of 10,000,000 square feet. It is also planned to have direct access to a light-rail station, which is now under construction.

Tieling

New Town Central District Development (100% owned)

Located next to the administration centre of the municipal government with the scenic Yuyi Lake in the proximity, this land lot of approximately 2,750,000 square feet will be developed into an exhibition centre, as well as office-cum-commercial complexes with a total gross floor area of approximately 4,900,000 square feet.

New Town Central District Development, Tieling (artist's impression)

Lotus Lakeside (100% owned)

Lotus Lakeside, Tieling (artist's impression)

Adjacent to the scenic Lotus Lake, a land parcel of approximately 9,500,000 square feet will be developed into a low-density residential community with luxury villas and comprehensive facilities, providing a total gross floor area of approximately 3,800,000 square feet.

Xian

La Botanica (50% owned)

La Botanica, Xian (artist's impression)

Jointly developed by the Group and Temasek Holdings (Private) Limited of Singapore, La Botanica is located within the scenic Chan Ba Ecological District with a subway line under construction connecting it to the city centre. This community development will have a total gross floor area of about 33,000,000 square feet, providing homes for up to 25,000 families upon full completion. Phase 1A, which comprises 16 low to mid-rise blocks with a total gross floor area of about 1,200,000 square feet, was completed in March 2011 with its 981 units being sold out. Phase 2A named "Salamanca", which consists of 432 units including terraced houses with a total gross floor area of about 930,000 square feet, was also completed in the first quarter of 2012 and cumulatively, over 220 units have been sold since its launch in the fourth quarter of 2010. "Lu Wan", Phase 1B of this development with a total gross floor area of about 2,000,000 square feet, was launched for pre-sale in the fourth quarter of 2010 and over 1,730 units have been snapped up. "CI" portion of "Lu Wan" was completed in December 2012, whereas the completion of "C2" portion was scheduled for the first half of 2013. Phase 3A consisting of 3,560,000 square feet of residences is also under construction. Its "C2" and "C1" portions are expected to be completed in late 2013 and the first quarter of 2014, respectively. Pre-sale for phase 3A "C2" portion was launched in October 2011 whilst that for "C1" portion was launched in September 2012. About 60% of the 3,758 apartments were sold. Phase 4 and Phase 5 respectively consisting of 1,700,000 square feet and 720,000 square feet of residences are now under construction, and are expected to be completed in 2015.

Palatial Crest (100% owned)

Palatial Crest, Xian (artist's impression)

Adjacent to the Hujia Temple subway station, which is now under construction, Palatial Crest is conveniently located at Jinhua North Road on the main artery of Second Ring Road East. The entire project will be completed in three phases, offering a total residential gross floor area of over 3,400,000 square feet for 3,000 families. The first phase of about 530,000 square feet had completely sold out, and the completed units were handed over to the home buyers in early July of 2012. Construction of another 2,160,000 square feet of deluxe high-rise residential units in Phase 2 commenced in the first quarter of 2012. Presale was launched in the fourth quarter of 2012. As at 31 December 2012, about 260 units of this phase were sold, bringing a sales revenue of about RMB227 million. Phase 2A development is scheduled for completion and hand-over in December 2014, whilst Phase 2B development is planned for hand-over in June 2015.

Xuzhou

Xuzhou Lakeview Development (100% owned)

Xuzhou Lakeview Development, Xuzhou (artist's impression)

Catering to mid to high-end home buyers, Xuzhou Lakeview Development benefits from the beautiful natural landscape of Dalong Lake, convenient transportation and a comprehensive range of facilities. The project, which includes luxury detached houses, high-rise apartments, commercial premises and other facilities, will be completed in four phases, providing a total residential area of approximately 4,500,000 square feet for over 3,600 families. Phase 1A of nearly 700,000 square feet for 402 residences is now under construction with completion expected shortly. Construction of another 1,800,000 square feet for 1,290 premium residences in Phase 1B and Phase 3 is now underway with planned completion in the second half of 2014. Another 900,000 square feet comprising 811 premium residences in Phase 2A are planned to be under construction in the first half of 2013.

Following the sale in 2011 of the initial batch of units which had been snapped up with record prices, various types of units in Phase 1A/1B and Phase 3 were also launched in 2012 and met with an overwhelming response. During 2012, about 880 units were sold, achieving a gross revenue of approximately RMB691 million.

Yixing

Island Palace (100% owned)

Island Palace, Yixing (artist's impression)

In a serene location on an island close to the bustling Yicheng town centre, this site of about 400,000 square feet is being developed into a luxury residential community and upon its single-phased completion by the end of 2013, there will be duplexes, high-rise apartments and a residents' clubhouse, providing a total gross floor area of about 700,000 square feet for 306 households.

Grand Lakeview (100% owned)

Grand Lakeview, Yixing (artist's impression)

Set amongst lush, tranquil surroundings in Dongjiu District, Grand Lakeview is just a 5-minute drive away from the city centre. To be completed in 11 phases, this lakefront development offers luxury living in a mix of semi-detached and duplex houses, multi-storey and low-rise apartments, providing an aggregate gross floor area of about 9,000,000 square feet for over 6,800 families. Construction is underway and Phases 1A, 1B and 1C totalling about 1,800,000 square feet of residences were launched for pre-sale in the second quarter of 2012 with the scheduled completion in the third quarter of 2013. Up to the end of 2012, approximately 1,180 units with a total gross floor area of about 1,480,000 square feet in Phase 1 were sold with sales amounting to RMB1,072 million.

Major 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, respectively, by 27% to HK$1,162 million and by 48% to HK$867 million 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)*

Major Completed Mainland Investment Properties

Project name and location	Lease expiry	Group's interest (%)	Attributable gross floor area (million square feet)		
			Commercial	Office	Carparks
World Financial Centre, Beijing	2044	100	0.19	1.97	-
Henderson Centre, Beijing	2033	100	0.89	-	0.24
Henderson Metropolitan, Shanghai	2053	100	0.41	0.42	-
Office Tower II, Grand Gateway, Shanghai	2043	100	-	0.69	-
Centro, Shanghai	2042	100	0.06	0.37	0.08
Greentech Tower, Shanghai	2042	100	0.05	0.36	0.07
Skycity, Shanghai	2042	100	0.29	-	0.10
Hengbao Plaza, Guangzhou	2040	100	0.70	-	0.22
		Total:	**2.59**	**3.81**	**0.71**

Status of Major Completed Investment Properties

Beijing

World Financial Centre, Chaoyang District (100% owned)

World Financial Centre, as its name denotes, houses many world-wide financial institutions such as Standard Chartered Bank, Rabobank and CITIC Prudential Insurance Company. Designed by the world-famous architect Cesar Pelli as twin "crystal jewel boxes" incorporating special effect façade lighting on the exterior, 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.

World Financial Centre, Chaoyang District, Beijing

Henderson Centre, Dongcheng District (100% owned)

The shopping mall at Henderson Centre performed well during the year with occupancy rate close to 90% at 31 December 2012.

Henderson Centre, Dongcheng District, Beijing

Shanghai

Henderson Metropolitan, Huangpu District (100% owned)

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.

Henderson Metropolitan, Huangpu District, Shanghai

Office Tower II, The Grand Gateway, Xuhui District (100% owned)

Grand Gateway Office Tower II 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.

Office Tower II, The Grand Gateway, Xuhui District, Shanghai

Centro, Zhabei District (100% owned)

Centro, which was awarded the Gold rating of LEED and Platinum rating of BEAM, boasts approximately 370,000 square feet of Grade-A office space and 60,000 square feet of retail area. Its office space was over 90% leased out by the end of 2012.

Centro, Zhabei District, Shanghai

Greentech Tower, Zhabei District (100% owned)

Greentech Tower was completed in early 2012. The full complement of amenities such as banks, convenience stores and coffee shops at its commercial podia make Greentech Tower a preferred destination for business and its office space was 85% let by the end of 2012.

Greentech Tower, Zhabei District, Shanghai

Skycity, Zhabei District (100% owned)

Skycity, a renowned shopping centre for mobile handset products in the Zhabei District, enjoyed full occupancy for its four-level shopping arcade at the financial year end.

Skycity, Zhabei District, Shanghai

Guangzhou

Heng Bao Plaza, Liwan District (100% owned)

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%.

ECO methanol plant in Inner Mongolia

Subsidiary & Associated Companies

Henderson Investment Limited (“HIL”)

(67.94%-owned by the Company)

Stock code: 97 website: www.hilhk.com

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 recognised in the consolidated accounts of HIL. Nevertheless, taking into account those toll revenues which were accrued but not recognised, 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 an 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.

The Hong Kong and China Gas Company Limited

(39.88%-owned by the Company)*

Stock code: 3 Website: www.towngas.com

Towngas China Company Limited

(66.18%-owned by The Hong Kong and China Gas Company Limited)*

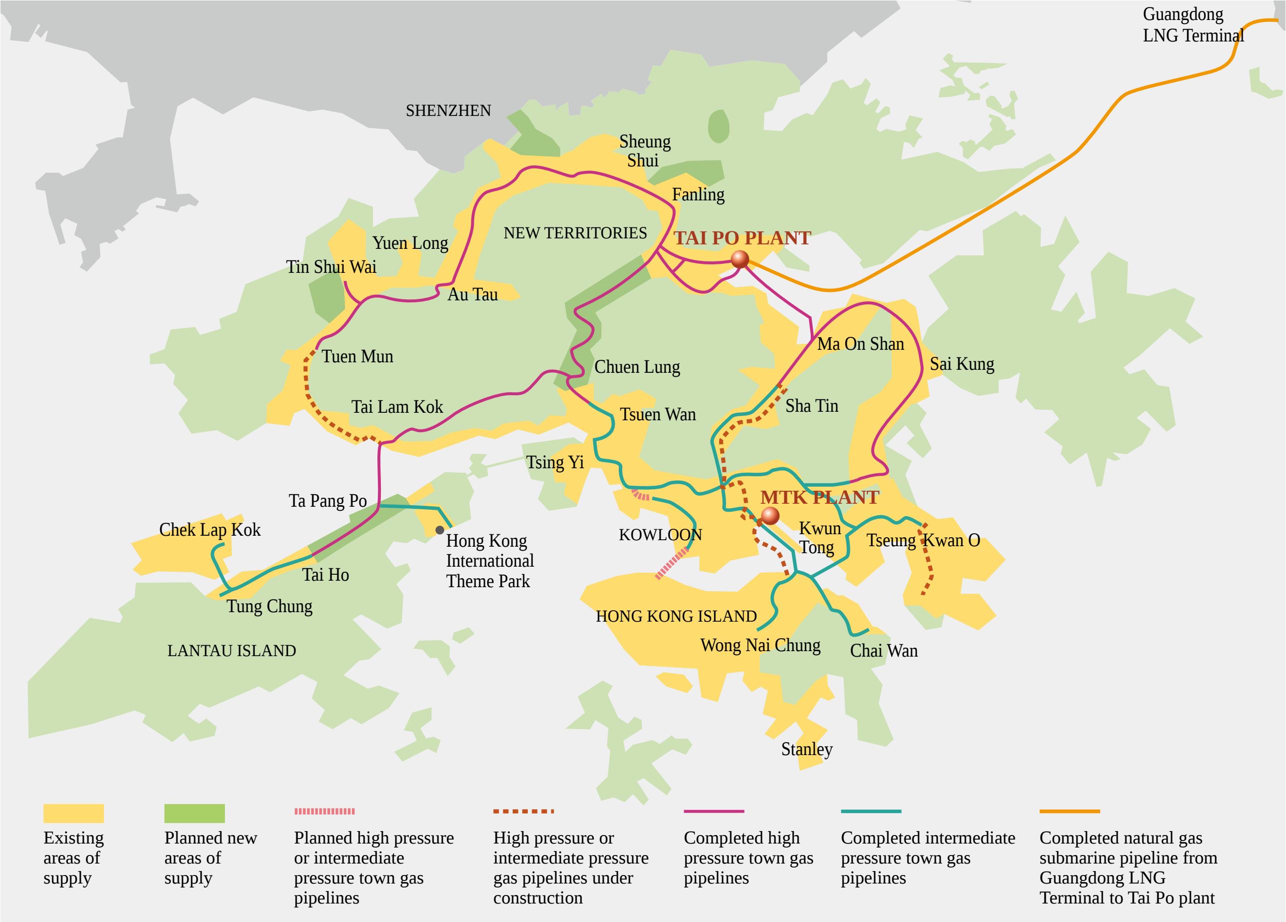
Stock code: 1083 Website: www.towngaschina.com

Background and Lines of Business

(I) Gas Business in Hong Kong

Founded in the United Kingdom in 1862 and listed in Hong Kong since 1960, The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas") was Hong Kong's first public utility and today remains its sole supplier of piped town gas.

Hong Kong and China Gas's piped city-gas, referred to as "town gas", is produced at two production plants located at Tai Po and Ma Tau Kok in Hong Kong. 97% of its supplies come from the Tai Po Plant, with the Ma Tau Kok Plant making up the rest. With some 3,500km of pipeline and a total of 1.77 million customers, Hong Kong and China Gas currently provides services to over 86% of Hong Kong's homes. Its gas infrastructure has grown and improved over the years, such that the customers today enjoy a supply continuity rate of over 99.99%, one of the best in the world.



Hong Kong and China Gas' network in Hong Kong

** all percentage shareholdings shown above were figures as of 31 December 2012*

Hong Kong and China Gas' business in mainland China

Since 2006, Hong Kong and China Gas has used natural gas as a partial feedstock to produce town gas. The signing of a 25-year agreement with Guangdong Dapeng in 2004 has ensured a stable price and reliable supply of natural gas to Hong Kong and China Gas.

(II) Utility Business in Mainland China

Hong Kong and China Gas first began its mainland business with a joint venture in Panyu, Guangdong province in 1994, at which time it served approximately 5,000 customers. A significant milestone was reached in December 2006 when it agreed to acquire an approximately 43.97% equity stake in Towngas China Company Limited ("Towngas China", formerly known as Panva Gas Holdings Limited), a well-established mainland China piped city-gas operator, in exchange for interests in ten of Hong Kong and China Gas's piped city-gas projects in Shandong and Anhui provinces.

In order to complement downstream piped city-gas joint venture projects, Hong Kong and China Gas has made investments in mid-stream transportation projects that connect the upstream supplier and the downstream piped city-gas provider. It has also participated in some upstream projects including the exploitation and sale of petroleum and natural gas. In addition, Hong Kong and China Gas owns four public water supply and wastewater treatment projects in the cities of Wujiang, Wuhu and Suzhou.

(III) New Energy Business

Through its wholly-owned subsidiary, ECO Environmental Investments Limited and that company's subsidiaries (collectively known as "ECO"), Hong Kong and China Gas has diversified into various alternative energy and environmentally-friendly businesses including Liquefied Petroleum Gas ("LPG") vehicle filling stations, landfill gas utilisation projects and an aviation fuel facility for Hong Kong International Airport. To date, ECO is operating five LPG filling stations in Chai Wan, Mei Foo, Tuen Mun, West Kowloon and Wan Chai, providing 24-hour gas filling services for 18,000 LPG taxis and most LPG minibuses in Hong Kong. ECO's landfill gas project began operations in May 2007 and treated landfill gas is transported to its Tai Po Plant, serving as fuel to produce town gas. The use of landfill gas greatly reduces the amount of methane and carbon dioxide (both significant sources of global warming) released into the atmosphere, whilst the reduced use of naphtha, which comes from the cracking of fossil fuel, will also enable greater conservation of resources. In 2002, ECO signed a 40-year franchise agreement with the Airport Authority Hong Kong and its Aviation Fuel Facility, which consists of eight tanks with a gross aviation fuel storage capacity of 264,000 cubic metres and a jetty with two berths, commenced operation in 2010.

ECO has also extended its business to the mainland market and its businesses range from resource exploitation, coal-based chemicals and liquefaction of coalbed methane, to clean fuels for vehicles and marine vessels.

(IV) Diversified Businesses

In the mid-1990s, Hong Kong and China Gas entered the local property development business in Hong Kong, with the aim of realising the potential of its land resources and maximising returns to its shareholders by deploying its excess cash. In 1995, Hong Kong and China Gas took a 45% equity interest in the King's Park Hill development project, which was completed in early 2000 with a mixture of luxury houses and apartments. In 1996, it participated in the development of International Finance Centre, a landmark project in the heart of Hong Kong, and it currently holds a 15.8% stake in the development. Grand Promenade and Grand Waterfront, two residential developments, were also co-developed by Hong Kong and China Gas and Henderson Land Development Company Limited. It has a 50% interest in the Grand Promenade project at Sai Wan Ho, while for the Grand Waterfront at the former south plant site at Ma Tau Kok, it is entitled to 73% of the net sales proceeds of the residential portion. In addition, Hong Kong and China Gas has full interest in the commercial portion of the development, comprising 150,000 square feet and approximately 300 car parking spaces.

High-pressure submarine pipelines deliver natural gas from Guangdong to the Tai Po Plant

Results for the Year Ended 31 December 2012

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.

(I) 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 1 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.

(II) 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.

Liquefield coalbed methane (LCBM) plant in Shanxi 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.

(III) 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.

ECO LNG filling stations provide cleaner fuel alternative for vehicles

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.

(IV) 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

(31.36%-owned by the Company)
Stock code: 50 Website: www.hkf.com

Background and Lines of Business

Established in 1923, Hong Kong Ferry (Holdings) Company Limited ("Hong Kong Ferry", formerly known as The Hongkong and Yaumati Ferry Company Limited prior to a corporate restructuring in 1989) currently focuses on property development and investment; ferry, shipyard and related operations; and travel operations.

(I) Property Development and Investment

This group is well experienced in property development and investment and its completed projects are as follows:

Metro Harbour View: Located at 8 Fuk Lee Street, Tai Kok Tsui, the project consists of 10 blocks of residential buildings divided into 3,520 residential units, plus a two storey commercial arcade and about 1,100 car parking spaces.

MetroRegalia: Situated at 51 Tong Mi Road, Mongkok, the project has a total gross floor area of approximately 53,000 square feet.

Shining Heights: The project, situated at 83 Sycamore Street, is a 60-storey 700 feet tall building with a gross floor area of approximately 336,000 square feet. It is the highest building in the Tai Kok Tsui district.

The Spectacle: The project at 8 Cho Yuen Street, Yau Tong has a total gross floor area of approximately 160,000 square feet.

It also has investment properties comprising two houses at Cheung Sha, Lantau Island and a warehouse site in Yuen Long.

(II) Ferry, Shipyard and Related Operations

The company's passenger ferry operations ceased operations upon transfer of the local ferry licences in January 2000, after serving the territory for over 70 years. The ferry operation is now confined to a dangerous goods vehicular ferry service. It also operates a harbour cruise and restaurant service.

The company's shipyard, built on a site of about 210,000 square feet at North Tsing Yi, provides ship repairing and maintenance services as well as certain civil engineering services. With over 60 years of experience in marine engineering, the shipyard is equipped with the largest and most advanced Syncrolift in Hong Kong. The Syncrolift has a capacity of up to 3,400 tonnes enabling it to lift various vessels ranging from 40 feet to 200 feet. Equipped with a flexible ship transfer system, the Shipyard can drydock ten vessels simultaneously.

By converting four vehicular ferries into cruise vessels with each vessel accommodating over 300 guests, "Harbour Cruise – Bauhinia" has provided cruise services in Hong Kong waters since 1998 allowing passengers to enjoy the striking views of both sides of Victoria Harbour.

(III) Travel Operations

Established in 1983, HYFCO Travel has a total of nine agency offices located all over Hong Kong and Macau, providing comprehensive travel services including local tours, China tours, overseas tours, ship and train ticketing, and hotel reservation.

Results for the Year Ended 31 December 2012

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.

Green Code, Fanling, Hong Kong (artist’s impression)

Miramar Hotel and Investment Company, Limited

(44.21%-owned by the Company)
Stock code: 71 Website: www.miramar-group.com

Background and Lines of Business

Based in Hong Kong, Miramar Hotel and Investment Company, Limited ("Miramar") was established in 1957 and has been listed on the Hong Kong Stock Exchange since 1970. Miramar has a diversified business portfolio covering hotels and serviced apartments, property rentals, food and beverage, travel and apparel businesses in Hong Kong, mainland China and the United States.

(I) Hotels and Serviced Apartments

Miramar solely owns and manages The Mira Hong Kong and Miramar Apartments in Shanghai. It also provides management services for two hotels in Shekou, as well as for a serviced apartment complex in Hong Kong. In total, Miramar owns and/or provides management services for five hotels and serviced apartments in Hong Kong and mainland China.

(II) Property Rental Business

Opposite The Mira Hong Kong are the Miramar Shopping Centre and Miramar Tower, Miramar's premier investment properties with a total gross rentable area of over one million square feet.

(III) Food and Beverage Business

In Hong Kong, Miramar operates two "Tsui Hang Village" restaurants: one located in Tsim Sha Tsui and one in Central. This group also operates "Yunyan Sichuan Restaurant', "Cuisine Cuisine", "Assaggio Trattoria Italiana" and "The French Window". Following the opening of "Saboten"

Italian restaurant, Assaggio Trattoria Italiana, at Mira Mall

Japanese Cutlet and "Hide-Chan Ramen", "Zanzo" (a Japanese-style sake bar) was added to its portfolio in late 2012. In mainland China, it has operated "Cuisine Cuisine" in Beijing and Wuhan since 2011.

(IV) Travel Business

Miramar Express, with more than two decades of experience, is the official Hong Kong general agent for Crystal Cruises, voted the World's Best Cruise by Conde Nast Traveller. This company also provides business and tourist shuttle services, airport transfers and even wedding rentals all the way to Guangdong Province. With branches across Hong Kong, Kowloon and the New Territories since its establishment in 2006, Miramar Travel is a popular and trusted choice for providing worldwide tours, booking air tickets and hotels, cruise holidays, free and individual travel packages. In May 2009, Miramar Travel was appointed as Virgin Galactic's "Accredited Space Agent" – the first and only agent in Hong Kong allowed to reserve seats aboard Virgin Galactic's suborbital Space flights. The following year, its "Accredited Space Agent" authority expanded to Singapore, Malaysia, Thailand, Philippines, Indonesia and Taiwan.

(V) Apparel Business

Miramar and its franchisees retail and operate DKNY Jeans stores in various cities in mainland China. In addition, Miramar has launched the Kickers business (a renowned European shoe brand) with stores in Shanghai, offering the latest looks in footwear to sophisticated consumers.

Results for the Year Ended 31 December 2012

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.

Business Model and Strategic Direction

Business Model

Henderson Land has established a diversified business model which comprises "three pillars" namely, property investment, strategic investments and property development in both Hong Kong and mainland China. The property investment business and strategic investments provide a reliable and growing income source to the Group, while the property development business is a dynamic profit driver.

The Group's property development business in Hong Kong is vertically integrated, enabling the design, development, construction, sales and management of development projects to be executed in an efficient manner. The Group applies a cost effective approach of land banking by acquiring old buildings for redevelopment in the urban areas and converting the land-use of New Territories land in order to obtain development land sites at a relatively low cost. For mainland China projects, the Group focuses on large-scale residential developments in the second and third-tier cities, which are characterized by a preponderance of middle class residents, whilst also owing a premier portfolio of commercial investment properties in the first-tier cities.

In Hong Kong, the Group's substantial and diverse property investment portfolio mainly comprises offices and shopping arcades in prime locations, as well as a number of large-scale shopping malls located in strategic locations above or adjacent to MTR stations. The Group also owns a number of residential properties and industrial/office buildings, making its investment portfolio more balanced and diversified. In mainland China, the Group owns exceptionally well designed and quality large-scale commercial complexes situated in prime locations for rental purposes.

As regards strategic investments, the Group is the largest shareholder of three listed companies, namely, The Hong Kong and China Gas Company Limited ("HKCG"), Miramar Hotel and Investment Company, Limited ("Miramar") and Hong Kong Ferry (Holdings) Company Limited ("HKF"). HKCG is engaged in the production and distribution of gas in Hong Kong and mainland China. Miramar is engaged in property investment, hotel operation and food and beverage operations. HKF is engaged in property development and investment. HKCG, being a public utility company, provides a very substantial income to the Group.

Strategic Direction

The Group is dedicated to maximizing value for shareholders over the long term by executing the following strategies:

Building for a sustainable future with low land costs

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 this approach of land banking may require a relatively longer period of time to fulfill its objectives as compared to participating in 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.

As a sustainable property developer, the Group is highly proactive in its commitment to environmental stewardship during the process of its development activities, and carefully anticipates the needs and concerns of society.

Locating prime sites for property investment with a stable income stream

The Group's property investment portfolio is well diversified with commercial and residential properties situated in prime locations, generating a recurring and steady income stream. Furthermore, the hotel and department store businesses directly operated by the Group at its properties serve to maximise the value and occupancy rate of the Group's investment properties.

Expanding the mainland China market

Property development and property investment in mainland China provide the Group with potential for territorial expansion. The Group will continue to expand its activities in the prime and second and third-tier cities, taking a prudent but optimistic approach.

Holding of strategic investment for constant return

The investments in the three listed associates, HKCG, Miramar and HKF provide stable and constant returns for the Group. The distinctive business nature of HKCG, in particular, is a supplement to the Group's core businesses of property development and property investment and allows Henderson Land to smooth out the cyclicality of the Group's property development business.

Conservative financial strategy

The Group employs a conservative funding and treasury strategy. It consistently keeps a low to moderate financial gearing ratio with abundant unutilized committed banking facilities in place that are of medium term in tenor. The Group maintains an excellent ongoing relationship with the major commercial banks while endeavoring to diversify its funding sources through debt issuance in different financial markets.

Financial Review

Management discussion and analysis

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 **HK$ million**	2011 HK$ million	**2012** **HK$ million**	2011 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 **HK$ million**	2011 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 underlying post-tax 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 deducting 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 Financial 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 in 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 deducting 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 deducting 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")" under the section "Review of Operations" on page 82 of the Company's annual report for the year ended 31 December 2012 and of which this Financial Review forms a part. Notwithstanding the provisional suspension in the payment of toll fees in respect of Hangzhou Qianjiang Third Bridge to a joint venture company of HIL 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 Hangzhou Qianjiang Third Bridge 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 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 to 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 from the Group's investment in a property development project in Hong Kong (2011: Nil).

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 in relation to the refund by the municipal government of a land deposit regarding a land site in mainland China (2011: Nil).

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: 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

Based on the independent valuation of the Group's investment properties and investment properties under development at 31 December 2012 as referred to in note 17(c) to the Company's audited consolidated accounts for the year ended 31 December 2012 set out on pages 157 to 253 of the Company's annual report for the year ended 31 December 2012 and of which this Financial Review forms a part, 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 between two years and twenty years (2011: five years and twenty years). These notes are included in the Group's bank and other borrowings at 31 December 2012 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

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

	2012 HK$ million	2011 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 cash equivalents	**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 HK$ million	2011 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 to meet 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 interest rate 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 significant acquisitions or any other 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).

Five Year Financial Summary

	Note	Year ended 30 June 2008 (restated) HK$ million	18-month period from 1 July 2008 to 31 December 2009 (restated) (note 1) HK$ million	Year ended 31 December 2010 HK$ million	2011 HK$ million	2012 HK$ million
Profit for the year/period	*2&5*	16,485	15,465	15,820	17,184	20,208
Underlying profit for the year/period	*2,3&5*	5,578	6,027	5,042	5,560	7,098
		HK$	HK$	HK$	HK$	HK$
Earnings per share	*2&5*	8.03	7.20	7.32	7.44	8.47
Underlying earnings per share	*2,3&5*	2.72	2.81	2.33	2.41	2.97
Dividends per share	*2*	1.10	1.30	1.00	1.00	1.06

	Note	At 30 June 2008 (restated) HK$ million	At 31 December 2009 (restated) (note 1) HK$ million	2010 HK$ million	2011 HK$ million	2012 HK$ million
Fixed assets	*4*	60,319	70,296	84,068	92,771	101,072
Interest in associates	*5*	34,884	36,561	37,981	40,117	42,452
Interest in jointly controlled entities	*5*	15,517	18,893	20,947	23,722	29,588
Inventories		37,624	41,541	60,717	68,204	76,403
Net debt (2008 and 2009 – restated)	*6*	21,823	27,710	44,818	36,890	35,205
Net asset value	*2&5*	129,164	142,228	159,038	185,336	205,212
Net debt to net asset value (2008 and 2009 – restated)	*2*	16.9%	19.5%	28.2%	19.9%	17.2%
		HK$	HK$	HK$	HK$	HK$
Net asset value per share	*2*	60.16	66.24	73.09	78.23	84.97

Notes:

1 *Pursuant to a resolution of the Board of Directors dated 19 March 2009, the Company's financial year end date has been changed from 30 June to 31 December in order to align with that of its major listed associate, The Hong Kong and China Gas Company Limited, and of project companies established in mainland China.*

2 *The profits, earnings, dividends and net asset values shown or referred to above were all attributable to equity shareholders of the Company.*

3 *These figures were calculated based on profit attributable to equity shareholders of the Company and adjusted by 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.*

4 *In order to comply with HK(IFRIC)-Int 12, Service concession arrangements, the Group changed its accounting policy relating to toll bridge under public-to-private service concession arrangement with effect from 1 July 2008. The accounting policy was applied retrospectively with figures for the financial year ended 30 June 2008 restated. As such, fixed assets excluded intangible operating rights (which included toll highway operating right) at 30 June 2008 and 31 December 2009.*

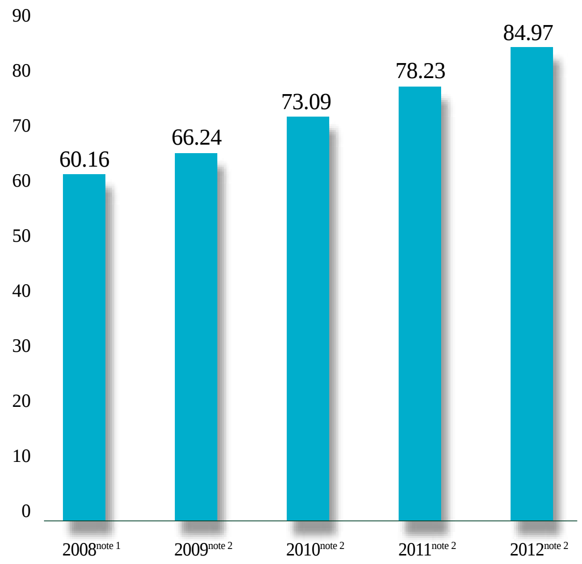
In order to comply with the amendments to HKAS 40, Investment property, the Group has changed its accounting policy to recognise investment property under development at fair value at the earliest reporting date at which fair value could be reliably estimated, rather than waiting until completion of the construction. This accounting policy was applied prospectively as from 1 January 2010 and net assets and profits for earlier periods have not been restated.

The Group has adopted the amendments to HKAS 17, Leases. This accounting policy was applied retrospectively as a result of which certain leases of land (previously included under "Interests in leasehold land held for own use under operating leases") with carrying amounts of HK$1,006 million at 1 July 2008, HK$976 million at 31 December 2009 and HK$880 million at 31 December 2010 have been reclassified as finance leases and included under "Fixed assets".

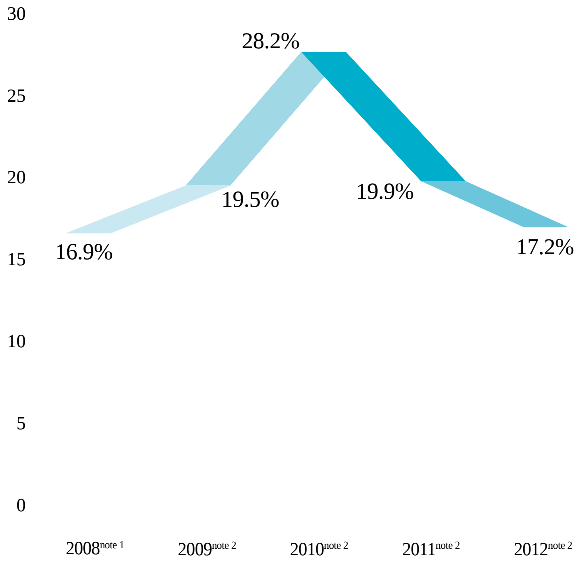
5 *The Group has also adopted the amendments to HKAS 12, Income taxes – Deferred tax: recovery of underlying assets, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, Investment property. The change in policy arising from the amendments to HKAS 12 has been applied retrospectively by restating the opening balances at 1 July 2008 and 1 January 2010, with consequential adjustments to the figures for the 18 months ended 31 December 2009.*

6 *Net debt represents the total of bank loans and overdrafts, guaranteed notes and the amount due to a fellow subsidiary minus cash and cash equivalents.*

Net asset value per share (HK$)

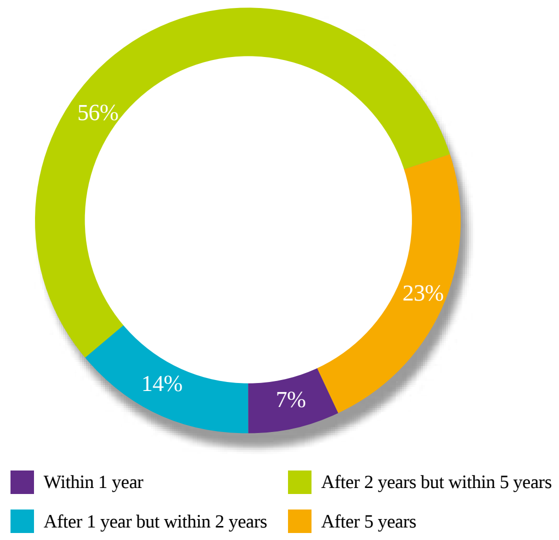


Net debt to net asset value (%) (2008 and 2009 – restated)

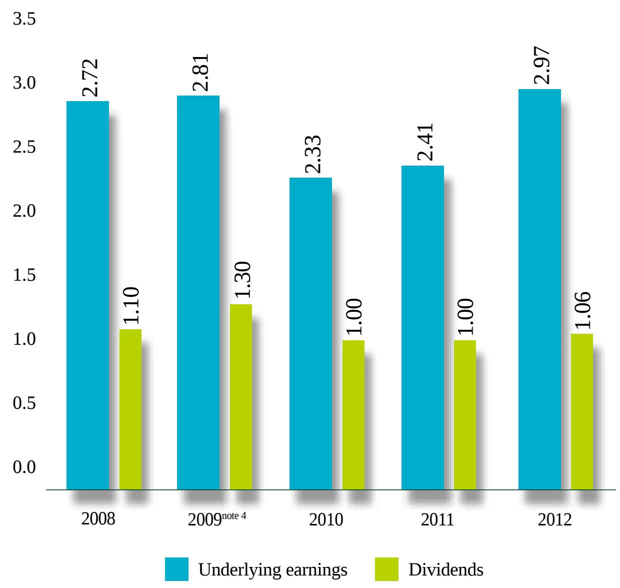


Maturity profile of the Group's bank and other borrowings repayable[note 3]

at 31 December 2012



Underlying earnings / dividends per share (HK$)



Note 1: At 30 June.
Note 2: At 31 December.
Note 3: Excluding the amount due to a fellow subsidiary.
Note 4: In respect of the eighteen months ended 31 December 2009.

Sustainability and CSR

Sustainability and CSR

This Chapter describes in detail the Group's approach to sustainability and corporate social responsibility. It outlines the approach taken by Henderson Land in our role as a leading developer, major employer and responsible corporate citizen, explaining our policies, our performance and our major achievements and aspirations for the future. This Chapter provides information on the environmental, social and economic impacts of the Group's operations, primarily in Hong Kong. The scope of this information covers our headquarters and our wholly-owned property management and construction subsidiaries, Goodwill Management Limited, which manages the Group's investment properties, and E Man Construction Company Limited, which operates and manages the Group's construction sites.

Commercial growth and corporate social responsibility are mutually important imperatives for our business. Henderson Land seeks to balance our long-term business objectives with the equally important aims of sustainable growth, social prosperity and community well-being. To meet all our sustainability and CSR objectives, we have adopted a highly proactive approach, which is driven by our senior management team and exceeds mandatory and regulatory requirements in this area.

During 2012, the Group achieved some significant milestones in our ongoing mission to adopt sustainable practices throughout our operations. We established a Corporate Social Responsibility Committee and published our Corporate Social Responsibility Policy. 10 of our development and investment projects achieved LEED, BEAM or GBDL ratings. New environmental measures such as food waste reduction and recycling were introduced at selected Group properties. We initiated or supported pioneering community projects including Home Market, The Good Lab, Good Kitchen and MOS Cafe. We continued to advocate best practice through proactive participation in industry professional bodies.

Our Environment

Overview

With society's ever-increasing concerns for the need to combat climate change and safeguard a sustainable future, Henderson Land considers environmental stewardship to be a core corporate responsibility. The Group has adopted strict measures to introduce and adhere to a sustainable approach at our headquarters, in our properties and on our construction sites. This approach is guided by our Environmental Policy, which ensures that we wholly integrate environmental considerations into our corporate decision-making process, management and organisational culture.

The Group has also taken the lead to improve the environmental performance of our construction sites and properties. Three of our property management subsidiaries, namely Goodwill Management Limited ("Goodwill"), Well Born Real Estate Management Limited ("Well Born") and Hang Yick Properties Management Limited ("Hang Yick"), and our subsidiary, E Man Construction Company Limited ("E Man") were awarded ISO 14001 certification for the environmental management systems they implemented.

Green Buildings

The Group has adopted a comprehensive approach to property development with the intention of contributing positively to the overall sustainability performance of our markets, namely Hong Kong and mainland China.

International benchmarking and achievements

The Group's portfolio of development and investment projects has now accumulated four LEED (Leadership in Energy and Environmental Design), 18 BEAM (Building Environmental Assessment Method), and two GBDL (Green Building Design Label) certifications. In total, these certified projects have a total gross floor area of approximately 12,000,000 sq. ft. and comprise seven office and commercial developments, nine residential developments and one hotel property. All of our BEAM certified projects comply with the requirements of the Building Energy Efficiency Ordinance.

Our policy is for all new and future Group projects to undergo BEAM, LEED or GBL assessment where practicable, with energy efficiency and low-carbon building designs adopted.

Project accreditation in 2012

	Project	Rating
LEED certified:	Henderson Metropolitan, Shanghai	Gold
	Greentech Tower, Shanghai	Gold
BEAM certified:	Henderson Metropolitan, Shanghai	BEAM Platinum
	Greentech Tower, Shanghai	BEAM Platinum
	Golden Centre, Hong Kong	BEAM Platinum
	The Reach, Hong Kong	BEAM Platinum (Provisional)
	High Point, Hong Kong	BEAM Plus Gold (Provisional)
	High Park Grand, Hong Kong	BEAM Plus Gold (Provisional)
	High Park, Hong Kong	BEAM Plus Silver (Provisional)
	High West, Hong Kong	BEAM Plus Bronze (Provisional)
China Green Building Design Label (GBDL) achieved:	Double Cove (Phase 1), Hong Kong	3-star
	The Gloucester, Hong Kong	3-star

Case Study – Double Cove: Living in a Park


artist's impression

With a total gross floor area of approximately 2,950,000 sq. ft., Double Cove adheres to a “Living in a Park” concept that is centered around low-carbon living, reduced energy consumption and enhanced microclimatic and landscape qualities. A passive environmental design strategy has been applied to the project, which is a natural, holistic approach to the design process that aims to deliver a healthy and low-carbon living environment.

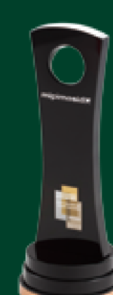
Building Information Modelling (BIM) was used in the design of Double Cove to achieve better planning, design and quality of construction, while minimising wastage of building material. Its low-carbon features range from a covered walkway with direct access to public transportation, to extensive recharging stations for electric vehicles and bicycle bays. Other features, all aimed at reducing the heat island effect, include a carefully designed spatial arrangement to allow effective wind penetration for better air ventilation, and abundant areas of greenery. A hybrid ventilated shopping arcade and sophisticated home automation system have been incorporated in the design of Double Cove to reduce energy consumption. Water conservation is promoted throughout, with a rainwater recycling system and the use of low-flow water closets and water saving faucets.

The total landscaped area of Double Cove including woodlands, green roofs, green walls, sky gardens, water features and landscaped amenities is about 50% of total site area. Comprehensive tree protection measures were established before construction work commenced to preserve existing woodland and create a new woodland extension. Natural greenery will be used extensively throughout to cover areas such as the roof of the shopping arcade and will also be used in features such as green hedge fence walls in place of solid metal fences.

Double Cove is currently under construction and will be developed in five phases.

Green Building Design Label
3-Star Rating

Green Building Award 2012
Merit Award (New Building Category [Building under Construction] - Hong Kong)



MIPIM Asia 2012
Best Innovative Green Building - Bronze Prize

Strong in-house professional team to drive green developments

Henderson Land is proud of our strong in-house expertise in the area of sustainable development. In November 2010, the Group established a Green Building Sub-Committee to assist in formulating and maintaining appropriate standards of green building design and to oversee the organisational development and training of talent and expertise in this area by providing BEAM, LEED and GBL training opportunities.

Our strong team of professionals now includes 24 BEAM Professionals, 10 Green Building Label (GBL) Managers, seven LEED Accredited Professionals, two LEED Green Associates and one ecologist, who work together to promote and deliver sustainable design integration on all Group projects. They attend conferences and training frequently to keep themselves informed of the latest green-related trends and technology.

Waste Management

Henderson Land has established policies and practices to minimise waste at all levels of the Group's operations and to ensure the disposal of waste in an environmentally responsible manner.

Corporate level

Paper waste originating at the Group's headquarters is shredded and recycled. We have introduced other measures to minimise paper use, including widespread usage of electronic devices, and encouraging the use of websites and online versions of key corporate communications such as the Company's Annual and Interim Reports, circulars and announcements. Thanks to these measures, it is estimated that 7,000 kg of paper was saved in 2012. Since 2011, Forest Stewardship Council-certified (FSC) papers have been used for the production of our Annual and Interim Reports and have now also been introduced by our Human Resources Department for printing payroll.

Henderson Land has joined several recycling initiatives including Friends of the Earth's Used Printer Cartridge Reuse and Recycling Programme and Ricoh's Toner Bottles and Cartridges Recycling Programme. As of 31 December 2012, 423 printer cartridges and toner bottles had been recycled.

Project level

At the Group's construction sites, stringent measures are taken to ensure reduction and management of all types of waste in

▲ *Care is taken on the Group's construction sites to minimise air pollution and dust emissions*

accordance with a comprehensive Waste Management Plan. Site managers take great care to minimise over-ordering and wastage of materials.

Weekly environmental site inspections are conducted together with a monthly audit to ensure the Plan is being properly implemented. At the Group's construction sites, a specific area is allocated for storage of construction waste and demolition materials, where various kinds of waste materials are sorted for recycling, reuse or disposal. A trip-ticket system is used to ensure proper disposal of waste materials at designated public fills. Care is also taken on the Group's sites to minimise air pollution and dust emissions. High pressure water jet wheel-washing facilities are situated at the exit of the sites, while regular watering is conducted on frequently travelled areas and speed limits are enforced to minimise dust. Stockpiles of materials are covered or dampened in dry and windy conditions to minimise emissions of dust.

Use of water is carefully monitored on sites. A grey water recycling system is used for flushing site toilets. Any water runoff is directed to silt traps and sedimentation basins before reuse or discharge into drains, with earth or sand bar barriers used for removing suspended solids. Hoarding gaps are tightly sealed to avoid seepage of wastewater outside the sites.

▲ *Construction waste and demolition materials are sorted for recycling, reuse or disposal*

Property Management Level

Responsible waste management practices are embraced by our property management subsidiaries Goodwill, Well Born and Hang Yick. They encourage and support individual site offices and residential estates to implement appropriate environmental measures for continuous improvement in environmental performance. Through its dedicated efforts in waste management, Goodwill has successfully encouraged the practice of waste paper, plastic and metal recycling at more than 20 commercial and office properties it manages.

Recycled material at properties managed by Goodwill:

	2010	2011	2012
No. of participating properties	21	21	24
Paper (kg)	797,952	889,070	1,103,710
Plastic (kg)	11,242	12,662	13,915
Metal (kg)	10,588	12,706	15,322

(I) Food Waste Eliminators

Shopping Malls

Food waste eliminators make use of biotechnology to eliminate and turn organic waste into water and carbon dioxide. Goodwill first introduced two food waste eliminators in 2011 at Miramar Shopping Centre, an asset of the Group's associated company Miramar Group. With a total capacity of up to 700kg, they are among the largest scale food waste eliminators installed in Hong Kong's shopping malls. Subsequently, in 2012, the Group introduced an additional eliminator with a capacity of 100kg at Metro City Plaza II.

Since its introduction, the eliminator at Metro City Plaza II has processed a total of 14,315 kg of food waste. At Miramar Shopping Centre, all the food and beverage tenants participated in the food waste elimination program, and the eliminators processed a total of 959,140 kg of food waste in 2012.

The total investment on environmental improvements made by Goodwill in 2012 amounted to about HK$3 million, which included food waste eliminator, LED light replacements, BEAM testing fee, ISO audit fee and sky garden installation.

Residential Properties

During the year, Well Born introduced a food waste management program at Grand Promenade, a residential property it manages, to actively promote green practices. With the support and cooperation of the Owners' Committee, the program was successfully launched in the estate.

Grand Promenade also participated in the first phase of the Environment and Conservation Fund's "Food Waste Recycling Project in Housing Estates". Only 11 housing estates throughout Hong Kong were selected in the first phase of the project, which provides subsidies to enable participating estates to undertake on-site treatment of source separated food waste and encourages households to reduce food waste.

At Grand Promenade, a Food Waste Composter was installed and has been in service since late 2012, which helps to reduce 80% of the volume of original food waste. The waste is then used as organic fertilizer for gardening. A reward program is also in place to motivate residents' participation. By 31 December 2012, about 1,321 kg of food waste was recycled under this program, generating about 275 kg of organic fertilizer.

(II) Used Cooking Oil Collection

During the year, Goodwill continued its used cooking oil collection program at some of the shopping malls and commercial buildings it manages including Sunshine City Plaza, Miramar Shopping Centre and Manulife Financial Centre. The aim of the program is to encourage food and beverage tenants to recycle used cooking oil into biodiesel, with income generated from the scheme donated to the World Wide Fund for Nature Hong Kong to support its environmental conservation work. During 2012, a total of 2,757 kg of used cooking oil was collected.

▲ *Green roof at AIA Tower*

▲ *Podium garden at Manulife Financial Centre*

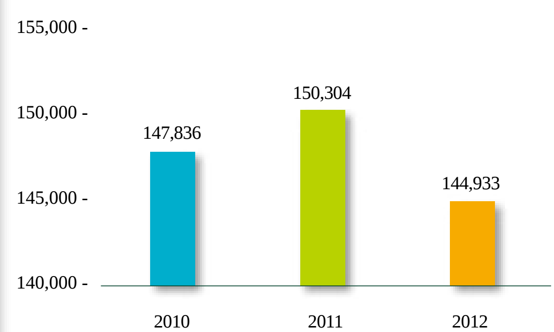
Energy Efficiency and Emissions

Reducing energy consumption and improving energy efficiency are fundamental to our measures to ensure a sustainable approach throughout all Group operations. Henderson Land also strives to incorporate green features, such as landscapes and gardens, in our developments to improve their overall thermal performance while also mitigating the urban heat effect, managing storm water, enhancing biodiversity and reducing air pollution. A total of about 695,000 sq. ft. of green features are incorporated in 14 of the Group's existing and new properties including commercial buildings such as Manulife Financial Centre and ifc complex, as well as current development projects, such as Double Cove and The Reach.

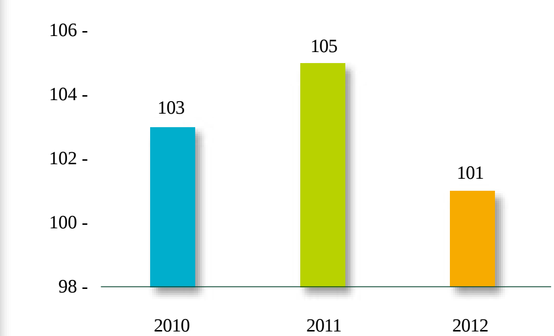
To better monitor and control our energy usage, we have installed Building Management Systems (BMS) in various Group properties, including AIA Tower, Manulife Financial Centre, Metro City Plaza and Sunshine City Plaza. The Systems monitor and control operations of the buildings' electrical and mechanical facilities, such as the air-conditioning, lighting, electrical, lifts and escalators and fire services systems. Viable energy management measures can then be identified to lower energy consumption and operating costs.

With different environmental measures in place to improve energy efficiency, in 2012 the electricity consumption of the 30 commercial and office properties under Goodwill's management recorded a 3.57% reduction compared to that in 2011, contributing to about 4 kilotonnes reduction of greenhouse gas (GHG) emissions.

Electricity consumption of 30 properties managed by Goodwill (MWh)



Total GHG emissions of 30 properties managed by Goodwill^ (kilotonnes)

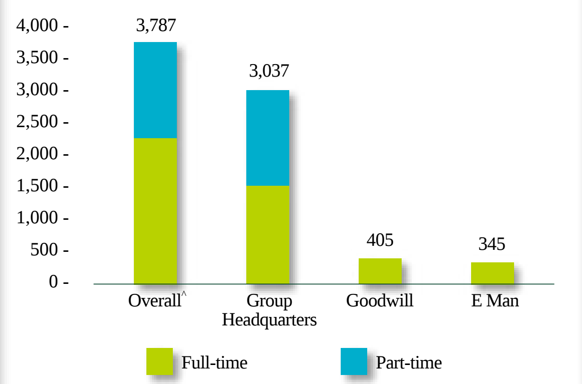


^Covers only indirect energy emissions from electricity consumption in these properties

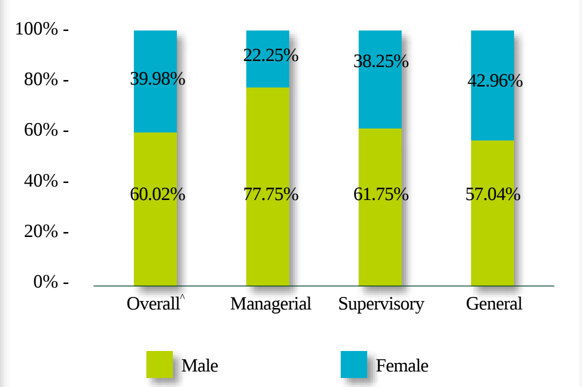
Our People

Henderson Land considers our human resources to be the most valuable asset of the Group. We strive to be considered an employer of choice by offering a harmonious working environment and development opportunities to our employees, and a commitment to non-discriminatory equal opportunity employment practices.

Total workforce by employment type^ (number of employees)



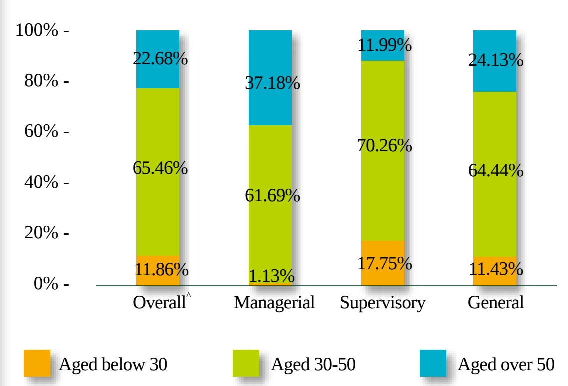
Employee breakdown by position level and gender



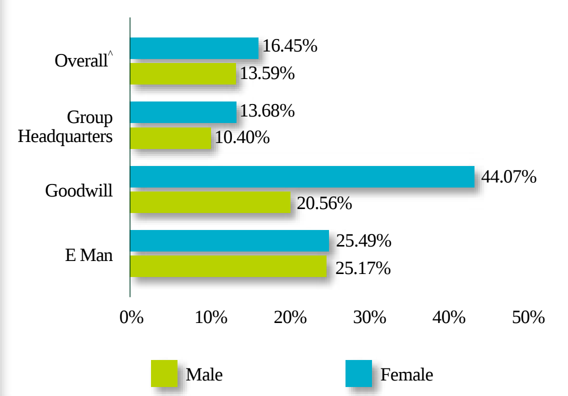
^*The overall number includes only the employees of the Group's Headquarters, Goodwill and E Man, and not the whole Group*

#*Turnover rate = turnover / headcount x 100*

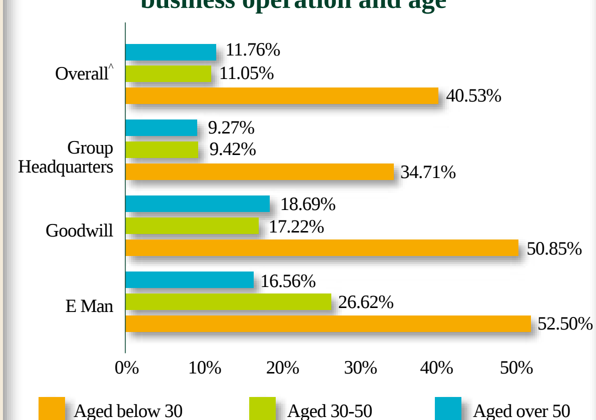
Employee breakdown by position level and age



Turnover by business operation and gender#



Turnover by business operation and age#



▲ *The Group organises a variety of training programs and seminars for its employees every year*

Employee Development and Training

The Group conducts a Training Needs Analysis annually in order to determine areas of vocational improvement. The analysis is used to develop the Group's annual employee training plan, which incorporates courses that focus on promoting professional development. All full-time staff are appraised on their performance at least once annually.

During the year, the Group organised 42 internal training courses for its staff. Total training hours for staff amounted to 109,000 hours including internal training, external training and examination leave. The range of subjects covered by the training included site safety matters, performance management, legal compliance, languages, conflict and crises management, continuing professional development and industry best practices.

Employee Health and Safety

The Group is committed to protecting the health and safety of our employees and we take measures to ensure that risks to their health and safety are properly controlled throughout our operations. At our headquarters, occupational health and safety assessment is provided for each employee, with inspections and recommendations made when necessary. In addition, occupational health and safety information is available on the intranet for all staff.

Occupational health and safety data in 2012^

Work-related fatalities	0
Injury rate per 1,000 employees	4.49
Lost days due to work-related accidents and disease (occupational)	598
Lost days due to other sick leave (not related to work-related injuries)	10,226.50

^The OHS data includes only the employees of the Group's Headquarters, Goodwill and E man, and not the whole Group

At the Group's construction sites, during the year, the Group conducted approximately 2,880 safety induction training courses and specific safety training courses, and 1,152 tool-box talks at our 12 active superstructure sites.

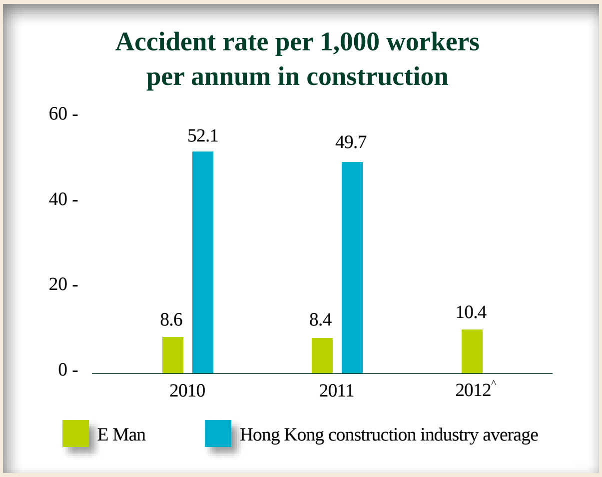
Occupational Health & Safety Committee

The Group's Construction Department has set up a fully functional 16-person Occupational Health & Safety (OHS) Committee which consists of Division Heads and a Committee Chairman. The Committee meets every three months to discuss OHS policy and best practices, and reviews any case of injury. During the year, representatives from the Group's site workers were invited to these meetings, enabling direct engagement between division heads and site staff on site safety matters.

Site Safety Subgroup

Comprising professional architects, engineers, surveyors and safety officers, the Group's Site Safety Subgroup ensures that all safety requirements are fully conformed to and fosters a culture of safety at all Group construction sites. It meets every two months and carries out weekly site safety inspections at the Group's sites to conduct an independent audit of safety conditions and to address any potential risks.

During the year, the Subgroup conducted 82 site safety inspections and provided 510 safety-related recommendations.



^Industry average accident rate in 2012 is not available as of the date of the report

Employee Benefits and Welfare

Henderson Land is committed to ensuring our employees are rewarded for their contribution to our success. At our headquarters, the total remuneration package structure for our full-time employees comprises competitive compensation and benefits, which include a discretionary bonus and commission, medical allowance, free lunch and free refreshment for tea-break, flexible working hours, paid paternity and marriage leave, and training subsidies.

The Group provides support for staff to further improve their skills by enrolling in external courses and also provides paid examination leave for those undertaking further education. We have established an internal e-learning network to foster a culture of continual learning and to enhance the self-learning initiatives of our employees.

Henderson Land operates a retirement scheme under the Occupational Retirement Schemes Ordinance (ORSO) in Hong Kong, which is exempt from the Mandatory Provident Fund (MPF) Scheme. For new employees who joined the Group on or after 1 December 2000, they are required to join the MPF Scheme.

Equal Opportunity

Henderson Land is committed to promoting a community spirit that thrives on mutual respect and equal opportunities. The Group adopts a human resources policy under which people are employed based on their experience, skills and performance without prejudice to their age, race, disability or gender.

Code of Conduct

The Group adheres to stringent anti-corruption policies and procurement practices, as stated in our Code of Conduct.

During the year, a training session on anti-corruption policies and procedures was conducted for employees. ICAC staff are regularly invited to give talks to our staff. In 2012, 133 staff attended anti-corruption talks.

No cases of corruption were reported within the Group in 2012.

Our Community

In partnership with community bodies, employees, society and government, Henderson Land sponsors, supports and initiates a diverse range of community-oriented activities every year that it believes contribute to and engage society. These range in scope from issues-related charitable and philanthropic initiatives to community-wide events.

In 2012, the Group formed a Corporate Social Responsibility Committee. The role of the Committee is to assist the Board of Directors in reviewing the CSR policies and overseeing key CSR matters.

Members of the CSR Committee:

Mr Lee Ka Shing, Vice Chairman (Committee Chairman)

Mr Lam Ko Yin, Colin, Vice Chairman

Mr Suen Kwok Lam, Executive Director and General Manager of Property Management Department

Mr Liu Cheung Yuen, Timon, Company Secretary

Mr David Francis Dumigan, General Manager of Project Management (I) Department

Mr Kwok Man Cheung, Victor, General Manager of Project Management (II) Department

Mr Wong Wing Hoo, Billy, General Manager of Construction Department

Ms Ngan Suet Fong, Bonnie, General Manager of Corporate Communications Department

The Group also published a Corporate Social Responsibility Policy in 2012, which reflects the Company's values and strategy as regards CSR, focusing on workplace quality, environmental protection, operating practices and community involvement.

New Initiatives

Home Market

Spearheaded by the Group's Vice Chairman, Mr Lee Ka Kit, the Group initiated a pioneering poverty relief project in Hong Kong through its charitable fund, Henderson Warmth Foundation. This comprised setting up a chain of not-for-profit convenience stores, the Home Market, that sell food and daily necessities at bargain prices to underprivileged people including low-income families and those participating in the Comprehensive Social Security Assistance Scheme, the elderly, new immigrants and minorities.

Three Home Market stores were opened during 2012 in Tin Shui Wai, Sham Shui Po and Shau Kei Wan. Their set up and operational costs were fully subsidised by the Foundation. As well as offering bargain prices to the needy, the Home Market initiative also aims to provide them with employment opportunities. Home Market partners with various NGOs to provide services to their underprivileged and needy constituents. One example was New Home Association, for which Home Market served its 40,000 members.

▲ *The Group's Vice Chairman Mr Lee Ka Kit (right) officiated at the opening ceremony of "Home Market" with Mr Leung Chun Ying, the Chief Executive of HKSAR Government (left)*

Support to Social Enterprises ("SE")

Henderson Land supports the work of social entrepreneurship, which is about individuals using innovative solutions to address society's most pressing social problems. During the year, the Group rendered support to various SE initiatives namely The Good Lab, Good Kitchen, MOS Cafe, and the Social Enterprise Summit 2012.

▲ *The Group's Vice Chairman Mr Lee Ka Shing (second right) officiated at the opening of "The Good Lab", together with Mrs Carrie Lam, Chief Secretary for Administration of HKSAR Government (second left) and other officiating guests*

Henderson Land is the Founding Patron of The Good Lab, a hub that offers creative co-working space for changemakers from different fields and backgrounds so that they can work, collaborate and take action together for a sustainable, innovative and equitable future. Co-founded by five social enterprises, the mission of The Good Lab is to become an enabling platform for social entrepreneurship and social innovation by connecting mentors, investors and collaborators. The Group has been involved in The Good Lab from its inception and has provided a 10,000 sq. ft. shop space at its property, The Sparkle, as well as financial support to aid its establishment.

Mr Lee Ka Shing, the Group's Vice Chairman, serves as a member of The Good Lab's Steering Committee. He attended the Social Enterprise Summit 2012, a three-day international symposium, as the guest speaker to share the best practice of collaboration between the corporate sector and social enterprises, using The Good Lab as an example, to promote cross-sector dialogue and partnerships.

The Group funded and subsidised the establishment of Good Kitchen, a social enterprise restaurant at The Sparkle, operated by Hong Kong Sheng Kung Hui Welfare Council. The concept behind the restaurant is to deliver a healthy menu of Chinese cuisine using energy-saving, environmentally friendly operations. This is aimed at encouraging healthy eating while also enhancing ecological awareness. Opened in late February 2013, the restaurant provides employment opportunities and on-the-job training for the underprivileged and plans to serve the poor and needy with hot meals at an affordable price in collaboration with other neighboring facilities in the future.

Henderson Land provided sponsorship to Ma On Shan Promotion of Livelihood and Recreation Association to support the establishment in 2013 of MOS Cafe, a social enterprise restaurant. This project will provide employment opportunities and on-the-job training for the underprivileged, while also offering reasonably-priced meals to the local community. Once MOS Cafe becomes self-sustaining, it plans to expand its scope of services and develop a bicycle hub to promote low-carbon living.

▲ *The Group's Vice Chairman Mr Lee Ka Shing extended his care to the elderly at the spring lunch of the "Warmth Giving"*

Other Community Programs

During the year, Henderson Land continued to focus its CSR efforts in the key areas of poverty relief, supporting the underprivileged, youth development, environmental education and promoting arts and culture.

In the area of poverty relief, the Group's charitable fund Henderson Warmth Foundation donated a total of over HK$600,000 to support families and beneficiaries who suffered tragic events. For the second consecutive year, the Foundation again collaborated with Oriental Daily News Charitable Fund and The Sun Charitable Fund to carry out poverty relief programs including Book with Love and Warmth Giving, with the former providing full sets of new textbooks to over 300 secondary school students from financially disadvantaged families, and the latter comprising a spring lunch for the elderly as well as the donation of winter sustenance packs to about 12,000 elderly people and low-income families.

▲ *The Group supported and participated in the "Tree Planting Challenge 2012" organised by Friends of the Earth (HK)*

During the year, by nature of its role as a property developer, Henderson Land supported various NGOs through the provision of free or discounted exhibition space at the Group's venues. Initiatives including Hong Kong Red Cross Headquarters Redevelopment Project's "Blessing of Love" Charity Fundraising Campaign and Hong Kong Spirit Ambassadors Program availed of this opportunity. In total, about 110 charitable events were held at the Group's shopping malls during the year. Subsidised venue rentals for these charitable events amounted to about HK$1,680,000.

In the area of youth development, the Group sponsored MaD Good Lab and the annual MaD Forum, organised by the Hong Kong Institute of Contemporary Culture, for the second consecutive year. It provided a platform for young people to turn ideas into actions, helping them to widen their horizons and over 8,000 new "Good Doers" have been attracted to this initiative during the last two years. Over 4,500 young people from Hong Kong and around Asia benefited directly from the 2012 programs. The Group also continued to sponsor Summerbridge Hong Kong, which aims to strengthen the English and leadership skills of financially-disadvantaged young people. To-date the program has served nearly 3,500 young people.

In the area of environmental education, the Group continued to support various community initiatives to help promote public awareness of the need for environmental conservation, including the Power Smart Energy Saving Contest 2012 and Tree Planting Challenge 2012 organised by Friends of the Earth (HK), with the latter resulting in 7,000 seedlings being planted in Tai Lam Country Park. The Group also sponsored and participated in the World Wide Fund for Nature Hong Kong's Earth Hour 2012 and Walk for Nature@Mai Po 2012, in which we teamed up with Children's Cancer Foundation and invited young cancer survivors and their families to participate in the Walk. Other environmental programs that the Group supported during the year included Green Power Hike, Green Sense Walkathon and Hong Kong No Air-Con Night.

In the area of promoting arts and culture, this year the Group again sponsored Le French May Festival as Grand Mecene (Patron). Free tickets were provided to underprivileged children, including new immigrants from New Home Association. We also hosted the "Rogers Stirk Harbour + Partners: From the House to the City" exhibition in Hong Kong, presenting over 40 years of the company's work. The exhibition provided an enlightening and insightful journey into how architecture has shaped cities and transformed lives around the world.

Professional Participation

Henderson Land proactively participates in industry professional bodies to share the Group's expertise and views on industry-related public policies, and to promote best practice and increased cooperation across the sector.

Professional participation in 2012	
Organisation	**Position**
Appeal Tribunal Panel (Buildings)	Member
BEAM Society	Board Director, Corporate Member, Professional Development Committee Vice-chairman, BEAM Expert Panel Member
buildingSMART Hong Kong	Founding Member and Council Member
Business Environment Council	Board Director, Council Member and Membership Committee Member
China Green Building Council	Council Member
China Green Building (Hong Kong) Council	Founding Member and Corporate Member
Construction Industry Council	Chairman of Construction Industry Training Board, Member of Working Group on Roadmap for BIM Implementation, Member of Task Force on River Sand Substitutes Research
Environment Bureau and the Council for Sustainable Development	Signatory to Energy Saving Charter
Harbour Business Forum	Patron Member
Hong Kong Green Building Council	Patron Gold Member and Green Building Faculty Member
HKSAR Buildings Department	Member of Authorized Persons Registration Committee, Member of Contractors Registration Committee (General Building Contractors), Member of Contractors Registration Committee (Specialist Contractors)
HKSAR Land and Development Advisory Committee	Member of Planning Sub-Committee, Member of Land Sub-Committee
HKSAR Landscape Architects Registration Board	Member
HKSAR Long Term Housing Strategy Steering Committee	Member
HKSAR Planners Registration Board	Member
HKSAR The Harbourfront Commission	Member
The Real Estate Developers Association of Hong Kong	Vice-President, Director and Executive Committee Member, Planning, Environment & Lands Sub-Committee Member, Legal Sub-Committee Member

Our Customers

Operating Practices

The Group fully complies with relevant laws and regulations, and prides itself on providing a dedicated and efficient interface with customers.

A handover implementation unit is responsible for ensuring that completed apartments are up-to-standard when they are transferred to new owners. Similarly, the Customer Services Section is responsible for customer relations and after-sales services.

Customer Satisfaction

The Group conducts regular surveys and seeks feedback to ensure we are delivering satisfactory services to all our customers.

The Group's property management subsidiary, Goodwill, conducts interviews after each survey to follow up with tenants on their comments and views. Follow-up actions are taken to seek improvements. The satisfaction rate of tenants for Goodwill's management service was 97.39% in 2010, 96.58% in 2011; and 97.4% in 2012.

Henderson Club

The Group's customer relationship management activities are managed by Henderson Club, which strives to enhance communication and understanding between the Group and our clients. As of 31 December 2012, Henderson Club had a total of over 120,000 members and offered a wide variety of privileges to its members.

To ensure excellent communication with its members, Henderson Club continues to review its communications means and channels on a regular basis. During the year, the Club adopted various e-marketing channels to provide enriched contents and fabulous offers for members.

◀ *The Group invited young cancer survivors and their families to participate in "Walk for Nature @ Mai Po 2012"*

▶ *Mr Lee Ka Shing, the Group's Vice Chairman (sixth left, front row) attended the kick-off ceremony of "Book with Love"*

◀ *The "Rogers Stirk Harbour +Partners: From the House to the City" exhibition sponsored by the Group*

Corporate Governance Report

The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2012.

1) Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

2) Corporate Governance Practices

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"), with the exception of one deviation that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the Code. The Board 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.

3) Board of Directors

a) Responsibilities of and Support for Directors

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company's affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, approving the issue, allotment or disposal or grant of options in respect of unissued new shares or debentures of the Company and reviewing the effectiveness of the internal control system which includes reviewing the adequacy of resources, staff qualifications, experience, training programmes and budget of staff of the Company's accounting and financial reporting function. The Board makes broad policy decisions and has delegated the responsibility for detailed considerations to the standing committee of the Board (the "Standing Committee").

The day-to-day management, administration and operation of the Company are delegated to the management team. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

Every Director ensures that he/she gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her appointment the directorships held in listed companies or nature of offices held in public organisations and other significant commitment, with the identity of such listed companies or organisations. The Company has also requested Directors to provide in timely manner any change on such information. Each Director is also required to disclose to the Company their time commitment. The details of the Directors' time commitment are disclosed under the sub-paragraph "Directors' Time Commitments and Trainings" below.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors will be notified of rule amendment updates in respect of corporate governance practices so as to keep them abreast of latest rule requirements and assist them in fulfilling their responsibilities. The Directors are also provided with monthly updates which contain periodic financials with summaries of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

b) Corporate Governance Function

The Corporate Governance Committee as set up in October 2012 has undertaken the corporate governance function as required under the CG Code. Details of the Corporate Governance Committee are shown in paragraph 4 "Board Committee" below.

c) Board Composition

The Board currently comprises twenty two members, as detailed below:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Lee Shau Kee *(Chairman and Managing Director)*	Lee Pui Ling, Angelina	Kwong Che Keung, Gordon
Lee Ka Kit *(Vice Chairman)*	Lee Tat Man	Ko Ping Keung
Lam Ko Yin, Colin *(Vice Chairman)*		Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson *(appointed on 1 March 2012)*
Yip Ying Chee, John		Leung Hay Man *(re-designated on 22 August 2012)*
Suen Kwok Lam		Poon Chung Kwong *(appointed on 25 October 2012)*
Lee King Yue		Chung Shui Ming, Timpson *(appointed on 8 November 2012)*
Fung Lee Woon King		Au Siu Kee, Alexander *(re-designated on 18 December 2012)*
Lau Yum Chuen, Eddie		
Li Ning		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

The biographical details of the Directors are set out on pages 150 to 154 of this Annual Report. In particular, Dr Lee Shau Kee is the father of Lee Ka Kit and Lee Ka Shing, father-in-law of Li Ning, and the brother of Lee Tat Man and Fung Lee Woon King. A List of Directors and their Role and Function is available on the Company's website.

The Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of executive and non-executive directors so that there is a strong independent element on the board, which can effectively exercise independent judgement.

The term of office of all Non-executive Directors (including Independent Non-executive Directors) has been fixed for a specific term for not more than three years. They are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has also met the requirement of at least one-third of members of the Board being independent non-executive directors.

The Company has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors brings his/her own relevant expertise to the Board.

d) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person as a Director to fill a casual vacancy on or as an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee and recommendation of the Nomination Committee are then put to the Board for decision.

In accordance with the Articles, new appointments to the Board are subject to re-election by shareholders at the next following AGM. Furthermore, the nearest one-third of the Directors, including those appointed for a specific term, will retire from office by rotation but are eligible for re-election by shareholders at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years. Each director was appointed by a letter of appointment setting out the key terms and conditions of his/her appointment.

During the year ended 31 December 2012, changes of the directors are as follows:

(i) Sir Po-shing Woo resigned as Non-executive Director of the Company on 29 February 2012 and Mr Woo Ka Biu, Jackson's alternate directorship ceased on the same date when Sir Po-shing Woo resigned from the Board. Mr Woo Ka Biu, Jackson was appointed as an Independent Non-executive Director of the Company with effect from 1 March 2012;

(ii) the re-designation of Mr Leung Hay Man from Non-executive Director to Independent Non-executive Director of each of the Company and Henderson Investment Limited with effect from 22 August 2012;

(iii) the appointment of Professor Poon Chung Kwong as an Independent Non-executive Director of the Company with effect from 25 October 2012;

(iv) the appointment of Dr Chung Shui Ming, Timpson as an Independent Non-executive Director of the Company with effect from 8 November 2012; and

(v) the re-designation of Mr Au Siu Kee, Alexander from Non-executive Director to Independent Non-executive Director of the Company with effect from 18 December 2012.

The independence of each of the above Independent Non-executive Directors had been assessed by the Nomination Committee for their respective appointments or re-designations.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules. The following Independent Non-executive Directors had/have previous/existing directorships that fall within the independence guideline in Rule 3.13(7) of the Listing Rules among the factors affecting independence:

(i) As disclosed in the announcement of the Company dated 22 August 2012, Mr Leung Hay Man ("Mr Leung") had been a director of Marina Companies (as defined in the aforesaid announcement), indirectly owned subsidiaries of the Company's controlling shareholder for an old residential project, and was a Non-executive Director of the Company and Henderson Investment Limited, a subsidiary of the Company, prior to his re-designation as Independent Non-executive Director. In view of Mr Leung's previous directorships involving no active management role, the Company considers that Mr Leung's previous directorships have no bearing on his independence.

(ii) As disclosed in the announcement of the Company dated 17 December 2012, Mr Au Siu Kee, Alexander ("Mr Au") is currently the Chairman and a Non-executive Director of Henderson Sunlight Asset Management Limited ("HSAM"), the manager of Sunlight Real Estate Investment Trust ("Sunlight REIT") which may be regarded as connected person of the Company; and prior to his re-designation as Independent Non-executive Director, Mr Au was a Non-executive Director of the Company. Having regard to his non-executive role in HSAM and the Company, the Company considers that such existing/previous directorships of Mr Au have no bearing on his independence. In addition, Mr Au had resigned all directorships in various subsidiaries of the Company and companies (except for his position in HSAM) connected/associated with the holding company of the Company upon his re-designation from Executive Director and Chief Financial Officer to Non-executive Director of the Company on 1 July 2011. On the basis that such previous directorships of those companies purely arose from and were associated with his previous executive role in the Company and since then, he has not had any executive role in the Company and the said companies, the Company considers that Mr Au's previous directorships have not had any impact on his independence.

e) Board Meetings

i) Number of Meetings and Directors' Attendance

The Board meets from time to time to discuss and exchange ideas on the affairs of the Company. During the year ended 31 December 2012, the Board held four meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, to discuss significant issues and the general operation of the Company and to approve matters and transactions specifically reserved to the Board for its decision. The attendance of the Directors is set out in the table on page 129.

During the year, the Non-executive Directors (including Independent Non-executive Directors) held a meeting themselves. In addition, the Chairman held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present in accordance with the CG Code.

ii) Practices and Conduct of Meetings

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is sent to all Directors for their records and open for Directors' inspection.

f) Conflict of Interest

If a director on the issuer level has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Articles, such Director who considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

g) Director's and Officer's Liability Insurance

The Company has arranged director's and officer's liability insurance to indemnify the Directors and senior management against any potential liability arising from the Company's business activities which such Directors and senior management may be held liable.

The Company also keeps Directors indemnified against any claims to the fullest extent permitted by the applicable laws and regulations arising out of Directors' proper discharge of duties except for those attributable to any gross negligence or wilful misconduct.

h) Directors' Time Commitments and Trainings

The Company has received confirmation from each Director that he/she had sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies and organisations and an indication of the time involved. Directors are encouraged to participate in professional, public and community organisations. They are also reminded to notify in a timely manner the Company of any change of such information. In respect of those Directors who stand for re-election at the 2013 AGM, all their directorships held in listed public companies in the past three years are set out in the circular and general mandates. Other details of Directors are set out in the biographical details of Directors on pages 150 to 154 of this Annual Report.

During the year, arrangements were made to have speakers delivering talks and presentations to Directors of the Company on relevant topics with emphasis on the roles, functions and duties of directors of the Company as well as corporate governance. Monthly legal and regulatory updates are provided to the Directors for their reading. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge in discharging their duties as a director.

According to the training records provided by the Directors to the Company, all Directors participated in continuous professional development in 2012 which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials.

4) Board Committees

The Board has five main Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board. During the year, revised terms of reference of the Audit Committee and the Remuneration Committee have been approved and adopted in accordance with the CG Code. The Nomination Committee was set up in 2011 with the terms of reference as set out in the CG Code.

In October 2012, the Corporate Governance Committee was established with the terms of reference as set out in the CG Code to undertake the corporate governance functions previously performed by the Board.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

a) Audit Committee

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

Independent Non-executive Directors

Kwong Che Keung, Gordon *(Chairman)*
Ko Ping Keung
Wu King Cheong
Leung Hay Man *(re-designated from Non-executive Director to Independent Non-executive Director on 22 August 2012)*

The Chairman has the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and internal control procedures. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held two meetings during the year ended 31 December 2012. The major work performed by the Audit Committee in respect of the year ended 31 December 2012 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2012, reviewing the audited accounts and final results announcement for the year ended 31 December 2011, reviewing the work of the Group's internal audit department and assessing the effectiveness of the Group's systems of risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programmes and budget.

b) Remuneration Committee

The Remuneration Committee which was established in January 2005 comprises:

Executive Directors	**Independent Non-executive Directors**
Lee Shau Kee	Wu King Cheong *(Chairman)*
Lam Ko Yin, Colin	Kwong Che Keung, Gordon
	Ko Ping Keung

Each member is sufficiently experienced and is appropriately skilled in the issues of determining executive compensations in public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

The written terms of reference include the specific duties of determining, with delegated responsibility, the remuneration package of the individual Executive Director and senior management and making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2012, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Committee also reviews the remuneration of the Directors with reference to the remuneration level of directors of comparable listed companies.

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 9 to the accounts on pages 199 and 200 while the analysis of the Senior Management's remuneration by bands is set out in note 10(b) to the accounts on page 201. Until 30 June 2012, the Directors' fee was fixed at the rate of HK$50,000 per annum for each Director. In case of each member of the Audit Committee, an additional remuneration has been fixed at the rate of HK$250,000 per annum and for each Independent Non-executive Director acting as a member of Remuneration Committee, an additional remuneration has been fixed at the rate of HK$50,000 per annum. At the annual general meeting of the Company held on 11 June 2012, the shareholders of the Company passed the resolution to approve the revised director's fee fixed at the rate of HK$100,000 per annum for each Executive Director/Non-executive Director, HK$200,000 per annum for each Independent Non-executive Director and in case of each Independent Non-executive Director acting as member of (i) the Nomination Committee an additional remuneration at the rate of HK$50,000 per annum and (ii) the Corporate Governance Committee an additional remuneration at the rate of HK$100,000 per annum with effect from 1 July 2012 until the Company in general meetings otherwise determines. Other emoluments shall from time to time be determined with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

c) Nomination Committee

The Nomination Committee which was established in December 2011 comprises:

Executive Directors	**Independent Non-executive Directors**
Lee Shau Kee *(Chairman, in his absence, Ko Ping Keung, acting as Chairman)*	Kwong Che Keung, Gordon
Lam Ko Yin, Colin	Ko Ping Keung
	Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of the nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

The written terms of reference include the specific duties of reviewing of the structure, size and composition of the Board and to make recommendation on any proposed changes to the Board to complement the Company's corporate policy. The terms of reference of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2012, the Nomination Committee held a meeting to assess the independence of Mr Leung Hay Man regarding his re-designation as Independent Non-executive Director of the Company and review the size and composition of the Board. In addition, the Nomination Committee also assessed the respective independence of Mr Woo Ka Biu, Jackson, Professor Poon Chung Kwong, Dr Chung Shui Ming, Timpson and Mr Au Siu Kee, Alexander regarding their appointments/re-designation as Independent Non-executive Director of the Company and made recommendation to the Board during the year.

d) Corporate Governance Committee

The Corporate Governance Committee which was established in October 2012 comprises:

Independent Non-executive Directors

Chung Shui Ming, Timpson *(Chairman)*
Leung Hay Man
Poon Chung Kwong

Each member is sufficiently experienced and is appropriately skilled in the issues of corporate governance. The Company has provided the Corporate Governance Committee with sufficient resources to perform its duties.

The written terms of reference include the duties of developing and reviewing the Company's policies and practices on corporate governance and monitor such policies and practices on compliance with legal and regulatory requirements. The terms of reference of the Corporate Governance Committee are available on the Company's website.

During the year, the Corporate Governance Committee held a meeting to review the Company's policies and practices on corporate governance and formulated the workplan for the 2012 Corporate Governance Report.

e) Attendance Record at Board Meetings, Committees' Meetings and Annual General Meeting

The attendance of the individual Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and Annual General Meeting during the year ended 31 December 2012 is set out in the following table:

	No. of meetings attended/No. of meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Annual General Meeting
Executive Directors:						
Lee Shau Kee *(Chairman and Managing Director)*	4/4	N/A	1/1	1/1	N/A	1/1
Lee Ka Kit	4/4	N/A	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/4	N/A	1/1	1/1	N/A	1/1
Lee Ka Shing	4/4	N/A	N/A	N/A	N/A	1/1
Yip Ying Chee, John	4/4	N/A	N/A	N/A	N/A	1/1
Suen Kwok Lam	4/4	N/A	N/A	N/A	N/A	1/1
Lee King Yue	4/4	N/A	N/A	N/A	N/A	1/1
Fung Lee Woon King	4/4	N/A	N/A	N/A	N/A	1/1
Lau Yum Chuen, Eddie	4/4	N/A	N/A	N/A	N/A	1/1
Li Ning	4/4	N/A	N/A	N/A	N/A	1/1
Kwok Ping Ho	4/4	N/A	N/A	N/A	N/A	1/1
Wong Ho Ming, Augustine	4/4	N/A	N/A	N/A	N/A	1/1
Non-executive Directors:						
Lee Pui Ling, Angelina	4/4	N/A	N/A	N/A	N/A	1/1
Lee Tat Man	4/4	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors:						
Kwong Che Keung, Gordon	4/4	2/2	1/1	1/1	N/A	1/1
Ko Ping Keung	4/4	2/2	1/1	1/1	N/A	1/1
Wu King Cheong	4/4	2/2	1/1	1/1	N/A	1/1
Woo Ka Biu, Jackson	[1]4/4	N/A	N/A	N/A	N/A	1/1
Leung Hay Man	4/4	2/2	N/A	N/A	1/1	1/1
Poon Chung Kwong	[2]1/1	N/A	N/A	N/A	1/1	N/A
Chung Shui Ming, Timpson	[2]1/1	N/A	N/A	N/A	1/1	N/A
Au Siu Kee, Alexander	4/4	N/A	N/A	N/A	N/A	1/1

Remarks: 1. Mr Woo Ka Biu, Jackson was appointed as Independent Non-executive Director on 1 March 2012.

2. Subsequent to his appointment as Independent Non-executive Director, there was only one Board meeting held.

5) Directors' responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Auditor's Report on page 158.

6) Auditor's Remuneration

For the year ended 31 December 2012, the Auditor(s) of the Company and its subsidiaries received approximately HK$19.1 million (2011: HK$18.4 million) for audit and audit related services as well as HK$1.2 million (2011: HK$1.5 million) for non-audit services. The significant non-audit services covered by these fees included the following:

Nature of service		Fees paid (HK$ million)
Tax services		0.7
Other services		0.5
	Total:	1.2

7) Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiries, the Company confirms that all Directors have complied with the required standards as set out in the Model Code.

8) Continuing Connected Transactions and Connected Transactions

The Independent Non-executive Directors and the Auditors of the Company conducted reviews on the continuing connected transactions as disclosed in the Report of the Directors of this Annual Report. The Independent Non-executive Directors would also review those connected transactions that are subject to the announcement requirements under the Listing Rules.

9) Inside Information Policy

The Board has approved and adopted the Inside Information Policy in December 2012 which contains the guidelines to the directors, officers and all relevant employees (likely possessing the unpublished Inside Information) of the Group to ensure that the Inside Information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. The Inside Information Policy has been posted on the Company's website.

During the year, the Company organised a seminar at which an experienced lawyer briefed the Directors and department heads of the Company on the obligations under the new statutory regime of inside information as well as the Inside Information Policy.

10) Corporate Social Responsibility

The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series launched in July 2010.

With the introduction of Environmental, Social and Governance Reporting Guide in the Listing Rules, a Corporate Social Responsibility Committee, chaired by a Vice-chairman with certain directors and department heads as members, was formed on 15 October 2012 to assist the Board in reviewing corporate social responsibility policies and overseeing relevant issues including workplace quality, environmental protection, operating practices and community involvement. A Corporate Social Responsibility Report is set out on pages 108 to 121 of this Annual Report. The Corporate Social Responsibility Policy and the terms of reference of the Corporate Social Responsibility Committee have been adopted and posted on the Company's website.

11) Internal Controls

The Board is responsible for ensuring sound and effective internal control systems to safeguard the shareholders' investment and the Company's assets.

The Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audit on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. During the year, the Board has reviewed through the Audit Committee the effectiveness of the Group's internal control systems, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function in order to ensure that they meet with the dynamic and ever changing business environment, and is satisfied that such systems are effective and adequate.

In addition, an email link has been set up in the webpage of the intranet of the Company for employees to express their opinion or concern about the Group's operations directly to the Vice Chairman.

12) Company Secretary

The company secretary is to support the Board by ensuring good information flow with the Board as well as the board policy and procedures being followed. The company secretary is responsible for advising the Board through the Chairman on governance matters and also facilitates the induction and professional development of Directors.

During the year, the company secretary had taken no less than 15 hours of relevant professional training.

13) Shareholder Rights and Investor Relations

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The annual general meetings ("AGM") of the Company provide a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the AGM. Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the commencement of the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the business day following the shareholders' meeting. Moreover, a separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

Under Section 113 of the Hong Kong Companies Ordinance (the "Ordinance"), shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company are entitled to send a request to the Company to convene an extraordinary general meeting. Such requisition must state the objects of the meeting and must be signed by the shareholders and deposited at the registered office of the Company. Besides, Section 115A of the Ordinance provides that (i) shareholder(s) representing not less than one-fortieth of the total voting rights of all shareholders of the Company or (ii) not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder can put forward proposals for consideration at a general meeting of the Company by depositing a requisition in writing signed by the relevant shareholder(s) at the registered office of the Company.

Shareholders may make enquiries to the Board by contacting the Company either through the Company's Investor Relations on telephone number 2908 8392 or email at ir@hld.com or directly by raising questions at general meetings.

The Company has also maintained a Shareholders' Communication Policy to handle enquires put to the Board and contact details have been provided so as to enable such enquires be properly directed. The Shareholders' Communication Policy is available on the Company's website.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at http://www.hld.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance practices and other information are posted.

Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited accounts for the year ended 31 December 2012.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, construction, infrastructure, hotel operation, finance, department store operation, project management, investment holding and property management.

An analysis of the Group's turnover and contribution from operations by business segments and geographical segments, is set out in note 16 to the accounts on pages 211 to 214.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2012 are set out on pages 244 to 251.

Group Profit

The profit of the Group for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 159 to 253.

Dividends

An interim dividend of HK$0.32 per share was paid on 16 October 2012. The Directors have recommended 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.

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 on or about Monday, 17 June 2013.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of final dividend at the forthcoming annual general meeting 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.

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 of Directors 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.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$54,000,000 (2011: HK$60,800,000).

Fixed Assets

Particulars of the movements in fixed assets during the year are set out in note 17 to the accounts on pages 215 to 217.

Bank Loans and Overdrafts, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans and overdrafts, Guaranteed Notes and Medium Term Note Programme of the Company and the Group as at 31 December 2012 are set out in notes 30 and 31 to the accounts on page 229 to 231, respectively.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 31 December 2012 is set out in note 8 to the accounts on page 197.

Reserves

Particulars of the movements in reserves during the year ended 31 December 2012 are set out in note 33 to the accounts on pages 232 to 236.

Share Capital

During the year, the Company issued 32,322,982 shares in lieu of the 2011 final cash dividends at a market value of HK$41.03 per share and 13,614,563 shares in lieu of the 2012 interim cash dividends at a market value of HK$48.86 per share.

Details of the Company's share capital are set out in note 33 to the accounts on pages 233 and 234.

Group Financial Summary

The results, assets and liabilities of the Group for the year ended 30 June 2008, the 18-month period ended 31 December 2009 and for the last three years ended 31 December 2012 are summarised on page 104.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 41 to 55 and on pages 60 to 79.

Directors' Remuneration

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are set out in note 9 to the accounts on pages 199 and 200.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee *(Chairman and Managing Director)*	Sir Po-shing Woo *(resigned on 29 February 2012 and Woo Ka Biu, Jackson ceased as an alternate to Sir Po-shing Woo)*	Kwong Che Keung, Gordon
Lee Ka Kit *(Vice Chairman)*	Lee Pui Ling, Angelina	Professor Ko Ping Keung
Lam Ko Yin, Colin *(Vice Chairman)*	Lee Tat Man	Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson *(appointed on 1 March 2012)*
Yip Ying Chee, John		Leung Hay Man *(re-designated from Non-executive Director to Independent Non-executive Director on 22 August 2012)*
Suen Kwok Lam		Professor Poon Chung Kwong *(appointed on 25 October 2012)*
Lee King Yue		Dr Chung Shui Ming, Timpson *(appointed on 8 November 2012)*
Fung Lee Woon King		Au Siu Kee, Alexander *(re-designated from Non-executive Director to Independent Non-executive Director on 18 December 2012)*
Lau Yum Chuen, Eddie		
Li Ning		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

Sir Po-shing Woo resigned as Non-executive Director of the Company on 29 February 2012 and Mr Woo Ka Biu, Jackson's alternate directorship ceased on the same date when Sir Po-shing Woo resigned from the Board. Mr Woo Ka Biu, Jackson was appointed as Independent Non-executive Director of the Company on 1 March 2012.

Mr Leung Hay Man was re-designated from Non-executive Director to Independent Non-executive Director on 22 August 2012. Professor Poon Chung Kwong and Dr Chung Shui Ming, Timpson were appointed as Independent Non-executive Directors of the Company on 25 October 2012 and 8 November 2012 respectively. In addition, on 18 December 2012, Mr Au Siu, Kee, Alexander was re-designated from Non-executive Director to Independent Non-executive Director.

Professor Poon Chung Kwong and Dr Chung Shui Ming, Timpson, being the new Director appointed after the 2012 annual general meeting, will retire in accordance with Article 99 of the Company's Articles of Association at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr Lee King Yue, Mr Li Ning, Mr Kwok Ping Ho, Mr Wong Hong Ming, Augustine, Mr Lee Tat Man, Mr Kwong Che Keung, Gordon and Professor Ko Ping Keung will retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and Code on Corporate Governance Practices and, being eligible, offer themselves for re-election.

Disclosure of Interests

Directors' Interests in Shares

As at 31 December 2012, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(A) Ordinary Shares (unless otherwise specified)
Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	7,700,171		1,506,145,134		1,513,845,305	62.69
	Lee Ka Kit	1				1,505,204,923	1,505,204,923	62.33
	Lee Ka Shing	1				1,505,204,923	1,505,204,923	62.33
	Li Ning	1		1,505,204,923			1,505,204,923	62.33
	Au Siu Kee, Alexander	2				61,422	61,422	0.00
	Lee Tat Man	3	113,048				113,048	0.00
	Lee Pui Ling, Angelina	4	31,776				31,776	0.00
	Lee King Yue	5	263,307		20,667		283,974	0.01
	Fung Lee Woon King	6	1,234,681				1,234,681	0.05
	Woo Ka Biu, Jackson	7		2,000			2,000	0.00
Henderson Investment Limited	Lee Shau Kee	8	34,779,936		2,080,495,007		2,115,274,943	69.41
	Lee Ka Kit	8				2,076,089,007	2,076,089,007	68.13
	Lee Ka Shing	8				2,076,089,007	2,076,089,007	68.13
	Li Ning	8		2,076,089,007			2,076,089,007	68.13
	Lee Tat Man	9	6,666				6,666	0.00
	Lee King Yue	10	1,001,739				1,001,739	0.03
The Hong Kong and China Gas Company Limited	Lee Shau Kee	11	5,195,784		3,601,429,693		3,606,625,477	41.50
	Lee Ka Kit	11				3,601,429,693	3,601,429,693	41.44
	Lee Ka Shing	11				3,601,429,693	3,601,429,693	41.44
	Li Ning	11		3,601,429,693			3,601,429,693	41.44
	Au Siu Kee, Alexander	12		80,525			80,525	0.00
	Poon Chung Kwong	13				53,146	53,146	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	14	7,799,220		111,732,090		119,531,310	33.55
	Lee Ka Kit	14				111,732,090	111,732,090	31.36
	Lee Ka Shing	14				111,732,090	111,732,090	31.36
	Li Ning	14		111,732,090			111,732,090	31.36
	Lam Ko Yin, Colin	15	150,000				150,000	0.04
	Fung Lee Woon King	16	465,100				465,100	0.13
	Leung Hay Man	17	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	18			255,188,250		255,188,250	44.21
	Lee Ka Kit	18				255,188,250	255,188,250	44.21
	Lee Ka Shing	18				255,188,250	255,188,250	44.21
	Li Ning	18		255,188,250			255,188,250	44.21
Towngas China Company Limited	Lee Shau Kee	19			1,628,172,901		1,628,172,901	66.18
	Lee Ka Kit	19				1,628,172,901	1,628,172,901	66.18
	Lee Ka Shing	19				1,628,172,901	1,628,172,901	66.18
	Li Ning	19		1,628,172,901			1,628,172,901	66.18

(A) Ordinary Shares (unless otherwise specified) (continued)
Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Shau Kee	20			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	21			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	22	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	20				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	21				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	22				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	20				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	21				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	22				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Li Ning	20		8,190 (Ordinary A Shares)			8,190 (Ordinary A Shares)	100.00
	Li Ning	21		3,510 (Non-voting B Shares)			3,510 (Non-voting B Shares)	100.00
	Li Ning	22		15,000,000 (Non-voting Deferred Shares)			15,000,000 (Non-voting Deferred Shares)	30.00

(A) Ordinary Shares (unless otherwise specified) (continued)
Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Best Homes Limited	Lee Shau Kee	23			26,000		26,000	100.00
	Lee Ka Kit	23				26,000	26,000	100.00
	Lee Ka Shing	23				26,000	26,000	100.00
	Li Ning	23		26,000			26,000	100.00
Feswin Investment Limited	Lee Ka Kit	24			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	25	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	26			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	27			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	26				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	27				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	26				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	27				1 (B Share)	1 (B Share)	100.00
	Li Ning	26		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	27		1 (B Share)			1 (B Share)	100.00
Gain Base Development Limited	Fung Lee Woon King	28	50				50	5.00
Heyield Estate Limited	Lee Shau Kee	29			100		100	100.00
	Lee Ka Kit	29				100	100	100.00
	Lee Ka Shing	29				100	100	100.00
	Li Ning	29		100			100	100.00

(A) Ordinary Shares (unless otherwise specified) (continued)
Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Perfect Bright Properties Inc.	Lee Shau Kee	30			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	31			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	30				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	31				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	30				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	31				1 (B Share)	1 (B Share)	100.00
	Li Ning	30		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	31		1 (B Share)			1 (B Share)	100.00
Pettystar Investment Limited	Lee Shau Kee	32			3,240		3,240	80.00
	Lee Ka Kit	32				3,240	3,240	80.00
	Lee Ka Shing	32				3,240	3,240	80.00
	Li Ning	32		3,240			3,240	80.00

(B) Debentures

Issuer and type of debentures	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Henson Finance Limited -5.50% Guaranteed Notes due 2019	Au Siu Kee, Alexander	33				US$770,000	US$770,000

Save as disclosed above, none of the Directors or Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the year ended 31 December 2012 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Others' Interests

As at 31 December 2012, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders:		
Rimmer (Cayman) Limited (Note 1)	1,505,204,923	62.33
Riddick (Cayman) Limited (Note 1)	1,505,204,923	62.33
Hopkins (Cayman) Limited (Note 1)	1,505,204,923	62.33
Henderson Development Limited (Note 1)	1,503,757,832	62.27
Yamina Investment Limited (Note 1)	782,597,494	32.41
Believegood Limited (Note 1)	395,138,237	16.36
South Base Limited (Note 1)	395,138,237	16.36
Persons other than Substantial Shareholders:		
Cameron Enterprise Inc. (Note 1)	183,802,435	7.61

Notes:

1. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 7,700,171 shares, and for the remaining 1,506,145,134 shares, (i) 715,557,738 shares were owned by Henderson Development Limited ("HD"); (ii) 183,802,435 shares were owned by Cameron Enterprise Inc.; 395,138,237 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 75,719,546 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 69,674,917 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 58,262,359 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iii) 5,602,600 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited ("China Gas") which was 39.88% held by Henderson Land Development Company Limited ("HL") which in turn was 62.27% held by HD; and (iv) 1,447,091 shares were owned by Fu Sang Company Limited ("Fu Sang"); and (v) 640,180 shares and 300,031 shares were respectively owned by Tako Assets Limited and Thommen Limited, both were wholly-owned subsidiaries of Hong Kong Ferry (Holdings) Company Limited ("HKF") in which Dr Lee Shau Kee together with HL held 33.55% as set out in Note 14. Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Shau Kee. Dr Lee Shau Kee was taken to be interested in these shares by virtue of SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

2. *These shares were owned by Mr Au Siu Kee, Alexander and his wife jointly.*

3. *Mr Lee Tat Man was the beneficial owner of these shares.*

4. *Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.*

5. *Of these shares, Mr Lee King Yue was the beneficial owner of 263,307 shares, and the remaining 20,667 shares were held by Ngan Hei Development Company Limited which was 50% each owned by Mr Lee King Yue and his wife.*

6. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

7. *These shares were owned by the wife of Mr Woo Ka Biu, Jackson.*

8. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 34,779,936 shares, and for the remaining 2,080,495,007 shares, (i) 802,854,200 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; (ii) 5,615,148 shares were owned by Fu Sang; and (iii) 3,000,000 shares and 1,406,000 shares were respectively owned by Tako Assets Limited and Thommen Limited, both of which were wholly-owned subsidiaries of HKF in which Dr Lee Shau Kee together with HL held 33.55% as set out in Note 14. Dr Lee Shau Kee was taken to be interested in HL and Fu Sang as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

9. *Mr Lee Tat Man was the beneficial owner of these shares.*

10. *Mr Lee King Yue was the beneficial owner of these shares.*

11. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 5,195,784 shares, and for the remaining 3,601,429,693 shares, (i) 1,866,620,696 shares and 779,849,202 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 818,958,299 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by HL; (ii) 6,388,041 shares were owned by Boldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iii) 129,613,455 shares were owned by Fu Sang. Dr Lee Shau Kee was taken to be interested in HL, HD and Fu Sang as set out in Note 1 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

12. *These shares were owned by the wife of Mr Au Siu Kee, Alexander.*

13. *These shares were owned by Professor Poon Chung Kwong and his wife jointly.*

14. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 7,799,220 shares, and for the remaining 111,732,090 shares, (i) 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by HL; and (ii) 41,532,090 shares were held by Wiselin Investment Limited, a wholly-owned subsidiary of Max-mercan Investment Limited; Max-mercan Investment Limited was wholly-owned by Camay Investment Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Hong Kong Ferry (Holdings) Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

15. *Mr Lam Ko Yin, Colin was the beneficial owner of these shares.*

16. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

17. *Mr Leung Hay Man was the beneficial owner of these shares.*

18. *Of these shares, 100,612,750 shares, 79,121,500 shares and 75,454,000 shares were respectively owned by Higgins Holdings Limited, Multiglade Holdings Limited and Threadwell Limited, all of which were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

19. *These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 11 and Towngas China Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr Li Ning was taken to be interested in these shares by virtue of the SFO.*

20. *These shares were held by Hopkins as trustee of the Unit Trust.*

21. *These shares were held by Hopkins as trustee of the Unit Trust.*

22. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*

23. *Of these shares, (i) 10,400 shares were owned by HL; (ii) 2,600 shares were owned by HD; and (iii) 13,000 shares were owned by Manifest Investments Limited which was 74.16% held by Wealth Sand Limited which in turn was 70% held by Firban Limited. Firban Limited was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Firban Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO. As the spouse of a discretionary beneficiary of the discretionary trusts holding units in such unit trust, Mr Li Ning was taken to be interested in such shares by virtue of the SFO.*

24. *Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Mr Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by Henderson China Holdings Limited ("HC"), an indirect wholly-owned subsidiary of HL.*

25. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

26. *These shares were owned by Jetwin International Limited.*

27. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.*

28. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

29. *Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Heyield Estate Limited.*

30. *These shares were owned by Jetwin International Limited.*

31. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.*

32. *Of these shares, (i) 3,038 shares were owned by HL; and (ii) 202 shares were owned by Allied Best Investment Limited which was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Allied Best Investment Limited.*

33. *Henson Finance Limited was a wholly-owned subsidiary of HL. These debentures were owned by Mr Au Siu Kee, Alexander and his wife jointly.*

Interests in Contracts and Continuing Connected Transactions

During the year under review, the Group entered into the following transactions and arrangements as described below with persons who are "connected persons" for the purposes of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"):

(1) (i) Henderson Finance Company Limited made advances from time to time to Henderson Real Estate Agency Limited, Jetkey Development Limited and Perfect Grand Development Limited, subsidiaries of the Company, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks or Renminbi benchmark loan rates announced by the People's Bank of China (where appropriate) plus a margin. As at 31 December 2012, the amounts of approximately HK$5,974 million, HK$26 million and HK$125 million were due by Henderson Real Estate Agency Limited, Jetkey Development Limited and Perfect Grand Development Limited respectively to Henderson Finance Company Limited, which have been included in the accounts under "Amount due to a fellow subsidiary".

(ii) Agreements for the management and construction of the properties of certain owner companies (the "Owner Companies") indirectly controlled by the private trust of the family of Dr Lee Shau Kee entered into by the Owner Companies (including the Henderson Development Limited group) with each of Henderson Real Estate Agency Limited and the subsidiaries of E Man Construction Company Limited, two wholly-owned subsidiaries of the Company, still subsisted at the year end date.

Dr Lee Shau Kee, Mr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in the transactions and contracts referred to in the above as a director (and as more particularly described in the section "Disclosure of Interests" above) of the Company's ultimate holding company, Henderson Development Limited.

(2) As at 31 December 2012, Mr Lee Ka Kit, through companies owned or controlled by him, had interests in two companies in which Henderson China Holdings Limited ("Henderson China") was interested and through which Henderson China held interests in projects. Mr Lee had 50 per cent interest in Feswin Investment Limited holding Lot 470 of Wanping Road South, with the remaining interests owned by members of the Henderson China Group. Mr Lee Ka Kit is a Director of the Company.

Mr Lee Ka Kit agreed to provide and had provided finance in the form of advances to these companies in proportion to his equity interests in these companies. An agreement entered into between Henderson China and Mr Lee Ka Kit on 15 March 1996 provided that all existing and future advances made by Henderson China and Mr Lee Ka Kit to these companies would be unsecured, on the same basis and at the same interest rate or without interest. As at 31 December 2012, such advances made by Mr Lee Ka Kit to the Henderson China Group's associate amounted to approximately HK$80 million and from 1 January 2003 to 31 December 2012, no interest on the advances made by Mr Lee Ka Kit was charged.

(3) During the year ended 31 December 2012, the Group made advances to the following non wholly-owned subsidiaries and associates as unsecured working capital repayable on demand:

Crown Truth Limited
Drinkwater Investment Limited
Feswin Investment Limited
Gain Base Development Limited
Hang Seng Quarry Company Limited
Harvest Development Limited
Lane Success Development Limited
Pettystar Investment Limited

Certain Directors of the Company or its subsidiaries have interests in the above companies. Both the Group and such Directors' associates made advances in proportion to their equity interests in the companies. The advances made by the Group and the Directors' associates to the individual companies listed above were either both interest-bearing on identical normal commercial terms or both without interest.

(4) The Company had the following continuing connected transactions, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(i) Sunlight Real Estate Investment Trust ("Sunlight REIT") might be regarded by the Hong Kong Stock Exchange as a connected person of the Company under the Listing Rules so long as the aggregate percentage unitholdings in Sunlight REIT of the Group and the Shau Kee Financial Enterprises Limited group ("SKFE Group") (controlled by a family trust of Dr Lee Shau Kee, the Chairman and Managing Director of the Company) being above 30%.

As disclosed in the announcement dated 25 June 2012, new annual cap amounts in respect of each of the financial years ending up to 31 December 2015 were set for the continuing connected transactions between the Group and Sunlight REIT group contemplated under the following agreements/deeds, and a second supplemental agreement (the "Second Supplemental Agreement") was made to extend the term of appointment of Henderson Sunlight Property Management Limited (the "Property Manager"):

(a) a property management agreement dated 29 November 2006 (as supplemented by a supplemental agreement dated 28 April 2009, and further supplemented by the Second Supplemental Agreement) was entered into between Henderson Sunlight Asset Management Limited ("HSAM") and the Property Manager (and property holding companies under the Sunlight REIT group had also subsequently acceded to the said agreement) relating to the provision of certain property management and lease management as well as marketing services in respect of the properties of Sunlight REIT at a fee of 3% per annum of the gross property revenue of the relevant properties of Sunlight REIT for property and lease management services together with a commission as calculated on the base rent or licence fee for a tenancy or a licence secured. By the Second Supplemental Agreement entered into by HSAM and the Property Manager, the term of the appointment of the Property Manager for the provision of the said property related management services has been extended (the "Property Management Transactions") up to 30 June 2015;

(b) a trust deed dated 26 May 2006 (as supplemented by supplemental deeds dated 1 June 2006, 28 November 2006, 28 April 2009, 23 July 2010 and 30 April 2012 respectively) was entered into between Uplite Limited as settlor, a subsidiary of SKFE Group, HSAM as manager and HSBC Institutional Trust Services (Asia) Limited as trustee in respect of, among other things, the appointment of HSAM as the manager of Sunlight REIT for the management and operation of Sunlight REIT at a base fee not exceeding 0.4% per annum of the property values of Sunlight REIT for the relevant financial year and a variable fee of 3% per annum of the relevant net property income of Sunlight REIT payable in the form of Sunlight REIT units and/or cash. HSAM is also entitled to an acquisition fee in respect of acquisition of real estate by Sunlight REIT, and a divestment fee in respect of any real estate sold or divested by Sunlight REIT (where applicable) and certain reimbursement (the "Asset Management Transactions");

(c) agreement(s) as amended and supplemented on various dates were entered into between the Property Manager and Megastrength Security Services Company Limited ("Megastrength"), the Group's subsidiary in respect of the provision of security and related services for property(ies) of the Sunlight REIT at a typical fixed monthly service fee payable to Megastrength subject to change corresponding to any increased level of service (the "Security Services Transactions"); and

(d) agreements or arrangements to be entered into from time to time between members of the Group and members of Sunlight REIT group for the provision of other ancillary property services for the properties of Sunlight REIT (the "Other Ancillary Property Services Transactions").

The maximum aggregate sums to be paid by the Sunlight REIT group to the Group under the Property Management Transactions, the Asset Management Transactions, the Security Services Transactions and the Other Ancillary Property Services Transactions would not exceed the following:

Financial year ended 31 December 2012 (HK$ million)	Financial year ending 31 December 2013 (HK$ million)	Financial year ending 31 December 2014 (HK$ million)	Financial year ending 31 December 2015 (HK$ million)
140	140	152	167

For the year ended 31 December 2012, the Group received HK$40,053,000 for the Property Management Transactions, HK$68,690,000 for the Asset Management Transactions and HK$1,557,000 for the Security Services Transactions which in aggregate amounted to HK$110,300,000; while no fee was received for the Other Ancillary Property Services Transactions (collectively "Sunlight REIT Transactions").

(ii) As disclosed in the announcement dated 26 October 2010, the following letter agreements relating to the provision by Henderson Real Estate Agency Limited ("HREAL") of the sales and marketing agency services and the venue for the show flats, amongst other things, were entered into on the dates set out below:

(a) On 26 February 2010, HREAL was appointed by Henderson Development Agency Limited ("HDAL") as the sales and marketing sub-agent for the disposal of the residential units and/or car parking spaces of Park Rise located at 17 MacDonnell Road, Mid-levels, Hong Kong (the "Park Rise Units") at a sales sub-agency fee of 0.75% of the total gross proceeds of disposal for the Park Rise Units for three years; and

(b) On 26 October 2010, HREAL was appointed by HDAL as the sales and marketing sub-agent to provide (i) sales and marketing agency services at a sales sub-agency fee of 0.75% of the total gross proceeds for three years and (ii) venue located at Miramar Shopping Centre, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong for the show flats (the "Venue"), in relation to the disposal of the residential units and/or car parking spaces located at No.72 Staunton Street, Hong Kong (the "Staunton Units") at a monthly fee of approximately HK$0.89 million (calculated in manner as described therein). In accordance with the terms of the relevant letter agreement, the provision of the Venue ceased in March 2012.

HDAL is the principal agent of the Park Rise Units and the Staunton Units which are developed by the companies indirectly controlled by the private trusts of the family of Dr Lee Shau Kee.

With the Headland Low-rise Houses being sold out, there was no sales and marketing agency service rendered by HREAL for this development during the year under the relevant sales agency letter agreement as more particularly described in the above announcement, which had already expired in 2011.

Since September 2012, Henderson Property Agency Limited, HREAL's wholly-owned subsidiary has taken up certain sales and marketing obligations of HREAL by way of novation.

The annual caps as more particularly described in the above announcement for the aggregate sales agency/sub-agency fees under the sales agency/sub-agency letter agreements as mentioned above (collectively the "Agreements") and the fee regarding the Venue are shown below:

	For the period up to 31 December 2010 (HK$ million)	For the financial year ended 31 December 2011 (HK$ million)	For the financial year ended 31 December 2012 (HK$ million)	For the period up to 25 October 2013 (HK$ million)
Annual caps for the aggregate sales agency/sub-agency fees under the Agreements	29.69	23.89	19.52	19.52
Annual caps for the fee regarding the Venue	4.27	12.82	6.41	N/A
Total annual caps	33.96	36.71	25.93	19.52

For the year ended 31 December 2012, the Group received HK$5,032,000 as the aggregate sales agency/sub-agency fees under the Agreements and HK$4,201,000 as the fee regarding the Venue under the Staunton sub-agency letter agreement (collectively the "Agency and Venue Transactions").

A Committee of Independent Non-executive Directors of the Company has reviewed and confirmed that the Sunlight REIT Transactions and the Agency and Venue Transactions are (a) in accordance with the terms of the respective agreements/deeds relating to the transactions in question; (b) in the ordinary and usual course of business of the Group; (c) on normal commercial terms or on terms no less favourable than terms available to (or from, as appropriate) independent third parties; and (d) fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company have also confirmed that the Sunlight REIT Transactions and the Agency and Venue Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Group; (c) have been entered into in accordance with the relevant agreements/deeds governing the continuing connected transactions; and (d) have not exceeded the respective caps as aforesaid.

The Company's Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.38 of the Listing Rules. The Company has provided a signed copy of the said letter to the Hong Kong Stock Exchange.

(5) During the year under review, vendor companies controlled by Dr Lee Shau Kee's private family trusts made tax indemnity payments of approximately HK$84 million to the Group under the tax indemnity deeds in favour of the Group regarding the Group's connected acquisitions of certain property interests as more particularly described in the Company's announcement dated 6 June 2008.

(6) The material related party transactions set out in note 38 to the accounts on pages 241 to 243 include transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the year end or at any time during the year.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended and as at 31 December 2012 were as follows:

Dr Lee Shau Kee, the Chairman of the Company, and Mr Lee Ka Kit, Mr Lee Ka Shing and Mr Li Ning, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the same businesses of property investment, development and management in Hong Kong and mainland China as the Group. As those companies which engage in the same businesses as the Group were involved in the investment, development and management of properties of different types and/or in different locations, and the Group, has been operating independently of, and at arm's length from, the businesses of those companies, no competition is considered to exist.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

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 ended 31 December 2012.

Major Customers and Suppliers

For the year ended 31 December 2012:

(1) the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchase; and

(2) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 per cent of the Group's total turnover.

Management Discussion and Analysis

A management discussion and analysis of the Group's results for the year ended 31 December 2012 is shown on pages 96 to 103.

Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme utilised during the year ended 31 December 2012 (2011: HK$689,000). As at 31 December 2012, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2011: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund and the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. The total amount so utilised in the year ended 31 December 2012 was HK$2,044,000 (2011: HK$1,241,000) and the balance available to be utilised as at 31 December 2012 was HK$84,000 (2011: HK$293,000).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 31 December 2012 were HK$76,000,000 (2011: HK$71,000,000).

Revolving Credit Agreement with Covenants of the Controlling Shareholders

Wholly-owned subsidiaries of the Company, as borrowers, have respectively obtained a HK$8,000,000,000 3-year term loan facility in 2009, 5-year term loan and revolving credit facilities of up to HK$13,250,000,000 in 2010, 3-year term loan and revolving credit facilities of up to HK$10,000,000,000 in January 2011 and 5-year term loan and revolving credit facilities of up to HK$10,000,000,000 in June 2011 from groups of syndicate of banks under separate guarantees given by the Company. The HK$8,000,000,000 3-year term loan facility obtained in 2009 was fully repaid and cancelled in July 2012.

In connection with each of the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding (if any) under the respective credit facilities may become due and payable on demand.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

A resolution for the re-appointment of KPMG as Auditor of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 122 to 132.

On behalf of the Board

Lee Shau Kee
Chairman

Hong Kong, 25 March 2013

Biographical Details of Directors and Senior Management

Executive Directors

Dr the Hon LEE Shau Kee, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon),* aged 84, is the founder of the Company. He has been the Chairman and Managing Director of the Company since 1976 and has been engaged in property development in Hong Kong for more than 55 years. He is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He is the founder and the chairman and managing director of Henderson Investment Limited, the chairman of The Hong Kong and China Gas Company Limited and Miramar Hotel and Investment Company, Limited, the vice chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Hong Kong Ferry (Holdings) Company Limited. He is also an independent non-executive director of The Bank of East Asia, Limited but will retire from such directorship on 24 April 2013. All the above companies are listed companies. Dr Lee was awarded Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2007. Dr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Believegood Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Mr Lee Tat Man and Madam Fung Lee Woon King, the father of Ms Lee Pui Man, Margaret, Mr Lee Ka Kit and Mr Lee Ka Shing and the father-in-law of Mr Li Ning.

LEE Ka Kit, *JP,* aged 49, a Member of the Standing Committee of the 12th National Committee of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1985 and Vice Chairman since 1993. He was educated in the United Kingdom and has been primarily responsible for the development of the PRC business of Henderson Land Group since he joined the Company in 1985. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Investment Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited and Intime Department Store (Group) Company Limited, all of which are listed companies. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region and awarded an Honorary University Fellowship by The University of Hong Kong in 2009 respectively. Mr Lee is a director of Henderson Development which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Mr Lee Ka Shing and the brother-in-law of Mr Li Ning.

LAM Ko Yin, Colin, *FCILT, FHKIoD,* aged 61, joined the Company in 1982 and has been an Executive Director since 1985 and Vice Chairman since 1993. He is also a member of the Remuneration Committee and the Nomination Committee of the Company. He holds a B.Sc. (Honours) degree from The University of Hong Kong and has over 39 years' experience in banking and property development. He is also the chairman of Hong Kong Ferry (Holdings) Company Limited, the vice chairman of Henderson Investment Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed companies. He is a Director of The University of Hong Kong Foundation for Educational Development and Research Limited and a Director of Fudan University Education Development Foundation. Mr Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Mr Lam is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Believegood Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

LEE Ka Shing, aged 41, a Committee Member of the 10th Guangxi Zhuangzu Zizhiqu Committee and of the 10th Foshan Committee of the Chinese People's Political Consultative Conference, PRC, has been an Executive Director of the Company since 1993 and Vice Chairman since 2005. He was educated in Canada. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Investment Limited, chief executive officer of Miramar Hotel and Investment Company, Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited, all of which are listed companies. Mr Lee is a director of Henderson Development and Believegood Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Mr Lee Ka Kit and the brother-in-law of Mr Li Ning.

YIP Ying Chee, John, *LLB, FCIS*, aged 64, has been an Executive Director of the Company since 1997. He graduated from The University of Hong Kong and the London School of Economics and is a solicitor and a certified public accountant. He has over 35 years' experience in corporate finance, and corporate and investment management.

SUEN Kwok Lam, *JP, MH, FHIREA*, aged 66, joined the Company in 1997 and has been an Executive Director of the Company since January 2002. He previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 9 June 2011. He is the Vice President of Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He was the President of Hong Kong Association of Property Management Companies from 2003 to 2007. He has over 40 years' experience in property management. He was awarded the Medal of Honour in 2005 and appointed as a Justice of the Peace in 2011 by the Government of the Hong Kong Special Administrative Region respectively.

LEE King Yue, aged 86, has been an Executive Director of the Company since 1976. He joined Henderson Development Limited, the parent company of the Company on its incorporation in 1973 and has been engaged with Chairman in property development for over 55 years. He previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 11 June 2012. Mr Lee is a director of Yamina Investment Limited, Believegood Limited, Cameron Enterprise Inc. and South Base Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

FUNG LEE Woon King, aged 74, has been an Executive Director of the Company since 1976. She joined Henderson Development Limited ("Henderson Development"), the parent company of the Company as treasurer in 1974 and has been an executive director of Henderson Development since 1979. She is also the treasurer of Henderson Development Group, Henderson Land Group and Henderson Investment Group. Madam Fung is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Yamina Investment Limited, Believegood Limited, Cameron Enterprise Inc. and South Base Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. She is the sister of Dr Lee Shau Kee and Mr Lee Tat Man.

LAU Yum Chuen, Eddie, aged 66, has been an Executive Director of the Company since 1987. He has over 40 years' experience in banking, finance and investment. Mr Lau is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, both are listed companies. He previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 9 June 2011.

LI Ning, *BSc, MBA*, aged 56, has been an Executive Director of the Company since 1992. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. Mr Li is also an executive director of Hong Kong Ferry (Holdings) Company Limited and an Independent Non-executive Director of Glencore International plc, both are listed companies. He previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 1 June 2010. He is the son-in-law of Dr Lee Shau Kee, the spouse of Ms Lee Pui Man, Margaret and the brother-in-law of Mr Lee Ka Kit and Mr Lee Ka Shing.

KWOK Ping Ho, *BSc, MSc, Post-Graduate Diploma in Surveying, ACIB*, aged 60, joined the Company in 1987 and has been an Executive Director since 1993. He holds a B.Sc. (Engineering) degree, an M.Sc. (Administrative Sciences) degree and a Post-Graduate Diploma in Surveying (Real Estate Development). Mr Kwok is an Associate Member of The Chartered Institute of Bankers of the United Kingdom and he had worked in the international banking field for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong before joining the Company. He is also a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. He previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 11 June 2012. Mr Kwok is a director of Believegood Limited which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. Mr Kwok is also an Honorary Professor in the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong.

WONG Ho Ming, Augustine, *JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP)*, aged 52, joined the Company in 1996 and has been an Executive Director of the Company since September 2010. He is presently the General Manager of Property Development Department as well. Mr Wong previously served as an executive director of Henderson Investment Limited, a listed company, until his retirement on 11 June 2012. He is a registered professional surveyor and has over 28 years' experience in property appraisal, dealing and development. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2008.

Non-executive Directors

LEE Pui Ling, Angelina, *SBS, JP, LLB, FCA*, aged 64, has been a Director of the Company since 1996 and was re-designated as Non-executive Director in 2004. Mrs Lee is a Partner of the firm of solicitors, Woo, Kwan, Lee & Lo, and is a Fellow of the Institute of Chartered Accountants in England and Wales. Mrs Lee is active in public service and is currently a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and a member of the Takeovers and Mergers Panel of the Securities and Futures Commission. She is also a non-executive director of Cheung Kong Infrastructure Holdings Limited and TOM Group Limited as well as an independent non-executive director of Great Eagle Holdings Limited, all of which are listed companies. Mrs Lee was previously a Non-executive Director of the Mandatory Provident Fund Schemes Authority and the Securities and Futures Commission.

LEE Tat Man, aged 75, has been a Director of the Company since 1976. He has been engaged in property development in Hong Kong for more than 35 years and is also an executive director of Henderson Investment Limited, a listed company. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Dr Lee Shau Kee and Madam Fung Lee Woon King.

Independent Non-executive Directors

KWONG Che Keung, Gordon, *FCA*, aged 63, has been an Independent Non-executive Director of the Company since 2004. He is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He graduated from The University of Hong Kong with a bachelor's degree in social sciences in 1972 and qualified as a chartered accountant in England in 1977. He was a partner of Pricewaterhouse from 1984 to 1998 and an independent member of the Council of The Stock Exchange of Hong Kong from 1992 to 1997. He is an independent non-executive director of Henderson Investment Limited, Agile Property Holdings Limited, China Chengtong Development Group Limited, China COSCO Holdings Company Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, CITIC Telecom International Holdings Limited, Global Digital Creations Holdings Limited, NWS Holdings Limited and OP Financial Investments Limited, all of which are listed companies. Mr Kwong previously served as an independent non-executive director of Tianjin Development Holdings Limited until 26 May 2010, China Oilfield Services Limited until 28 May 2010, Frasers Property (China) Limited until 14 January 2011, COSCO International Holdings Limited until 9 June 2011, Beijing Capital International Airport Company Limited until 15 June 2011 and Quam Limited until 6 September 2012.

Professor KO Ping Keung, *PhD, FIEEE, JP*, aged 62, has been an Independent Non-executive Director of the Company since 2004. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Professor Ko holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Adjunct Professor of Peking University and Tsinghua University and Emeritus Professor of Electrical & Electronic Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley in 1991 – 1993 and a member of Technical staff, Bell Labs, Holmdel, in 1982 – 1984. Professor Ko is an independent non-executive director of Henderson Investment Limited, a listed company. He also served as an independent non-executive director of a listed company, China Resources Microelectronics Limited, until its privatisation in November 2011.

WU King Cheong, *BBS, JP*, aged 62, has been an Independent Non-executive Director of the Company since 2005. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr Wu is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. He is an executive director of Lee Cheong Gold Dealers Limited. He is also an independent non-executive director of Yau Lee Holdings Limited, Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. Mr Wu previously served as an independent non-executive director of Chevalier Pacific Holdings Limited, a listed company, until 27 October 2011.

WOO Ka Biu, Jackson, *MA (Oxon)*, aged 50, has been an Independent Non-executive Director of the Company since 1 March 2012. He holds an MA degree in Jurisprudence from the Oxford University and is a qualified solicitor in England and Wales, Hong Kong Special Administrative Region and Australia. He is an honorary director of Tsinghua University, a China-Appointed Attesting Officer appointed by the Ministry of Justice, People's Republic of China and a Practising Solicitor Member on the panel of the Solicitors' Disciplinary Tribunal in The Hong Kong Special Administrative Region. Mr Woo is currently a partner of Ashurst Hong Kong and was a director of N M Rothschild & Sons (Hong Kong) Limited ("Rothschild"). Prior to joining Rothschild, Mr Woo was a partner in the corporate finance department of Woo, Kwan, Lee & Lo. Mr Woo was an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as an non-executive director of the Company and Henderson Investment Limited ("HIL"), a listed subsidiary of the Company. Mr Woo's corresponding alternate directorship ceased at the same time when Sir Po-shing Woo resigned from the Board of the Company on 29 February 2012 and retired from the Board of HIL on 1 June 2010. He is a director of Kailey Group of Companies. He is also an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as an non-executive director of Sun Hung Kai Properties Limited, as well as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd., both of which are listed companies. He is the son of Sir Po-shing Woo.

LEUNG Hay Man, *FRICS, FCIArb, FHKIS*, aged 78, has been a Director of the Company since 1981 and was re-designated as Non-executive Director in 2004. On 22 August 2012, Mr Leung was re-designated as Independent Non-executive Director of the Company. He is also a member of the Audit Committee and the Corporate Governance Committee of the Company. Mr Leung is a Chartered Surveyor. He is also an independent non-executive director of Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited and The Hong Kong and China Gas Company Limited, all of which are listed companies.

Professor POON Chung Kwong, *GBS, JP, PhD, DSc*, aged 73, has been an Independent Non-executive Director and a member of the Corporate Governance Committee of the Company since 25 October 2012. Professor Poon is currently the Chairman of Virya Foundation Limited (a registered non-profit charitable organisation) and he is the President Emeritus of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon was appointed a non-official Justice of the Peace (JP) in 1989 and received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002, the "Leader of the Year Awards 2008 (Education)" and the Honorary Degree of Doctor of Humanity from The Hong Kong Polytechnic University in 2009. In addition, Professor Poon was appointed a member of the Legislative Council (1985 – 1991) and a member of the National Committee of the Chinese People's Political Consultative Conference (1998 – 2013). Professor Poon is the Honorary Professor of a number of top-rated universities in the mainland China. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of The Hong Kong and China Gas Company Limited, an associated company of the Company, Hopewell Highway Infrastructure Limited, K.Wah International Holdings Limited and Chevalier International Holdings Limited, all of which are listed companies.

Dr CHUNG Shui Ming, Timpson, *GBS, JP, DSSc (Hon)*, aged 61, has been an Independent Non-executive Director of the Company since 8 November 2012 and is the Chairman of the Corporate Governance Committee of the Company. Dr Chung obtained a Bachelor's degree in science from the University of Hong Kong and a Master's degree in business administration from the Chinese University of Hong Kong, and was awarded a Doctor of Social Sciences honoris causa by the City University of Hong Kong. He is a fellow member of Hong Kong Institute of Certified Public Accountants. He is a member of the National Committee of the 10th, 11th and 12th Chinese People's Political Consultative Conference. Formerly, Dr Chung was the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society and the Chief Executive of the Hong Kong Special Administrative Region Government Land Fund Trust. Dr Chung is an independent non-executive director of Miramar Hotel and Investment Company, Limited, an associated company of the Company, China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited, China Everbright Limited and China Overseas Grand Oceans Group Limited, all of which are listed on The Stock Exchange of Hong Kong Limited. Dr Chung is also an independent director of China State Construction Engineering Corporation Limited, listed on the Shanghai Stock Exchange. He was previously an independent director of China Everbright Bank Company Limited (listed on the Shanghai Stock Exchange) and an independent non-executive director of China Netcom Group Corporation (Hong Kong) Limited, Tai Shing International (Holdings) Limited and Nine Dragons Paper (Holdings) Limited, the Managing Director of Hantec Investment Holdings Limited and an executive director and the Chief Executive Officer of Shimao International Holdings Limited.

AU Siu Kee, Alexander, *OBE, ACA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 66. Mr Au was an Executive Director and the Chief Financial Officer of the Company from December 2005 to June 2011. He stepped down from the position of Chief Financial Officer and was re-designated as a Non-executive Director on 1 July 2011. On 18 December 2012, Mr Au was re-designated as an Independent Non-executive Director of the Company. A banker by profession, he was the chief executive officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited. Mr Au previously served as an independent non-executive director of Wheelock and Company Limited, a listed company until 22 October 2012. Currently Mr Au is an independent non-executive director of The Wharf (Holdings) Limited, a listed company. Within the Henderson Land Group, he is a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, both of which are listed companies. He is the chairman and non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. He is also a member of the Court of The Hong Kong University of Science and Technology. An accountant by training, Mr Au is a Chartered Accountant as well as a Fellow of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Senior Management

David Francis DUMIGAN, *BSc, C Eng, FICE, FHKIE, RPE*, aged 55, joined the Company in 1995 and is presently the General Manager of Project Management (1) Department. He is a Fellow Member of the Hong Kong Institution of Engineers and Institution of Civil Engineers. Mr Dumigan has over 31 years' experience in the design and construction of major development projects in Hong Kong and mainland China.

KWOK Man Cheung, Victor, *BA (AS), B Arch (Dist), MSc (Con P Mgt), EMBA, FHKIA, MAPM, RIBA, Authorized Person (Architect), Registered Architect (HK), PRC Class 1 Registered Architect Qualification*, aged 59, joined the Company in 2005 and is presently the General Manager of Project Management (2) Department. He possesses professional qualifications of both a project manager and an architect. He holds a Bachelor of Architecture (Distinction) degree and a Master of Science in Construction Project Management degree from The University of Hong Kong, and an Executive Master of Business Administration degree from Tsinghua University. He is a Fellow Member of The Hong Kong Institute of Architects and a Member of Association of Project Management. He has over 34 years of professional experience in the property and construction industry of Hong Kong and mainland China.

LEUNG Kam Leung, *MSc, PGDMS, FHKIS, FRICS, RPS (GP)*, aged 59, joined the Company in 1997 and is presently the General Manager of Property Planning Department. He holds a Master of Science degree in International Real Estate and a Postgraduate Diploma in Management Studies. He is a Fellow Member of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors and is also a Registered Professional Surveyor. He has over 36 years' experience in land and property development. Prior to joining the Company, Mr Leung held a Chief Estate Surveyor post in the Lands Department of the Hong Kong Government and had over 20 years' experience in government land disposal, land exchange, lease modification and premium assessment. He is currently serving on several government advisory committees.

WONG Wing Hoo, Billy, *JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE*, aged 55, joined the Company in 2006 and is presently the General Manager of Construction Department. He is a fellow member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Institution of Highways and Transportation and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. Mr Wong was appointed as a Justice of the Peace in 2005. He served as President of Hong Kong Construction Association and Chairman of Construction Industry Training Authority, and is currently a Director of Hong Kong Science & Technology Parks Corporation, Chairman of Construction Industry Training Board, and Permanent Supervisor of Hong Kong Construction Association.

CHENG Yuk Lun, Stephen, *BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE, Registered Structural Engineer, Registered Geotechnical Engineer, Authorized Person (List II), PRC Class 1 Registered Structural Engineer Qualification*, aged 64, joined the Company in 1994 and is presently the General Manager of the Engineering Department. He is a member of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, and the Institution of Structural Engineers. He has over 35 years of professional experience in structural, civil, and geotechnical engineering.

WONG Man Wa, Raymond, *LLB., PCLL*, Solicitor, aged 47, joined the Company in December 2012 and is presently the Senior General Manager of Sales Department. He possesses professional qualification as a solicitor in Hong Kong and is presently a member of the Property Committee of The Law Society of Hong Kong. He holds a Bachelor of Laws (LL.B) degree and a Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong. Prior to joining the Company, he had over 22 years' practical experience as a lawyer specializing in land and property development related works and was a partner of one of the largest international law firms in Hong Kong.

LAM Tat Man, Thomas, *MEM(UTS), DMS, EHKIM, MHIREA, CHINA GBL MANAGER*, aged 53, joined the Company in 1983 and is presently the General Manager of Sales (1) Department. He holds a Master Degree in Engineering Management from the University of Technology, Sydney, Australia and a Diploma in Management Studies from The Hong Kong Polytechnic University. He is an Ordinary Member of Hong Kong Institute of Real Estate Administrators and an Executive Member of Hong Kong Institute of Marketing and a China Green Building Label Manager. He has over 29 years' experience in property sales and marketing.

HAHN Ka Fai, Mark, *BSc, MRICS, MHKIS, RPS (GP)*, aged 49, joined the company in 2013 and is presently the General Manager of Sales (2) Department. He is a member of both The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He has over 26 years' experience in property acquisitions, developments, sales and marketing as well as fund raising involving projects in Hong Kong, mainland China, Taiwan and Japan. Prior to joining the Company, he was a founding Director of CY Leung & Co (Now DTZ), Associate Director at Sino Land and Executive Director, Asia/Managing Director, Development at Grosvenor.

LEE Pui Man, Margaret, *BHum (Hons)*, aged 52, joined the Company in 1984 and is presently the Senior General Manager of Portfolio Leasing Department. She holds a B Hum (Honours) degree from the University of London and has over 28 years' experience in marketing development. She is the eldest daughter of Dr Lee Shau Kee, the spouse of Mr Li Ning and the sister of Mr Lee Ka Kit and Mr Lee Ka Shing.

SIT Pak Wing, *ACIS, FHIREA*, aged 65, joined the Company in 1991 and is presently the General Manager of Portfolio Leasing Department. He is a Member of The Institute of Chartered Secretaries and Administrators, a Fellow Member of the Hong Kong Institute of Real Estate Administrators and an individual Member of The Real Estate Developers Association of Hong Kong. He has over 35 years' experience in marketing development, leasing and property management.

Dr WONG Kim Wing, Ball, *BA (AS), B. Arch, PhD (Finance), FHKIA, Registered Architect (HK), Authorized Person (List 1, HK)*, aged 51, joined the Company in August 2011 as the group consultant and serves to advise Henderson Land Group in his expert areas of sales and marketing, leasing, and project management. He is also presently acting as the General Manager of Asset Development Department and advises Henderson Land Group on its asset development and asset branding of investment portfolio. Dr Wong is a Registered Architect and Authorized Person in Hong Kong and holds a PhD Degree in Finance from the Shanghai University of Finance and Economics. Prior to joining Henderson Land Group, he was an executive director of CC Land Holdings Ltd., and was the Director (Project and Planning) of The Link Management Limited (as Manager of The Link Real Estate Investment Trust). He had also served Sun Hung Kai Properties Group for over 10 years.

LIU Cheung Yuen, Timon, *BEc, FCPA, CA (Aust), FCS, FCIS*, aged 55, joined the Henderson Land Group in 2005 and is presently the Company Secretary of the Group. Mr Liu graduated from Monash University, Australia with a bachelor's degree in Economics. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries, and an associate of The Institute of Chartered Accountants in Australia. He has many years' experience in accounting, auditing, corporate finance, corporate investment and development, and company secretarial practice.

WONG Wing Kee, Christopher, *BSc (Econ), FCA*, aged 50, joined the Company in June 2007 and is presently the General Manager of Accounts Department. Mr Wong graduated from The London School of Economics and Political Science, University of London and is a fellow of the Institute of Chartered Accountants in England & Wales. He has over 25 years of experience in accounting, auditing, investment banking and corporate finance in the United Kingdom and in Hong Kong. Prior to joining the Company, Mr Wong was the Chief Financial Officer of Kerry Properties Limited between December 2004 and May 2007.

NGAN Suet Fong, Bonnie, *BBA*, aged 55, joined the Company in January 2005 and is presently the General Manager of Corporate Communications Department. Ms Ngan graduated from the University of Wisconsin, USA. She has over 30 years of experience in both banking and real estate industries, and has held senior positions in corporate communications, marketing, retail banking and e-business. Prior to joining the Company, Ms Ngan was the General Manager, Corporate Communications and Public Relations of Hong Kong Tourism Board.

Accounts

Report of the Independent Auditor

Independent auditor's report to the shareholders of Henderson Land Development Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Henderson Land Development Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 159 to 253, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Note	**2012 HK$ million**	2011 HK$ million
Turnover	5	**15,592**	15,188
Direct costs		**(8,167)**	(8,418)
		7,425	6,770
Other revenue	6	**584**	325
Other net income	7	**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	17(a)	**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	8(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	8	**21,337**	18,981
Income tax	11(a)	**(1,005)**	(1,618)
Profit for the year		**20,332**	17,363
Attributable to:			
Equity shareholders of the Company	12	**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	*15(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	*15(b)*	***HK$2.97***	*HK$2.41*

The notes on pages 166 to 253 form part of these accounts. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 13.

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):	14		
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

The notes on pages 166 to 253 form part of these accounts.

Balance Sheets

at 31 December 2012

	Note	The Group 2012 HK$ million	The Group 2011 HK$ million	The Company 2012 HK$ million	The Company 2011 HK$ million
Non-current assets					
Fixed assets	17	**101,072**	92,771	**–**	–
Intangible operating right	18	**415**	454	**–**	–
Interest in subsidiaries	19	**–**	–	**137,512**	131,345
Interest in associates	20	**42,452**	40,117	**128**	121
Interest in jointly controlled entities	21	**29,588**	23,722	**267**	219
Derivative financial instruments	22	**595**	620	**–**	–
Other financial assets	23	**4,379**	3,617	**–**	–
Deferred tax assets	11(c)	**804**	673	**–**	–
		179,305	161,974	**137,907**	131,685
Current assets					
Deposits for acquisition of properties	24	**5,645**	8,433	**–**	–
Inventories	25	**76,403**	68,204	**–**	–
Trade and other receivables	26	**5,814**	4,495	**67**	29
Cash held by stakeholders		**1,852**	514	**–**	–
Cash and cash equivalents	28	**12,538**	18,850	**1**	1
		102,252	100,496	**68**	30
Current liabilities					
Trade and other payables	29	**15,265**	9,030	**20,553**	16,589
Bank loans and overdrafts	30	**2,826**	19,699	**–**	–
Amount due to a fellow subsidiary	32	**546**	–	**–**	–
Tax payable		**858**	798	**–**	–
		19,495	29,527	**20,553**	16,589
Net current assets/(liabilities)		**82,757**	70,969	**(20,485)**	(16,559)
Total assets less current liabilities		**262,062**	232,943	**117,422**	115,126

Balance Sheets
at 31 December 2012

	Note	The Group		The Company	
		2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Non-current liabilities					
Bank loans	30	**20,491**	16,581	**–**	–
Guaranteed notes	31	**18,301**	10,877	**–**	–
Amount due to a fellow subsidiary	32	**5,579**	8,583	**–**	–
Derivative financial instruments	22	**2,378**	1,895	**–**	–
Deferred tax liabilities	11(c)	**5,412**	5,082	**–**	–
		52,161	43,018	**–**	–
NET ASSETS		**209,901**	189,925	**117,422**	115,126
CAPITAL AND RESERVES	33				
Share capital	33(b)	**4,830**	4,738	**4,830**	4,738
Reserves		**200,382**	180,598	**112,592**	110,388
Total equity attributable to equity shareholders of the Company		**205,212**	185,336	**117,422**	115,126
Non-controlling interests		**4,689**	4,589	**–**	–
TOTAL EQUITY		**209,901**	189,925	**117,422**	115,126

Approved and authorised for issue by the Board of Directors on 25 March 2013.

Lee Shau Kee
Lee Tat Man
Directors

The notes on pages 166 to 253 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

		Attributable to equity shareholders of the Company											
	Note	Share capital HK$ million	Share premium HK$ million	Capital redemption reserve HK$ million	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2011		4,352	31,127	20	16	4,248	801	378	55	118,041	159,038	5,385	164,423
Changes in equity for 2011:													
Profit for the year		–	–	–	–	–	–	–	–	17,184	17,184	179	17,363
Other comprehensive income for the year	14(c)	–	–	–	–	2,326	(784)	(1,134)	(5)	–	403	41	444
Total comprehensive income for the year		–	–	–	–	2,326	(784)	(1,134)	(5)	17,184	17,587	220	17,807
Transfer to other reserves		–	–	–	–	–	–	–	1	(1)	–	–	–
Shares issued in respect of scrip dividends and warrants	33(b)	386	10,680	–	–	–	–	–	–	–	11,066	–	11,066
Dividend approved in respect of the previous financial year	13(b)	–	–	–	–	–	–	–	–	(1,644)	(1,644)	–	(1,644)
Dividend declared and paid in respect of the current year	13(a)	–	–	–	–	–	–	–	–	(711)	(711)	–	(711)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(340)	(340)
Increase in shareholding in a subsidiary		–	–	–	–	–	–	–	–	–	–	(432)	(432)
Repayment to non-controlling interests, net		–	–	–	–	–	–	–	–	–	–	(244)	(244)
Balance at 31 December 2011 and 1 January 2012		4,738	41,807	20	16	6,574	17	(756)	51	132,869	185,336	4,589	189,925
Changes in equity for 2012:													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,208**	**20,208**	**124**	**20,332**
Other comprehensive income for the year	14(c)	**–**	**–**	**–**	**–**	**41**	**554**	**(484)**	**–**	**–**	**111**	**(2)**	**109**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**41**	**554**	**(484)**	**–**	**20,208**	**20,319**	**122**	**20,441**
Transfer to other reserves		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**–**	**–**
Shares issued in respect of scrip dividends	33(b)	**92**	**1,899**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,991**	**–**	**1,991**
Dividend approved in respect of the previous financial year	13(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,658)**	**(1,658)**	**–**	**(1,658)**
Dividend declared and paid in respect of the current year	13(a)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(768)**	**(768)**	**–**	**(768)**
Share of associates' reserve from acquisition of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**	**–**	**(8)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(98)**	**(98)**
Increase in shareholding in a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Advance from non-controlling interests, net		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**78**	**78**
Balance at 31 December 2012		**4,830**	**43,706**	**20**	**16**	**6,615**	**571**	**(1,240)**	**52**	**150,642**	**205,212**	**4,689**	**209,901**

The notes on pages 166 to 253 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 HK$ million	2011 HK$ million
Operating activities			
Profit before taxation		**21,337**	18,981
Adjustments for:			
– Interest income		**(591)**	(232)
– Dividend income from investments in available-for-sale equity securities	8(d)	**(299)**	(76)
– Net loss/(gain) on disposal of fixed assets	7	**6**	(72)
– Provision on inventories	7	**36**	1
– Bad debts written off	7	**1**	7
– Impairment loss on trade debtors, net	7	**–**	1
– Gain on disposal of a subsidiary	7 & 34(b)	**(187)**	–
– Net gain on disposal of available-for-sale equity securities	7	**(109)**	–
– Increase in fair value of investment properties and investment properties under development	17(a)	**(8,813)**	(8,968)
– Finance costs	8(a)	**1,239**	1,169
– Amortisation and depreciation	8(d)	**211**	200
– Share of profits less losses of associates		**(4,048)**	(3,711)
– Share of profits less losses of jointly controlled entities		**(4,416)**	(2,924)
– Net foreign exchange loss/(gain)		**328**	(71)
Operating profit before changes in working capital		**4,695**	4,305
Increase in instalments receivable		**(351)**	(412)
Decrease in long term receivable		**16**	15
Decrease/(increase) in deposits for acquisition of properties		**2,782**	(1,239)
Increase in inventories (other than those acquired through purchase of subsidiaries and transfers to/from investment properties)		**(7,481)**	(5,283)
(Increase)/decrease in debtors, prepayments and deposits		**(718)**	183
Increase in gross amount due from customers for contract work		**(28)**	(36)
Increase in cash held by stakeholders		**(1,338)**	(395)
Increase/(decrease) in creditors and accrued expenses		**1,581**	(399)
Increase in gross amount due to customers for contract work		**268**	2
Increase in rental and other deposits		**156**	153
Increase in forward sales deposits received		**3,967**	3,125
Cash generated from operations		**3,549**	19
Interest received		**96**	35
Tax paid			
– Hong Kong		**(694)**	(370)
– Outside Hong Kong		**(309)**	(284)
Net cash generated from/(used in) operating activities		**2,642**	(600)

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 HK$ million	2011 HK$ million
Investing activities			
Payment for purchase of fixed assets		**(498)**	(471)
Proceeds from disposal of fixed assets		**786**	1,747
Advances to associates		**(83)**	(35)
Advances to jointly controlled entities		**(2,493)**	(210)
Additional investments in jointly controlled entities		**–**	(102)
Payment for purchase of available-for-sale equity securities		**(93)**	(179)
Proceeds from sale of available-for-sale equity securities		**29**	–
Acquisition of subsidiaries	34(a)	**(255)**	(790)
Proceeds from disposal of a subsidiary	34(b)	**541**	–
Additional investments in subsidiaries		**(2)**	(318)
Interest received		**493**	195
Dividends received from associates		**1,873**	1,247
Dividends received from jointly controlled entities		**1,034**	1,033
Distribution from available-for-sale equity securities		**153**	6
Dividends received from available-for-sale equity securities		**299**	76
Net cash generated from investing activities		**1,784**	2,199
Financing activities			
Advance received from/(repayment made to) non-controlling interests, net		**75**	(249)
Proceeds from new bank loans		**3,370**	9,697
Repayment of bank loans		**(16,280)**	(8,317)
Proceeds from issuance of guaranteed notes, net		**7,220**	3,937
Proceeds from issuance of shares, net	33(b)	**–**	10,026
Decrease in amount due to a fellow subsidiary		**(2,406)**	(4,403)
Interest and other borrowing costs paid		**(2,208)**	(1,781)
Dividends paid to equity shareholders of the Company		**(435)**	(1,315)
Dividends paid to non-controlling interests		**(98)**	(340)
Net cash (used in)/generated from financing activities		**(10,762)**	7,255
Net (decrease)/increase in cash and cash equivalents		**(6,336)**	8,854
Cash and cash equivalents at 1 January	28	**18,803**	9,752
Effect of foreign exchange rate changes		**(11)**	197
Cash and cash equivalents at 31 December	28	**12,456**	18,803

The notes on pages 166 to 253 form part of these accounts.

Notes to the accounts

for the year ended 31 December 2012

1 General information

Henderson Land Development Company Limited ("the Company") is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office and principal place of business is 72/F-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, construction, infrastructure, hotel operation and management, department store operation and management, finance, project management, investment holding and property management.

2 Significant accounting policies

(a) Statement of compliance

These 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. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively referred to as "the Group") is set out below.

(b) 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.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

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:

		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:

– 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.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

– 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)-Int 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.

– 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.

2 Significant accounting policies (continued)

(c) Basis of preparation of the accounts

The consolidated accounts for the year ended 31 December 2012 comprise the Company and its subsidiaries and the Group's interests in associates and jointly controlled entities.

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

– financial instruments classified as available-for-sale equity securities (see note 2(g));

– derivative financial instruments (see note 2(h)); and

– investment properties and investment properties under development (see note 2(j)(i)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and the key sources of estimation uncertainty are discussed in note 3.

2 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate or a jointly controlled entity (see note 2(e)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 Significant accounting policies (continued)

(e) Associates and jointly controlled entities

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(n)). Any excess of acquisition-date fair value over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate.

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

2 Significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(n)). Cost includes attributable transaction costs.

Investments in equity securities which do not fall into the above category are classified as available-for-sale equity securities. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(x)(viii). When these investments are derecognised or impaired (see note 2(n)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 Significant accounting policies (continued)

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on re-measurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the financial asset acquired or financial liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

2 Significant accounting policies (continued)

(j) Fixed assets

(i) Investment properties and investment properties under development

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(m)(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(m)(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(m).

(ii) Other property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation (see note 2(k)) and impairment losses (see note 2(n)):

– hotel properties;

– other land and buildings; and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the costs of materials and direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs capitalised (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits and is not reclassified to profit or loss.

2 Significant accounting policies (continued)

(k) Depreciation of fixed assets

(i) Investment properties and investment properties under development

No depreciation is provided on investment properties and investment properties under development.

(ii) Hotel properties, leasehold land classified as being held for own use under finance leases and other land and buildings

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Cost of buildings thereon are depreciated on a straight-line basis over the unexpired terms of the respective leases or 40 years if shorter.

(iii) Properties under development for own use

No depreciation is provided until such time the relevant assets are completed and ready for use.

(iv) Other property, plant and equipment

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold improvements, furniture and fixtures	5 years
– Others	2 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(l) Intangible operating right

Intangible operating right is stated at cost less accumulated amortisation and impairment losses (see note 2(n)).

Amortisation is provided to write off the cost of toll bridge operating right using the straight-line method over its remaining life.

Intangible operating right is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising from derecognition of an intangible operating right are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2 Significant accounting policies (continued)

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if it were held under a finance lease (see note 2(j)(i)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(j)(i)) or is held for development for sale (see note 2(o)(ii)).

2 Significant accounting policies (continued)

(n) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see note 2(e))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

- For available-for-sale equity securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held for own use under a finance lease;
- intangible operating right; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the aforementioned interim period, the Group applies the same impairment testing, recognition and reversal criteria (see notes 2(n)(i) and (ii)) as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which such interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

2 Significant accounting policies (continued)

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) *Leasehold land held for development for sale*

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition and the premium, if any, payable to the relevant government authorities. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(ii) *Properties held for/under development for sale*

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised (see note 2(z)). Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(iii) *Completed properties for sale*

Cost is determined by apportionment of the total land and development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs to be incurred in selling the property.

(iv) *Retail, catering stocks and trading goods*

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 Significant accounting policies (continued)

(p) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(x)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customers are included under "Debtors, prepayments and deposits".

(q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(n)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(n)(i)).

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2 Significant accounting policies (continued)

(u) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 Significant accounting policies (continued)

(v) Income tax (continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(j)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or realised, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 Significant accounting policies (continued)

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of properties*

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received.

(ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iv) *Contract revenue*

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract; and

- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that the costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable for such costs to be recoverable.

(v) *Toll fee income*

Toll fee income is recognised when services are provided and the amount of revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group.

(vi) *Hotel operation*

Income from hotel operation is recognised when services are provided.

2 Significant accounting policies (continued)

(x) Revenue recognition (continued)

(vii) Sale of goods

Revenue arising from the sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recognised after deduction of any trade discounts.

(viii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of foreign operations acquired before 1 July 2005 is translated into Hong Kong dollars at the foreign exchange rates that applied at the dates of acquisition of the foreign operations.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant accounting policies (continued)

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a) above.

(vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Valuation of investment properties and investment properties under development

As described in note 17, investment properties and investment properties under development are stated at fair value based on the valuation performed by an independent firm of professional valuers.

In determining the fair value of investment properties, the valuers have based on a method of valuation which involves, inter alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Investment properties under development are 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.

(b) Impairment of non-current assets

If circumstances indicate that the carrying amounts of fixed assets (other than investment properties and investment properties under development) and intangible operating right may not be recoverable, the assets may be considered impaired and are tested for impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

(c) Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

In determining the net realisable value of completed properties for sale, management refers to prevailing market data such as recent sales transactions, market survey reports available from independent property valuers and internally available information, as bases for evaluation.

In respect of leasehold land held for development for sale and properties held for/under development for sale, the estimate of net realisable value requires the application of a risk-adjusted discount rate to the estimated future cash flows to be derived from these properties. These estimates require judgement as to the anticipated selling prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the estimated costs to completion of properties, the legal and regulatory framework and general market conditions.

3 Accounting estimates and judgements (continued)

(d) Recognition of deferred tax assets

At 31 December 2012, the Group has recognised deferred tax assets in relation to the unused tax losses as set out in note 11(c). The realisability of deferred tax assets mainly depends on whether it is probable that future taxable profits will be available against which related tax benefits under the deferred tax assets can be utilised. In cases where the actual future taxable profits generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

4 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and foreign currency arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, derivative financial instruments entered into for hedging purposes, as well as instalments, rental and other trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Transactions involving derivative financial instruments are also executed with counterparties of sound credit standing. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

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 the 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. Regarding toll fee income receivable from the toll bridge located in Hangzhou, Zhejiang Province, mainland China, the amount 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, and further developments of which are referred to in note 18 to these accounts. 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.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets. Except for the financial guarantees given by the Group and the Company as disclosed in note 37 to these accounts, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 26 to these accounts.

4 Financial risk management and fair values (continued)

(b) Liquidity risk

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given the amount due to a fellow subsidiary classified as non-current liability (see note 32), amounts due to subsidiaries (see note 19), amounts due to associates and amounts due to jointly controlled entities (see note 29) have no fixed terms of repayment, it is not practical to disclose their remaining contractual maturities at the balance sheet date. Except for these, the following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2012 Contractual undiscounted cash outflow						2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million
Bank loans and overdrafts	3,288	4,399	15,775	1,700	25,162	23,317	20,360	3,632	12,233	2,181	38,406	36,280
Guaranteed notes	886	2,745	10,305	9,200	23,136	18,301	562	562	3,957	9,880	14,961	10,877
Creditors and accrued expenses	6,033	–	–	–	6,033	6,033	4,195	–	–	–	4,195	4,195
Rental and other deposits	572	379	255	24	1,230	1,230	463	383	214	18	1,078	1,078
Amount due to a fellow subsidiary	563	–	–	–	563	546	–	–	–	–	–	–
	11,342	7,523	26,335	10,924	56,124	49,427	25,580	4,577	16,404	12,079	58,640	52,430

	2012 Contractual undiscounted cash inflow/(outflow)					2011 Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Derivative settled net:										
Interest rate swap contracts held as cash flow hedging instruments	(302)	(293)	(871)	(1,314)	(2,780)	(315)	(314)	(909)	(1,657)	(3,195)
Derivative settled gross:										
Cross currency interest rate swap contracts held as cash flow hedging instruments:										
– outflow	(1,680)	(1,733)	(2,530)	(8,280)	(14,223)	(453)	(1,589)	(2,301)	(7,654)	(11,997)
– inflow	1,653	1,727	2,456	8,190	14,026	451	1,592	2,363	7,551	11,957

4 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The Company

	2012 Contractual undiscounted cash outflow		2011 Contractual undiscounted cash outflow	
	Within 1 year or on demand HK$ million	**Carrying amount HK$ million**	Within 1 year or on demand HK$ million	Carrying amount HK$ million
Creditors and accrued expenses	**15**	**15**	52	52
	15	**15**	52	52
Financial guarantees issued:				
Maximum amount guaranteed (note 37)	**42,786**	**–**	46,655	–

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings which predominantly bear floating interest rates. The Group monitors closely its interest rate exposure and the level of fixed rate and floating rate borrowings and considers hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedging

Cross currency interest rate swap contracts have been entered into with certain counterparty banks to enable the Group to secure a fixed interest rate level in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the guaranteed notes (see note 31) and the bank borrowings denominated in United States dollars ("US$") and Japanese Yen ("¥") into Hong Kong dollars. As a result, the Group hedges against the interest rate risk which may arise during the periods (i) between the issuance date and the maturity date in respect of the entire amount of each tranche of the guaranteed notes due 2014-2022 denominated in United States dollars and Pound Sterling ("£") with aggregate principal amounts of US$325 million (2011: US$325 million) and £50 million (2011: £50 million) (see note 31) at 31 December 2012; (ii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes due 2019 denominated in United States dollars with aggregate principal amount of US$500 million (2011: US$500 million) (see note 31) at 31 December 2012; (iii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes issued pursuant to the Medium Term Note Programme established by the Group on 30 August 2011 denominated in United States dollars and Singapore dollars ("S$") with aggregate principal amounts of US$10 million and S$200 million (2011: US$10 million) at 31 December 2012; and (iv) between the drawdown dates and the repayment dates in respect of the entire amount of the bank borrowings denominated in United States dollars and Japanese Yen with aggregate amounts of US$148 million and ¥10,000 million (2011: US$148 million) at 31 December 2012.

Interest rate swap contracts have also been entered into with certain counterparty banks to hedge against the interest rate risk which may arise during the periods between the drawdown dates and the repayment dates in respect of certain bank borrowings which bear floating interest rates denominated in Hong Kong dollars with an aggregate amount of HK$13,000 million (2011: HK$13,000 million) at 31 December 2012.

4 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(i) Hedging (continued)

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to these guaranteed notes and bank borrowings.

The swap contracts will mature between 18 September 2013 and 20 October 2026 (2011: 18 September 2013 and 20 October 2026) matching the maturity of the related guaranteed notes and the repayment dates of the bank borrowings and have fixed swap interest rates ranging from 1.23% to 5.735% (2011: 1.23% to 5.735%) per annum. The fair value of such swap contracts entered into by the Group at 31 December 2012 amounted to HK$595 million (2011: HK$620 million) (derivative financial assets) and HK$2,418 million (2011: HK$1,895 million) (derivative financial liabilities), respectively. These amounts are recognised as derivative financial instruments at 31 December 2012 and 2011 (see note 22).

(ii) Interest rate profile

The following table details the interest rate profile of the Group's bank loans and overdrafts and guaranteed notes at the balance sheet date, after taking into account the effect of swap contracts designated as cash flow hedging instruments (see (i) above).

	2012		
	Fixed/ floating	**Effective interest rate**	**Amount HK$ million**
Bank loans and overdrafts	**Floating**	**2.80%**	**8,391**
Bank loans	**Fixed**	**3.91%**	**14,926**
Guaranteed notes	**Fixed**	**4.44%**	**18,301**

	2011		
	Fixed/ floating	Effective interest rate	Amount HK$ million
Bank loans and overdrafts	Floating	2.79%	21,424
Bank loans	Fixed	3.85%	14,856
Guaranteed notes	Fixed	4.80%	10,877

(iii) Sensitivity analysis

Assuming that the interest rates had generally increased/decreased by not more than 100 basis points (2011: 100 basis points) at 31 December 2012 and the changes had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, with all other variables held constant, the impact on the Group's profit after tax and total equity attributable to equity shareholders of the Company is not expected to be material.

The sensitivity analysis above assumes the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the balance sheet date. The analysis is performed on the same basis for 2011.

4 Financial risk management and fair values (continued)

(d) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong with its cash flows substantially denominated in Hong Kong dollars. The Group reports its results in Hong Kong dollars.

The Group's primary foreign currency exposure arises from its property development and investment activities in mainland China, as the functional currency of these operations is Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings with reference to the future Renminbi funding requirements from the investments and the related returns to be generated therefrom.

The Group is also exposed to foreign currency risk in respect of cash deposits denominated in United States dollars, Singapore dollars, Euros and Japanese Yen. At 31 December 2012, cash deposits denominated in United States dollars amounted to US$498 million (2011: US$1,011 million). The Group does not expect that there will be any significant currency risk associated with such cash deposits given that the Hong Kong dollar is pegged to the United States dollar. For cash deposits denominated in Singapore dollars, Euros and Japanese Yen, since the balances are insignificant, the Group considers the exposure to foreign currency risk to be low.

(i) Hedging

The foreign currency risk attributable to the guaranteed notes denominated in United States dollars, Pound Sterling and Singapore dollars (see note 31) and the bank borrowings denominated in United States dollars and Japanese Yen are being hedged by way of the cross currency interest rate swap contracts which were entered into between the Group and certain counterparty banks, as a result of which the principal amounts of the guaranteed notes denominated in United States dollars, Pound Sterling and Singapore dollars and the bank borrowings denominated in United States dollars and Japanese Yen were converted into Hong Kong dollars, details of which are set out in note 4(c)(i).

(ii) Sensitivity analysis

Assuming that the relevant foreign currencies had strengthened/weakened by not more than 5% (2011: 5%) at 31 December 2012 and the changes had been applied to each of the Group entities' exposure to foreign currency risk for both derivative and non-derivative financial instruments denominated in a currency other than the functional currency of the entity to which they relate and in existence at that date, with all other variables held constant, the impact on the Group's profit after tax and total equity attributable to equity shareholders of the Company is not expected to be material.

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis is performed on the same basis for 2011.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 23).

Listed investments held in the available-for-sale equity securities portfolio have been chosen based on their long term growth potential and returns and are monitored regularly for performance against expectations. Assuming that the market value of the Group's listed available-for-sale equity securities had increased/decreased by not more than 10% (2011: 10%) at 31 December 2012, with all other variables held constant, the impact on the total equity attributable to equity shareholders of the Company is not expected to be material. Any increase or decrease in the market value of the Group's listed available-for-sale equity securities would not affect the Group's profit after tax unless they are impaired.

4 Financial risk management and fair values (continued)

(e) Equity price risk (continued)

The sensitivity analysis above assumes that the changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair value of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables, that none of the Group's available-for-sale equity securities would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2011.

(f) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	The Group		
2012	**Level 1 HK$ million**	**Level 2 HK$ million**	**Total HK$ million**
Assets			
Available-for-sale equity securities:			
– listed	2,433	–	2,433
Derivative financial instruments:			
– cross currency interest rate swap contracts	–	595	595
	2,433	595	3,028
Liabilities			
Derivative financial instruments:			
– interest rate swap contracts	–	1,657	1,657
– cross currency interest rate swap contracts	–	761	761
	–	2,418	2,418

4 Financial risk management and fair values (continued)

(f) Fair values (continued)

(i) Financial instruments carried at fair value (continued)

2011	The Group Level 1 HK$ million	 Level 2 HK$ million	 Total HK$ million
Assets			
Available-for-sale equity securities:			
– listed	2,021	–	2,021
Derivative financial instruments:			
– cross currency interest rate swap contracts	–	620	620
	2,021	620	2,641
Liabilities			
Derivative financial instruments:			
– interest rate swap contracts	–	1,203	1,203
– cross currency interest rate swap contracts	–	692	692
	–	1,895	1,895

During the years ended 31 December 2012 and 2011, there were no significant transfers of financial instruments between Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2012 and 2011 except as follows:

– Amounts due from/to subsidiaries, certain amounts due from associates and jointly controlled entities and amounts due to associates and jointly controlled entities

All the amounts due from/to subsidiaries of the Company, certain amounts due from associates and jointly controlled entities of the Group and all the amounts due to associates and jointly controlled entities of the Group are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to quantify their fair values and therefore they are stated at cost.

– Unlisted investments

Equity securities of HK$392 million at 31 December 2012 (2011: HK$377 million) do not have a quoted market price in an active market and their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the balance sheet date (see note 23).

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Equity securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

4 Financial risk management and fair values (continued)

(g) Estimation of fair values (continued)

(ii) Derivative financial instruments

The fair value of cross currency interest rate swap contracts and interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract, discounted at current market interest rates for a similar financial instrument at the measurement date.

(iii) Interest-bearing borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments at the measurement date.

5 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 HK$ million	2011 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 16(b))	**15,592**	15,188

6 Other revenue

	2012 HK$ million	2011 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 on a refund of land deposit received during the year (2011: Nil).

7 Other net income

	2012 HK$ million	2011 HK$ million
Gain on disposal of a subsidiary (note 34(b))	**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 (notes 16(c) and 26(c))	**–**	(1)
Bad debts written off	**(1)**	(7)
Provision on inventories	**(36)**	(1)
Net foreign exchange (loss)/gain	**(168)**	76
Others	**(62)**	(63)
	23	76

8 Profit before taxation

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

		2012 HK$ million	2011 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.*

8 Profit before taxation (continued)

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

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

Details of the directors' remuneration are set out in note 9.

		2012 HK$ million	2011 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

		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 loss 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).

9 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2012				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	95	17,994	–	–	18,089
Lee Ka Kit	95	16,797	1,118	14	18,024
Lam Ko Yin, Colin	95	8,139	21,860	488	30,582
Lee Ka Shing	95	15,876	819	590	17,380
Yip Ying Chee, John	75	7,440	20,560	446	28,521
Suen Kwok Lam	75	5,724	6,580	343	12,722
Lee King Yue	85	3,084	366	185	3,720
Fung Lee Woon King	75	4,092	4,504	246	8,917
Lau Yum Chuen, Eddie	75	–	–	–	75
Li Ning	75	3,048	862	183	4,168
Kwok Ping Ho	135	3,960	1,390	238	5,723
Wong Ho Ming, Augustine	85	7,008	5,000	420	12,513
Non-executive Directors					
Sir Po-shing Woo*	8	–	–	–	8
Lee Pui Ling, Angelina	125	150	–	–	275
Lee Tat Man	95	–	–	–	95
Independent non-executive Directors					
Kwong Che Keung, Gordon	145	505	–	–	650
Professor Ko Ping Keung	145	505	–	–	650
Wu King Cheong	145	505	–	–	650
Leung Hay Man **	178	597	–	–	775
Woo Ka Biu, Jackson *	117	–	–	–	117
Professor Poon Chung Kwong ***	33	17	–	–	50
Dr Chung Shui Ming, Timpson ****	33	17	–	–	50
Au Siu Kee, Alexander *****	329	–	–	–	329
Total for the year ended 31 December 2012	2,413	95,458	63,059	3,153	164,083

* *Sir Po-shing Woo resigned as a Non-executive Director of the Company on 29 February 2012. Accordingly, Mr Woo Ka Biu, Jackson ceased to be an alternate to Sir Po-shing Woo on the same date.*
Mr Woo Ka Biu, Jackson has been appointed as an Independent Non-executive Director of the Company with effect from 1 March 2012.

** *Re-designated from Non-executive Director to Independent Non-executive Director with effect from 22 August 2012.*

*** *Professor Poon Chung Kwong has been appointed as an Independent Non-executive Director of the Company with effect from 25 October 2012.*

**** *Dr Chung Shui Ming, Timpson has been appointed as an Independent Non-executive Director of the Company with effect from 8 November 2012.*

***** *Re-designated from Non-executive Director to Independent Non-executive Director with effect from 18 December 2012.*

9 Directors' remuneration (continued)

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows: (continued)

	2011				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	70	16,857	–	–	16,927
Lee Ka Kit	70	15,402	1,180	12	16,664
Lam Ko Yin, Colin	70	7,714	22,300	463	30,547
Lee Ka Shing	70	11,784	776	559	13,189
Yip Ying Chee, John	50	7,056	20,900	423	28,429
Suen Kwok Lam	60	5,424	6,880	325	12,689
Lee King Yue	70	2,928	522	176	3,696
Fung Lee Woon King	50	3,876	4,720	233	8,879
Lau Yum Chuen, Eddie	60	–	–	–	60
Li Ning	50	2,820	1,150	169	4,189
Kwok Ping Ho	120	3,756	1,440	225	5,541
Wong Ho Ming, Augustine	70	6,640	3,360	398	10,468
Non-executive Directors					
Sir Po-shing Woo	50	–	–	–	50
Au Siu Kee, Alexander *	235	3,870	2,630	193	6,928
Leung Hay Man	70	430	–	–	500
Lee Pui Ling, Angelina	50	–	–	–	50
Lee Tat Man	70	–	–	–	70
Woo Ka Biu, Jackson	–	–	–	–	–
Independent non-executive Directors					
Kwong Che Keung, Gordon	70	480	–	–	550
Professor Ko Ping Keung	70	480	–	–	550
Wu King Cheong	70	480	–	–	550
Total for the year ended 31 December 2011	1,495	89,997	65,858	3,176	160,526

* *Re-designated from Executive Director to Non-executive Director with effect from 1 July 2011.*

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current or prior year.

10 Emoluments of five highest paid individuals and senior management

(a) Emoluments of five highest paid individuals

Of the five individuals with the highest emoluments, all (2011: five) of them are directors whose emoluments are disclosed in note 9.

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 9 and 10(a), the emoluments of the senior management whose profiles are set out in the section "Biographical Details of Directors and Senior Management" of the annual report (of which these accounts form a part) fell within the following bands:

	2012 Number of individuals	2011 Number of individuals
Emolument band (HK$)*		
$3,000,000 or below	**2**	2
$3,000,001 to $4,000,000	**1**	2
$4,000,001 to $5,000,000	**1**	–
$5,000,001 to $6,000,000	**1**	–
$6,000,001 to $7,000,000	**–**	1
$7,000,001 to $8,000,000	**2**	3
$8,000,001 to $9,000,000	**2**	2
$9,000,001 to $10,000,000	**2**	–
$10,000,001 or above	**2**	2
	13	12

* *Including salaries, emoluments, other allowances and benefits, discretionary bonuses and retirement scheme contributions.*

11 Income tax

(a) Income tax in the consolidated income statement represents:

	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.

11 Income tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012 HK$ million	2011 HK$ million
Profit before taxation	**21,337**	18,981
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**3,619**	3,435
Tax effect of share of profits less losses of associates and jointly controlled entities	**(1,399)**	(1,095)
Tax effect of non-deductible expenses	**241**	369
Tax effect of non-taxable revenue	**(1,571)**	(1,229)
Tax effect of temporary difference not recognised in prior years now recognised	**(17)**	(4)
Tax effect of current year's tax losses not recognised	**296**	269
Tax effect of prior year's tax losses utilised	**(77)**	(42)
Tax effect of unused tax losses not recognised in prior years now recognised	**(42)**	(20)
Tax indemnity received	**(84)**	–
One-off rebate of profits tax	**(1)**	–
Land Appreciation Tax	**46**	7
Withholding tax	**8**	15
Over-provision in respect of prior years	**(14)**	(87)
Actual tax expense	**1,005**	1,618

11 Income tax (continued)

(c) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group							
	Depreciation allowances in excess of related depreciation HK$ million	Revaluation of properties HK$ million	Elimination and capitalisation of expenses HK$ million	Fair value adjustment on business combination HK$ million	Consideration receivable on disposal of toll fee collection right of toll bridges HK$ million	Tax losses HK$ million	Others HK$ million	Total HK$ million
Deferred tax arising from:								
At 1 January 2011	895	1,951	262	1,034	20	(675)	60	3,547
Exchange adjustments	11	111	–	–	–	–	–	122
Charged/(credited) to profit or loss	71	490	267	(2)	(6)	94	(5)	909
Credited to reserves (note 14(b))	–	–	–	–	–	–	(227)	(227)
Acquisition of subsidiaries	2	–	–	56	–	–	–	58
At 31 December 2011	979	2,552	529	1,088	14	(581)	(172)	4,409
At 1 January 2012	**979**	**2,552**	**529**	**1,088**	**14**	**(581)**	**(172)**	**4,409**
Exchange adjustments	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(5)**
Charged/(credited) to profit or loss	**104**	**198**	**(36)**	**–**	**(2)**	**(8)**	**(4)**	**252**
Credited to reserves (note 14(b))	**–**	**–**	**–**	**–**	**–**	**–**	**(84)**	**(84)**
Acquisition of subsidiaries	**–**	**–**	**–**	**36**	**–**	**–**	**–**	**36**
At 31 December 2012	**1,083**	**2,745**	**493**	**1,124**	**12**	**(589)**	**(260)**	**4,608**

	The Group	
	2012 HK$ million	2011 HK$ million
Net deferred tax assets recognised in the consolidated balance sheet	**(804)**	(673)
Net deferred tax liabilities recognised in the consolidated balance sheet	**5,412**	5,082
	4,608	4,409

11 Income tax (continued)

(d) Deferred tax assets not recognised:

Deferred tax assets have not been recognised in respect of the following items:

	The Group			
	2012		2011	
	Deductible temporary differences/ tax losses HK$ million	**Deferred tax assets HK$ million**	Deductible temporary differences/ tax losses HK$ million	Deferred tax assets HK$ million
Deductible temporary differences	**50**	**8**	68	11
Future benefits of tax losses				
Hong Kong (note (i))				
– Assessed by the Inland Revenue Department	**1,765**	**291**	2,149	355
– Not yet assessed by the Inland Revenue Department	**3,422**	**564**	2,801	462
Outside Hong Kong (note (ii))	**949**	**237**	1,111	277
	6,136	**1,092**	6,061	1,094
	6,186	**1,100**	6,129	1,105

Notes:

(i) The tax losses do not expire under current tax legislation.

(ii) The tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$2,731 million (2011: HK$2,583 million) which has been dealt with in the accounts of the Company.

13 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

14 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2012			2011		
	Pre-tax amount HK$ million	**Tax expense HK$ million**	**Net-of-tax amount HK$ million**	Pre-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Exchange differences: net movement in the exchange reserve	**(29)**	**–**	**(29)**	1,938	–	1,938
Cash flow hedges: net movement in the hedging reserve	**(508)**	**84**	**(424)**	(1,377)	227	(1,150)
Available-for-sale equity securities: net movement in the fair value reserve	**386**	**–**	**386**	(614)	–	(614)
Share of other comprehensive income of associates and jointly controlled entities	**176**	**–**	**176**	270	–	270
Other comprehensive income for the year	**25**	**84**	**109**	217	227	444

14 Other comprehensive income (continued)

(b) Components of other comprehensive income, including reclassification adjustments

	2012 HK$ million	2011 HK$ million
Exchange differences:		
– translation of accounts of foreign entities	**(29)**	1,938
Net movement in the exchange reserve during the year recognised in other comprehensive income	**(29)**	1,938
Cash flow hedges:		
– effective portion of changes in fair value of hedging instruments recognised during the year	**(548)**	(1,385)
– reclassification adjustments for amounts transferred to profit or loss	**40**	8
– net deferred tax credited to other comprehensive income (note 11(c))	**84**	227
Net movement in the hedging reserve during the year recognised in other comprehensive income	**(424)**	(1,150)
Available-for-sale equity securities:		
– changes in fair value recognised during the year	**471**	(614)
– reclassification adjustments for amounts transferred to profit or loss on disposal	**(85)**	–
Net movement in the fair value reserve during the year recognised in other comprehensive income	**386**	(614)

14 Other comprehensive income (continued)

(c) For each component of equity

	Attributable to equity shareholders of the Company									
	Property revaluation reserve HK$ million	Capital redemption reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total other comprehensive income HK$ million
2011										
Exchange differences:										
– translation of accounts of foreign entities	–	–	1,897	–	–	–	–	1,897	41	1,938
Cash flow hedges:										
– effective portion of changes in fair value, net of deferred tax	–	–	–	–	(1,157)	–	–	(1,157)	–	(1,157)
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	–	7	–	–	7	–	7
Available-for-sale equity securities:										
– changes in fair value	–	–	–	(614)	–	–	–	(614)	–	(614)
Share of other comprehensive income of associates and jointly controlled entities	–	–	429	(170)	16	(5)	–	270	–	270
Other comprehensive income for the year	–	–	2,326	(784)	(1,134)	(5)	–	403	41	444
2012										
Exchange differences:										
– translation of accounts of foreign entities	–	–	(27)	–	–	–	–	(27)	(2)	(29)
Cash flow hedges:										
– effective portion of changes in fair value, net of deferred tax	–	–	–	–	(457)	–	–	(457)	–	(457)
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	–	33	–	–	33	–	33
Available-for-sale equity securities:										
– changes in fair value	–	–	–	471	–	–	–	471	–	471
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	–	(85)	–	–	–	(85)	–	(85)
Share of other comprehensive income of associates and jointly controlled entities	–	–	68	168	(60)	–	–	176	–	176
Other comprehensive income for the year	–	–	41	554	(484)	–	–	111	(2)	109

15 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 million	2011 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.

(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 HK$ million	2011 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

16 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.

16 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	Property leasing HK$ million (note (iii))	Construction HK$ million	Infrastructure 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

16 Segment reporting (continued)

(a) Results of reportable segments (continued)

2011

	Property development HK$ million	Property leasing HK$ million (note (iii))	Construction HK$ million	Infrastructure 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)	–	–	–	–	–	–		(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

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 (net of deferred tax) 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).

16 Segment reporting (continued)

(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 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 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

(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 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 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

17 Fixed assets

(a) The Group

	Investment properties HK$ million	Investment properties under development HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Properties under development for own use HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Total HK$ million
Cost or valuation:								
At 1 January 2011	81,636	191	836	134	353	984	1,097	85,231
Exchange adjustments	1,112	25	–	–	–	–	12	1,149
Additions								
– through acquisition of subsidiaries (note 34(a))	164	–	–	–	–	–	–	164
– others	171	271	–	–	65	–	205	712
Disposals								
– others	(1,830)	–	–	–	–	–	(52)	(1,882)
Surplus on revaluation	8,311	657	–	–	–	–	–	8,968
Transfer (to)/from inventories, net	(580)	296	–	–	–	–	–	(284)
At 31 December 2011	88,984	1,440	836	134	418	984	1,262	94,058
Representing:								
Cost	–	–	836	134	418	984	1,262	3,634
Valuation	88,984	1,440	–	–	–	–	–	90,424
	88,984	1,440	836	134	418	984	1,262	94,058
Accumulated depreciation and impairment losses:								
At 1 January 2011	–	–	201	28	–	104	830	1,163
Exchange adjustments	–	–	–	–	–	–	8	8
Charge for the year	–	–	21	2	–	19	126	168
Written back on disposals								
– others	–	–	–	–	–	–	(52)	(52)
At 31 December 2011	–	–	222	30	–	123	912	1,287
Net book value:								
At 31 December 2011	88,984	1,440	614	104	418	861	350	92,771

17 Fixed assets (continued)

(a) The Group (continued)

	Investment properties HK$ million	Investment properties under development HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Properties under development for own use HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Others HK$ million	Total HK$ million
Cost or valuation:								
At 1 January 2012	88,984	1,440	836	134	418	984	1,262	94,058
Exchange adjustments	4	(32)	–	–	–	–	–	(28)
Additions								
– others	174	79	–	6	154	–	234	647
Disposals								
– through disposal of a subsidiary (note 34(b))	(359)	–	–	–	–	–	–	(359)
– others	(686)	(370)	–	–	–	–	(76)	(1,132)
Surplus on revaluation	8,762	51	–	–	–	–	–	8,813
Transfer to investment properties	947	(947)	–	–	–	–	–	–
Transfer from inventories	462	–	–	4	–	–	–	466
Transfers to other land and buildings	–	–	–	572	(572)	–	–	–
At 31 December 2012	98,288	221	836	716	–	984	1,420	102,465
Representing:								
Cost	–	–	836	716	–	984	1,420	3,956
Valuation	98,288	221	–	–	–	–	–	98,509
	98,288	221	836	716	–	984	1,420	102,465
Accumulated depreciation and impairment losses:								
At 1 January 2012	–	–	222	30	–	123	912	1,287
Charge for the year	–	–	21	2	–	19	139	181
Written back on disposals								
– others	–	–	–	–	–	–	(75)	(75)
At 31 December 2012	–	–	243	32	–	142	976	1,393
Net book value:								
At 31 December 2012	98,288	221	593	684	–	842	444	101,072

17 Fixed assets (continued)

(b) The analysis of net book value of properties is as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
In Hong Kong		
– under long leases	**7,844**	6,796
– under medium-term leases	**65,531**	59,499
	73,375	66,295
Outside Hong Kong		
– under medium-term leases	**27,252**	26,125
– under short-term leases	**1**	1
	27,253	26,126
	100,628	92,421

(c) 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.

(d) All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

18 Intangible operating right

The Group

	Toll bridge operating right	
	2012 HK$ million	2011 HK$ million
Cost:		
At 1 January	**931**	893
Exchange adjustments	**–**	38
At 31 December	**931**	931
Accumulated amortisation:		
At 1 January	**477**	414
Exchange adjustments	**–**	19
Charge for the year	**39**	44
At 31 December	**516**	477
Carrying amount:		
At 31 December	**415**	454

The toll bridge represents Hangzhou Qianjiang Third Bridge (the "Bridge") located in Hangzhou, Zhejiang Province, mainland China.

The Group was granted the operating right of the Bridge by the Hangzhou Foreign Economic Relations and Trade Commission (杭州市對外經濟貿易委員會) in 1997 and was further approved by National Development and Reform Commission (formerly known as State Development & Planning Committee) (發展和改革委員會(前稱為國家發展計劃委員會)) in 1999 for a period of 30 years from 20 March 1997 (commencement date of the Bridge's operation) to 19 March 2027 during which the Group has the rights of management and maintenance of the Bridge.

The General Office of the People's Government of Zhejiang Province (浙江省人民政府) notified Zhejiang Province Department of Communications (浙江省交通運輸廳) and other relevant government authorities in 2003 to provisionally fix the period for entitlement to toll fee in respect of 39 toll roads and highways in the province. In the case of the Bridge, which was also included in the list, the period was provisionally fixed at 15 years (from 20 March 1997 to 19 March 2012).

Hangzhou Henderson Qianjiang Third Bridge Company, Limited (the "Joint Venture Company"), a subsidiary of Henderson Investment Limited ("HIL", being a subsidiary of the Company) which holds the operating right of the Bridge, had obtained from the Hangzhou Municipal Bureau of Communications (杭州市交通運輸局) a written pledge on 31 December 2003 regarding the operating period of the Bridge of 30 years and they were of the view that the operating right and the toll fee collection right should be for a same period. For the sake of reassurance, in June 2011, the Joint Venture Company wrote to the People's Government of Zhejiang Province and Zhejiang Province Department of Communications requesting for their confirmation that both the operating right and toll fee collection right of the Bridge last for a same period of 30 years, the reply from whom is pending at the date of issue of these accounts. In this regard, on 9 February 2012, the Joint Venture Company filed with Legislative Affairs Office of the People's Government of Zhejiang Province (浙江省人民政府法制辦公室) an administrative reconsideration application for the purpose of seeking an order to oblige the People's Government of Zhejiang Province and Zhejiang Province Department of Communications to carry out their statutory duties to officially confirm that the toll fee collection right of the Bridge should be for a period of 30 years.

18 Intangible operating right (continued)

Whilst HIL was still waiting for the result of the application, on 20 March 2012, the Joint Venture Company received a letter dated 18 March 2012 from the Hangzhou Toll Office (as referred to in note 4(a)) 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 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 Bridge. The Hangzhou Toll Office also stated in the letter that they would, in accordance with the terms of the Collection Agreement (as referred to in note 4(a)), continue to record the traffic flow of the Bridge and work with the Joint Venture Company. The Joint Venture Company was instructed by HIL to write to the Hangzhou Toll Office to state that the action taken by the Hangzhou Toll Office had no legal or contractual basis and was unacceptable and to ask the Hangzhou Toll Office to clarify the basis of their action and to continue to perform their obligations under the Collection Agreement, failing which the Joint Venture Company would have no alternative but to take legal actions to protect its interest. As stated in HIL's announcement dated 6 June 2012, the Joint Venture Company on 6 June 2012 received a letter from Hangzhou Municipal Bureau of Communications which stated that Hangzhou Municipal Bureau of Communications had been confirmed and assigned by Hangzhou Municipal People's Government (杭州市人民政府) to negotiate concretely with the Joint Venture Company and strive to properly deal with the related matters resulting from the abovementioned provisional suspension of the toll fee payment of the Bridge as soon as possible, and the corresponding compensation matters proposed by the Joint Venture Company would be dealt with in due course.

In view of the uncertainty on the inflow of the toll revenue to the Joint Venture Company, 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 Group) to 31 December 2012 of RMB207 million, or equivalent to HK$254 million, was not recognised in these accounts. Accordingly, the Group did not recognise any toll income receivable from the Bridge collected on behalf of the Group by the Hangzhou Toll Office at 31 December 2012. Besides, in order to protect the interest of the Joint Venture Company, the Joint Venture Company 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 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.

The amortisation charge for the year is included in "Direct costs" in the consolidated income statement.

19 Interest in subsidiaries

	The Company	
	2012 HK$ million	2011 HK$ million
Unlisted shares, at cost	**2,851**	2,852
Less: Impairment loss	**(93)**	(93)
	2,758	2,759
Amounts due from subsidiaries	**134,754**	128,586
	137,512	131,345
Amounts due to subsidiaries (note 29)	**(20,495)**	(16,509)

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered/settled within one year.

Details of the principal subsidiaries at 31 December 2012 are set out on pages 244 to 251.

20 Interest in associates

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Unlisted				
Shares, at cost	**–**	–	**161**	161
Share of net assets	**1,438**	1,232	**–**	–
Amounts due from associates	**335**	334	**5**	9
	1,773	1,566	**166**	170
Less: Impairment loss	**–**	–	**(38)**	(49)
	1,773	1,566	**128**	121
Listed in Hong Kong				
Share of net assets, including goodwill on acquisition	**40,679**	38,551	**–**	–
	42,452	40,117	**128**	121
Market value of listed shares	**76,675**	59,466	**–**	–

Except for the amounts due from associates of HK$10 million (2011: HK$15 million) and HK$74 million (2011: HK$69 million) which are interest-bearing at Hong Kong dollar prime rate less 3% (2011: Hong Kong dollar prime rate less 3%) per annum and Hong Kong dollar prime rate plus 2% (2011: Hong Kong dollar prime rate plus 2%) per annum, respectively, all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year and are neither past due nor impaired.

Details of the principal associates at 31 December 2012 are set out on page 252.

20 Interest in associates (continued)

Summary financial information on associates:

	Assets HK$ million	Liabilities HK$ million	Equity HK$ million	Revenues HK$ million	Profit HK$ million
2012	**124,631**	**(53,645)**	**70,986**	**28,713**	**10,229**
2011	107,829	(43,250)	64,579	25,744	9,442

21 Interest in jointly controlled entities

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets	**22,147**	18,756	**–**	–
Amounts due from jointly controlled entities	**7,441**	4,966	**267**	219
	29,588	23,722	**267**	219

The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment except for the amounts of HK$11 million (2011: HK$10 million), HK$185 million (2011: HK$172 million) and HK$2,514 million (2011: Nil) which are interest-bearing at Hong Kong dollar prime rate (2011: Hong Kong dollar prime rate) per annum, Hong Kong Interbank Offered Rate plus 0.5% (2011: Hong Kong Interbank Offered Rate plus 0.5%) per annum and Hong Kong Interbank Offered Rate plus 1.77% per annum, respectively. The balances are not expected to be recovered within one year and are neither past due nor impaired.

Details of the principal jointly controlled entities at 31 December 2012 are set out on page 253.

Summary financial information on jointly controlled entities – Group's effective interest:

	2012 HK$ million	2011 HK$ million
Non-current assets	**30,638**	27,731
Current assets	**4,832**	4,340
Non-current liabilities	**(9,634)**	(9,221)
Current liabilities	**(3,689)**	(4,094)
Net assets	**22,147**	18,756

	2012 HK$ million	2011 HK$ million
Income	**5,741**	4,105
Expenses	**(1,325)**	(1,181)
Profit for the year	**4,416**	2,924

22 Derivative financial instruments

	The Group			
	2012		2011	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
Cross currency interest rate swap contracts (notes 4(c)(i) and 4(f)(i))	**595**	**761**	620	692
Interest rate swap contracts (notes 4(c)(i) and 4(f)(i))	**–**	**1,657**	–	1,203
	595	**2,418**	620	1,895
Representing:				
Non-current portion	**595**	**2,378**	620	1,895
Current portion (note 29)	**–**	**40**	–	–
	595	**2,418**	620	1,895

Swap contracts which have been entered into with certain counterparty banks comprise:

– cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes (see note 31) denominated in United States dollars, Pound Sterling and Singapore dollars with aggregate principal amounts of US$835 million, £50 million and S$200 million at 31 December 2012 (2011: US$835 million and £50 million) and bank loans denominated in United States dollars and Japanese Yen with aggregate amounts of US$148 million and ¥10,000 million at 31 December 2012 (2011: US$148 million); and

– interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate amount of HK$13,000 million at 31 December 2012 (2011: HK$13,000 million).

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to the guaranteed notes and bank loans. They will mature between 18 September 2013 and 20 October 2026 (2011: 18 September 2013 and 20 October 2026).

23 Other financial assets

	The Group	
	2012 HK$ million	2011 HK$ million
Available-for-sale equity securities		
Unlisted (note 4(f)(ii))	**392**	377
Listed (note 4(f)(i)):		
– in Hong Kong	**2,433**	1,973
– outside Hong Kong	**–**	48
	2,825	2,398
Instalments receivable	**1,527**	1,177
Long term receivable	**27**	42
	4,379	3,617
Market value of listed securities	**2,433**	2,021

(a) Available-for-sale equity securities

At 31 December 2012, the fair value of available-for-sale equity securities which individually remained impaired amounted to HK$1 million (2011: HK$1 million). These securities were determined to be impaired on the basis of significant or prolonged decline in their fair value below cost. Impairment losses on these investments were recognised in profit or loss in accordance with the accounting policy set out in note 2(n)(i).

(b) Instalments receivable

Instalments receivable represents the proceeds receivable from the sale of properties due after one year from the balance sheet date. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the balance sheet date is included in "Trade and other receivables" under current assets (see note 26).

(c) Long term receivable

Long term receivable represents the non-current portion of the discounted value of the instalments receivable in the future arising from the disposal of toll fee collection right of certain toll bridges. The current portion of HK$46 million (2011: HK$40 million) which is expected to be recovered within one year is included in "Trade and other receivables" under current assets (see note 26).

24 Deposits for acquisition of properties

Deposits for acquisition of properties mainly include HK$4,135 million (2011: HK$6,585 million) and HK$561 million (2011: HK$561 million) paid for the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

25 Inventories

	The Group	
	2012 HK$ million	2011 HK$ million
Property development		
Leasehold land held for development for sale	**9,846**	9,450
Properties held for/under development for sale	**60,009**	50,765
Completed properties for sale	**6,449**	7,882
	76,304	68,097
Other operations		
Trading stocks	**99**	107
	76,403	68,204

The analysis of carrying value of inventories for property development is as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
In Hong Kong		
– under long leases	**16,702**	13,464
– under medium-term leases	**37,038**	35,644
	53,740	49,108
In mainland China		
– under long leases	**12,341**	11,794
– under medium-term leases	**10,223**	7,195
	22,564	18,989
	76,304	68,097
Including:		
– Properties expected to be completed after more than one year	**40,953**	34,951

26 Trade and other receivables

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Instalments receivable (note 23)	**1,570**	1,300	**–**	–
Debtors, prepayments and deposits	**3,922**	2,961	**67**	29
Gross amount due from customers for contract work (note 27)	**82**	54	**–**	–
Amounts due from associates	**230**	165	**–**	–
Amounts due from jointly controlled entities	**10**	15	**–**	–
	5,814	4,495	**67**	29

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.

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.

(a) Ageing analysis

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:

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 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	**–**	–

(b) Details of the Group’s credit policy are set out in note 4(a).

(c) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(n)(i)).

26 Trade and other receivables (continued)

(c) Impairment of trade debtors (continued)

The movement in the allowance for doubtful debts during the year is as follows:

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
At 1 January	**64**	151	**–**	–
Exchange differences	**–**	3	**–**	–
Impairment loss recognised/(reversed) (notes 7 and 16(c))	**–**	1	**–**	–
Uncollectible amounts written off	**(7)**	(91)	**–**	–
At 31 December	**57**	64	**–**	–

At 31 December 2012, the Group's trade debtors of HK$57 million (2011: HK$64 million) were individually determined to be impaired. The individually impaired receivables related to customers who were in financial difficulties and management assessed that only a portion of these receivables are expected to be recovered. Accordingly, the Group has recognised impairment losses during the year in relation to the amounts which are considered to be irrecoverable.

(d) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Neither past due nor impaired	**1,603**	966	**–**	–
Less than 1 month past due	**223**	472	**–**	–
Over 1 month but less than 3 months past due	**114**	209	**–**	–
	337	681	**–**	–
	1,940	1,647	**–**	–

Receivables which were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables which were past due but not impaired relate to customers who have a good track record of trading with the Group. Based on past experience, management considers that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

27 Gross amount due from/(to) customers for contract work

	The Group	
	2012 HK$ million	2011 HK$ million
Contracts in progress at the balance sheet date:		
Contract costs incurred plus profits less losses	**787**	182
Progress billings	**(976)**	(131)
Net contract work	**(189)**	51
Represented by:		
Gross amount due from customers for contract work (note 26)	**82**	54
Gross amount due to customers for contract work (note 29)	**(271)**	(3)
	(189)	51

28 Cash and cash equivalents

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Deposits with banks and other financial institutions	**7,204**	14,124	**–**	–
Cash at bank and in hand	**5,334**	4,726	**1**	1
Cash and cash equivalents in the balance sheets	**12,538**	18,850	**1**	1
Bank overdrafts (note 30)	**(82)**	(47)		
Cash and cash equivalents in the consolidated cash flow statement	**12,456**	18,803		

At 31 December 2012, cash and cash equivalents in the consolidated balance sheet included certain balances of bank deposits in mainland China which were restricted for use in the aggregate amount of HK$1,255 million (2011: HK$535 million) primarily comprising the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China.

29 Trade and other payables

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
Creditors and accrued expenses	**6,033**	4,195	**15**	52
Gross amount due to customers for contract work (note 27)	**271**	3	**–**	–
Rental and other deposits	**1,230**	1,078	**–**	–
Forward sales deposits received	**7,562**	3,585	**–**	–
Amounts due to subsidiaries (note 19)	**–**	–	**20,495**	16,509
Derivative financial instruments (note 22)	**40**	–	**–**	–
Amounts due to associates	**83**	100	**12**	21
Amounts due to jointly controlled entities	**46**	69	**31**	7
	15,265	9,030	**20,553**	16,589

(a) 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.

(b) All of the Company's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$20,495 million (2011: HK$16,509 million) which is expected to be settled after more than one year (see note 19).

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

	The Group		The Company	
	2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 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	**–**	–

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

30 Bank loans and overdrafts

At 31 December 2012, bank loans and overdrafts were repayable as follows:

	The Group	
	2012 **HK$ million**	2011 HK$ million
Within 1 year and included in current liabilities	**2,826**	19,699
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**3,980**	3,225
– After 2 years but within 5 years	**14,970**	11,444
– After 5 years	**1,541**	1,912
	20,491	16,581
	23,317	36,280

At 31 December 2012, the entire amounts of bank loans and overdrafts were unsecured and analysed as follows:

	The Group	
	2012 **HK$ million**	2011 HK$ million
Bank loans	**23,235**	36,233
Bank overdrafts (note 28)	**82**	47
	23,317	36,280

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios and minimum net assets requirement, as are commonly found in lending arrangements with financial institutions. Any breach of the covenants by the Group would result in the drawndown facilities to become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 4(b). At 31 December 2012 and 2011, none of the covenants relating to the drawdown facilities had been breached.

31 Guaranteed notes

	The Group	
	2012 HK$ million	2011 HK$ million
Guaranteed notes due 2014 – 2022	**3,145**	3,127
Guaranteed notes due 2019	**3,856**	3,860
Guaranteed notes issued pursuant to the Medium Term Note Programme	**11,300**	3,890
	18,301	10,877

At 31 December 2012, the guaranteed notes were repayable as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
After 1 year but within 2 years	**1,903**	–
After 2 years but within 5 years	**8,227**	2,459
After 5 years	**8,171**	8,418
	18,301	10,877

(a) Guaranteed notes due 2014 – 2022

On 25 July 2007, the Company through a wholly-owned subsidiary issued guaranteed loan notes (the "2007 Notes") with aggregate principal amounts of US$325 million and £50 million under private placements in the United States of America and in Europe. The 2007 Notes with principal amounts of US$315 million and £50 million bear fixed interest rates ranging from 6.06% to 6.38% per annum payable semi-annually in arrears and the remaining 2007 Notes with principal amount of US$10 million bear floating rate by reference to 3-month London Interbank Offered Rate payable quarterly in arrears. The 2007 Notes are guaranteed by the Company and will mature between 25 July 2014 and 25 July 2022.

(b) Guaranteed notes due 2019

On 17 September 2009, the Company through a wholly-owned subsidiary issued guaranteed notes (the "2009 Notes") with an aggregate principal amount of US$500 million at an issue price equal to 99.795% of the principal amount of the 2009 Notes. The 2009 Notes bear fixed interest rate at 5.50% per annum payable semi-annually in arrears. The 2009 Notes are guaranteed by the Company and will mature on 17 September 2019.

31 Guaranteed notes (continued)

(c) Guaranteed notes issued pursuant to the Medium Term Note Programme (the "Programme")

The carrying amount of the guaranteed notes outstanding at 31 December 2012 includes the following guaranteed notes issued by the Group during the year ended 31 December 2012 under the Programme established on 30 August 2011:

(i) On 14 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$400 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.

(ii) On 15 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of S$200 million. These notes bear a fixed coupon rate of 3.65% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 15 February 2016.

(iii) On 22 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$300 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.

(iv) On 13 March 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$500 million. These notes bear a fixed coupon rate of 2.16% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 13 March 2014.

(v) On 20 March 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$140 million. These notes bear a fixed coupon rate of 2.16% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 13 March 2014.

32 Amount due to a fellow subsidiary

Except for the amount of HK$546 million (2011: Nil), which is expected to be settled within one year, the remaining amount due to a fellow subsidiary is unsecured, interest-bearing and is not expected to be settled within one year with no fixed terms of repayment.

33 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital HK$ million	Share premium HK$ million	Capital redemption reserve HK$ million	Retained profits HK$ million	Total HK$ million
Balance at 1 January 2011		4,352	31,127	20	68,333	103,832
Changes in equity for 2011:						
Profit and total comprehensive income for the year	12	–	–	–	2,583	2,583
Dividend approved in respect of the previous financial year	13(b)	–	–	–	(1,644)	(1,644)
Dividend declared and paid in respect of the current year	13(a)	–	–	–	(711)	(711)
Shares issued in respect of scrip dividends and warrants	33(b)	386	10,680	–	–	11,066
Balance at 31 December 2011 and 1 January 2012		4,738	41,807	20	68,561	115,126
Changes in equity for 2012:						
Profit and total comprehensive income for the year	12	**–**	**–**	**–**	**2,731**	**2,731**
Dividend approved in respect of the previous financial year	13(b)	**–**	**–**	**–**	**(1,658)**	**(1,658)**
Dividend declared and paid in respect of the current year	13(a)	**–**	**–**	**–**	**(768)**	**(768)**
Shares issued in respect of scrip dividends	33(b)	**92**	**1,899**	**–**	**–**	**1,991**
Balance at 31 December 2012		**4,830**	**43,706**	**20**	**68,866**	**117,422**

33 Capital and reserves (continued)

(b) Share capital

	The Group and the Company			
	Number of shares		Amount	
	2012 million	2011 million	**2012 HK$ million**	2011 HK$ million
Ordinary shares of HK$2 each (each being a "Share")				
Authorised:	**5,000**	5,000	**10,000**	10,000
Issued and fully paid:				
At 1 January	**2,369**	2,176	**4,738**	4,352
Shares issued in respect of scrip dividends and warrants	**46**	193	**92**	386
At 31 December	**2,415**	2,369	**4,830**	4,738

(i) Shares issued in respect of scrip dividends

On 19 July 2012, the Company issued and allotted 32,322,982 Shares at an issue price of HK$41.03 per share in respect of the final dividend for the year ended 31 December 2011 under the scrip dividend scheme. Except for the entitlement to the said final dividend, the 32,322,982 Shares issued rank pari passu in all respects with the then existing Shares.

On 16 October 2012, the Company issued and allotted 13,614,563 Shares at an issue price of HK$48.86 per share in respect of the interim dividend for the six months ended 30 June 2012 under the scrip dividend scheme. Except for the entitlement to the said interim dividend, the 13,614,563 Shares issued rank pari passu in all respects with the then existing Shares.

As a result, during the year ended 31 December 2012, the Company's share capital and share premium were in aggregate increased by approximately HK$92 million (2011: HK$40 million) and HK$1,899 million (2011: HK$1,000 million), respectively.

33 Capital and reserves (continued)

(b) Share capital (continued)

(ii) Bonus issue and exercise of warrants

On 30 March 2010, the Board announced the proposed bonus issue of warrants ("Warrants") by the Company to the shareholders on the basis of one Warrant for every five Shares held on 23 April 2010, which was approved by the shareholders at the extraordinary general meeting of the Company held on 1 June 2010. 429,348,478 units of Warrants were issued on 2 June 2010.

Each Warrant entitled the holder thereof to subscribe one Share at an initial subscription price of HK$58 (subject to adjustment), and is exercisable at any time during the period of one year commencing from 2 June 2010 up to 1 June 2011 (both days inclusive).

During the period from 1 January 2011 to 1 June 2011, 172,870,014 units of Warrants had been exercised by the holders thereof. This includes an aggregate of 172,414,000 units of Warrants held by Henderson Development Limited, being the immediate parent and ultimate controlling party of the Group, which were exercised at the subscription price of HK$58 per share on 12 April 2011.

As a result, during the year ended 31 December 2011, the Company issued and allotted 172,870,014 Shares and the Group realised cash proceeds of approximately HK$10,026 million (net of expenses), and the Company's share capital and share premium were in aggregate increased by approximately HK$346 million and HK$9,680 million, respectively. The subscription rights attaching to the remaining unexercised units of Warrants lapsed after the close of business on 1 June 2011.

(c) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Property revaluation reserve

The property revaluation reserve relates to other land and buildings. Where other land and buildings is reclassified to investment properties, the cumulative increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(y).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in notes 2(g) and 2(n)(i).

33 Capital and reserves (continued)

(c) Nature and purpose of reserves (continued)

(v) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i).

(vi) Other reserves

Other reserves comprise the statutory reserve set up for enterprises established in mainland China. According to the relevant rules and regulations in The People's Republic of China ("PRC") applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital.

(d) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$68,866 million (2011: HK$68,561 million). After the balance sheet date, the directors proposed a final dividend of HK$0.74 (2011: HK$0.7) per ordinary share, amounting to HK$1,787 million (2011: HK$1,658 million) (see note 13). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that the Group can continue to provide financial returns to shareholders, and by securing access to financing sources at reasonable costs.

The Group regularly reviews and manages its capital structure under the policy of financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to its capital structure in light of remarkable changes in the financial and capital markets and in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio, which is one of the most commonly adopted measurement standards for capital management by companies engaged in the businesses of property development and property investment. Gearing ratio is calculated based on the net debt (being the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary ("Total debt") less cash and cash equivalents) and shareholders' funds of the Group at the balance sheet date.

During the year ended 31 December 2012, the Group's strategy, which was unchanged from that for the year ended 31 December 2011, was to secure long-term funding sources at attractive borrowing costs so as to finance the development of the Group's land bank in Hong Kong and mainland China in the coming years. The Group continued to maintain a low gearing ratio during the year, which has the effect of minimising any unfavourable impact on the Group arising from any unforeseeable adverse changes in the local and/or international financial markets, capital markets and economic conditions.

33 Capital and reserves (continued)

(e) Capital management (continued)

The Group's gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 HK$ million	2011 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 cash equivalents	**12,538**	18,850
Net debt	**35,205**	36,890
Shareholders' funds	**205,212**	185,336
Gearing ratio (%)	**17.2%**	19.9%

Except for a wholly-owned subsidiary of the Company which is engaged in the provision of finance, neither the Company nor any of its other subsidiaries was subject to externally imposed capital requirements during the year and at 31 December 2012.

34 Acquisition and disposal of subsidiaries

(a) Acquisition of subsidiaries

On 15 September 2011, the Group acquired the issued share capitals and the shareholders' loans of 24 companies from (i) Henderson Development Limited, the immediate parent and ultimate controlling party of the Group; (ii) Jetwin International Limited and Shau Kee Financial Enterprises Limited, which are controlled by a private trust of the family of Dr Lee Shau Kee ("Dr Lee"), the chairman of the Board of Directors of the Company; and (iii) Madam Lee Wun Yiu, the sister of Dr Lee. These 24 companies hold various property interests in Hong Kong and the Group paid an aggregate cash consideration of HK$796 million for the acquisition, which was completed on 15 September 2011.

On 26 June 2012, the Group acquired the entire issued share capitals and the shareholders' loans of two companies which beneficially hold certain properties in Hong Kong for a cash consideration of HK$35 million. The acquisition was completed on 31 August 2012.

On 22 November 2012, the Group acquired the entire issued share capital of a company and the shareholders' loans of such company and its wholly-owned subsidiary (the latter of which beneficially holds certain properties in Hong Kong) for a cash consideration of HK$220 million. The acquisition was completed on 22 November 2012.

34 Acquisition and disposal of subsidiaries (continued)

(a) Acquisition of subsidiaries (continued)

The fair value of the assets acquired and the liabilities assumed were as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Fixed assets	**–**	164
Inventories	**292**	469
Amount due from a fellow subsidiary	**–**	39
Debtors, prepayments and deposits	**–**	3
Instalments receivable	**–**	2
Cash and cash equivalents	**–**	6
Creditors and accrued expenses	**(1)**	(3)
Rental and other deposits	**–**	(2)
Tax payable	**–**	(4)
Deferred tax liabilities	**(36)**	(58)
Non-controlling interests	**–**	179
Net assets and total consideration	**255**	795
Representing:		
Cash consideration paid	**255**	796
Amount due to a fellow subsidiary	**–**	(1)
	255	795
Net cash outflow in respect of the acquisition:		
Cash consideration paid	**(255)**	(796)
Cash and cash equivalents acquired	**–**	6
	(255)	(790)

34 Acquisition and disposal of subsidiaries (continued)

(b) Disposal of a subsidiary

The Group disposed of a subsidiary during the year ended 31 December 2012. The disposal had the following effect on the Group's assets and liabilities:

	The Group 2012 HK$ million
Fixed assets	**359**
Rental and other deposits	**(4)**
Creditors and accrued expenses	**(1)**
Net assets	**354**
Professional charges	**4**
Gain on disposal (note 7)	**187**
Total consideration	**545**
Representing:	
Cash consideration received	**545**
	545
Net cash inflow in respect of the disposal:	
Cash consideration received	**545**
Professional charges	**(4)**
	541

35 Capital commitments

At 31 December 2012, the Group had capital commitments not provided for in these accounts as follows:

		The Group	
		2012 HK$ million	2011 HK$ million
(a)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**10,540**	9,472
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**20,840**	27,929
		31,380	37,401
(b)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings undertaken by jointly controlled entities attributable to the Group	**956**	832

36 Significant leasing arrangements

At 31 December 2012, the Group is both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are re-negotiated. Further details of the carrying value of the properties are contained in note 17.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Within 1 year	**4,005**	3,207
After 1 year but within 5 years	**4,193**	3,358
After 5 years	**587**	617
	8,785	7,182

(b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are re-negotiated.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Within 1 year	**199**	143
After 1 year but within 5 years	**120**	103
	319	246

37 Contingent liabilities

At 31 December 2012, contingent liabilities of the Group and of the Company were as follows:

		The Group		The Company	
		2012 HK$ million	2011 HK$ million	**2012 HK$ million**	2011 HK$ million
(a)	Guarantees given by the Company to banks to secure banking facilities of subsidiaries	**–**	–	**23,188**	35,508
(b)	Guarantees given by the Company to the holders of guaranteed notes issued by subsidiaries	**–**	–	**18,301**	10,877
		–	–	**41,489**	46,385

(c) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and any tax liabilities arising from the re-classification of the properties before the Completion. At 31 December 2012, the Group had contingent liabilities in this connection of HK$8 million (2011: HK$8 million).

(d) At 31 December 2012, the Company had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the subsidiaries' obligations amounting to HK$831 million (2011: HK$37 million).

(e) At 31 December 2012, the Company had given guarantees in the aggregate amount of HK$466 million (2011: HK$233 million) 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.

(f) At 31 December 2012, the Group had given guarantees to financial institutions in the aggregate amount of HK$479 million (2011: HK$96 million) 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. Such guarantees will be released upon the issuance of the Building Ownership Certificate.

38 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these accounts, the Group entered into the following material related party transactions during the year:

(a) Transactions with fellow subsidiaries

Details of material related party transactions during the year between the Group and its fellow subsidiaries are as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Sales commission income (note (iii))*	**5**	13
Administration fee income (note (ii))	**7**	6
Other interest expense (note (i))*	**212**	87

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions during the year between the Group and its associates and jointly controlled entities are as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Rental income (note (iii))	**7**	–
Venue fee income (note (ii))	**–**	1
Other interest income (note (i))	**52**	4
Construction/repair and maintenance income (note (ii))	**314**	2
Security guard service fee income (note (iii))	**18**	14
Management fee income (note (iii))	**10**	9
Sales commission income (note (iii))	**–**	1
Rental expenses (note (iii))	**134**	122
Venue-related expenses (note (iii))	**45**	–

38 Material related party transactions (continued)

(c) Transactions with related companies

Details of material related party transactions during the year between the Group and its related companies which are controlled by private family trusts of a director of the Group are as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Venue-related income (note (ii))*	**4**	11
Rental income (note (iii))	**8**	6
Tax indemnity receipt*	**84**	–

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.

(ii) These transactions represent cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.

(iii) These transactions were carried out on normal commercial terms and in the ordinary course of business.

(iv) The amount due to a fellow subsidiary at 31 December 2012 and 2011 is referred to in the Group's consolidated balance sheet at 31 December 2012 and 2011, and the terms of which are set out in note 32. The amounts due from/to associates and jointly controlled entities at 31 December 2012 and 2011 are set out in notes 20, 21, 26 and 29.

(d) Transactions with Sunlight REIT

Details of the material related party transactions during the year between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	The Group	
	2012 HK$ million	2011 HK$ million
Rental expenses	**8**	8
Property and leasing management service fee income and other ancillary property service fee income*	**40**	37
Asset management service fee income*	**69**	65
Security service fee income*	**2**	3

The above transactions are conducted in accordance with the terms of respective agreements/deeds entered into between the Group and Sunlight REIT. At 31 December 2012, the amount due from Sunlight REIT amounted to HK$25 million (2011: HK$24 million) is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 26).

38 Material related party transactions (continued)

(e) Transactions with a company owned by a director of the Company

Mr Lee Ka Kit, a director of the Company, through a company owned by him (the "entity") has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate.

At 31 December 2012, the advance by the entity to the abovementioned associate amounted to HK$80 million* (2011: HK$102 million). Such amount is unsecured and has no fixed terms of repayment.

(f) Key management personnel

Remuneration for key management personnel are disclosed in note 9.

* *These related party transactions also constitute connected transactions and/or continuing connected transactions under the Listing Rules, details of which are set out in the paragraph headed "Interests in contracts and continuing connected transactions" in the Report of the directors set out in the Company's annual report for the year ended 31 December 2012.*

39 Non-adjusting post balance sheet events

(a) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 13.

(b) After the balance sheet date, the directors proposed to make a bonus issue to shareholders on the basis of one new share credited as fully paid for every ten shares held. An amount standing to the credit of the share premium account of the Company representing the aggregate sum of the nominal value of such bonus shares will be capitalised upon the issue of such bonus shares.

40 Immediate parent and ultimate controlling party

At 31 December 2012, the directors consider that the immediate parent and ultimate controlling party of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce accounts available for public use.

Principal Subsidiaries

at 31 December 2012

Details of the principal subsidiaries are as follows:

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(a) Property development					
(i) Incorporated and operates in Hong Kong					
Bright Gold Limited					
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	1	–	100
Carley Limited		2	1	–	100
Dili Investment Limited	I	500	100	100	–
Gainbo Limited	I	2	1	–	100
Gentway Limited	I	1	1	–	100
Global Crystal Limited	I	1	1	–	100
Harvest Development Limited		840	1	–	82.86
Hung Shun Investment Company Limited	I				
– Ordinary shares		2	100	–	100
– Non-voting deferred shares		20,000	100	–	100
Intelligent House Limited	I	2	1	–	100
Landrich Development Limited	I	1,000	1	–	100
Nation Million Development Limited	I	2	1	–	100
Nation Sheen Limited	I	2	1	–	100
Nation Star Development Limited		2	1	–	100
New Cheer Development Limited	I	1,000	1	–	100
Onfine Development Limited	I	2	1	–	100
Perfect Success Development Limited		2	1	–	100
Rich Silver Development Limited		2	1	–	100
Rise Cheer Investment Limited	I	1	1	–	100
Triple Glory Limited	I	1	1	–	100
Union Citizen Limited	I	1	1	–	100

	Issued/ contributed registered capital	% of equity interest held by The Company	Subsidiaries	% of profit sharing by subsidiaries
(ii) Established and operates in mainland China				
Sino-Foreign Co-operative Joint Venture Enterprises				
Beijing Gaoyi Property Development Co., Ltd.	US$81,000,000	–	100	100
Beijing Henderson Properties Co., Ltd.	RMB655,000,000	–	100	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(b) Property investment					
Incorporated and operates in Hong Kong					
Bloomark Investment Limited	I	2	1	–	100
Carry Express Investment Limited	I	10,000	10	–	100
Deland Investment Limited	I	2	100	100	–
Easewin Development Limited		2	1	–	100
Evercot Enterprise Company Limited	I				
– A Shares		500	100	100	–
– B Shares		2	100	–	–
Join Fortune Development Limited	I				
– A Shares		100	1	100	–
– B Shares		2	1	–	–
Millap Limited	I	2	1	100	–
Shung King Development Company Limited	I				
– A Shares		2	1	100	–
– Non-voting deferred A shares		20,000	100	100	–
– B Shares		2	1	–	–
Union Fortune Development Limited	I	10,000	1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(c) Finance					
(i) Incorporated and operates in Hong Kong					
Henderson (China) Finance Limited	I	10,000	1	–	100
Henderson International Finance Limited		250,000	100	100	–
Henderson Land Credit (2009) Limited	I	1	1	100	–
Henderson Land Credit (2010) Limited	I	1	1	–	100
Henderson Land Credit (2011) Limited	I	1	1	–	100
Henland Finance Limited	I	1,000,000	1	–	100
Post East Finance Company Limited		2	1	–	100
Rich Chase Development Limited	I	2	1	–	100
Success Crown Development Limited		2	1	–	100
(ii) Incorporated and operates in the British Virgin Islands					
Henderson Land Finance Limited		1	–	100	–
Henderson Land MTN Limited	I	1	–	–	100
Henland Finance (2012) Limited		1	–	–	100
Henson Finance Limited	I	1	US$1	–	100
St. Helena Holdings Co. Limited		3	US$1	–	100
(iii) Incorporated in Singapore and operates in Hong Kong					
Henderson Land MTN (S) Pte. Limited	I	1	US$1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(d) Construction					
Incorporated and operates in Hong Kong					
E Man Construction Company Limited		350,000	100	100	–
Ginca Construction Machinery Limited		1	1	–	100
Granbo Construction Company Limited		1	1	–	100
Heng Lai Construction Company Limited		2	1	–	100
Heng Shung Construction Company Limited		2	1	–	100
Heng Tat Construction Company Limited		2	100	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(e) Property management					
Incorporated and operates in Hong Kong					
Beverly Hill (Estate Management) Limited		2	1	–	100
Flora Plaza Management Limited		10	1	–	60
Goodwill Management Limited		2	1	–	100
Hang On Estate Management Limited		2	1	–	100
Hang Yick Properties Management Limited		100,000	100	100	–
Henderson Sunlight Asset Management Limited	I	38,800,000	1	–	100
Henderson Sunlight Property Management Limited	I	1	1	–	100
Metro City Management Limited		2	1	–	100
Metro Harbourview Management Limited		2	1	–	100
Star Management Limited		2	1	–	100
Sunshine City Property Management Limited		2	1	–	100
Well Born Real Estate Management Limited		2	1	100	–

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(f) Investment holding					
(i) Incorporated and operates in Hong Kong					
Banshing Investment Limited		2	1	–	100
Channel Best Limited	I	1	1	–	100
China Investment Group Limited		300,000	1,000	–	100
Citiright Development Limited		2	1	100	–
Covite Investment Limited		2	1	–	100
Darnman Investment Limited		2	1	–	100
Disralei Investment Limited					
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		1,000	1	–	100
Fondoll Investment Limited		2	100	100	–
Gainwise Investment Limited		2	1	–	100
Graf Investment Limited	I				
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	100	–	100
Henderson Investment Limited		3,047,327,395	0.20	–	67.94
Macrostar Investment Limited					
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	1	–	100
Main Champion Development Limited	I	2	1	100	–
Markshing Investment Limited		2	1	–	100
Medley Investment Limited					
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	100	–	100
Mightymark Investment Limited		2	1	100	–
Mount Sherpa Limited	I				
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	10	–	100
Paillard Investment Limited	I				
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	100	–	100
Tactwin Development Limited	I	1,000	1	100	–
Wellfine Development Limited		55	1	100	–
Wiselin Investment Limited	I	2	1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(f) Investment holding (continued)					
(ii) Incorporated in Hong Kong and operates in mainland China					
Hang Seng Quarry Company Limited	I	10,000	1	64	–
(iii) Incorporated and operates in the British Virgin Islands					
Cobase Limited	I	1	–	–	100
Comax Investment Limited		1	–	–	100
Higgins Holdings Limited	I	1	US$1	–	100
Hinlon Limited		1	US$1	–	100
Multiglade Holdings Limited	I	1	US$1	–	100
Richful Resources Limited	I	1	–	–	100
Starland International Limited	I	1	US$1	100	–
Sunnice Investment Limited		1	–	–	100
Threadwell Limited	I	1	US$1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(g) Department store operations					
Incorporated and operates in Hong Kong					
Citistore (Hong Kong) Limited	I	1	1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(h) Hotel and service apartment management and operations					
Incorporated and operates in Hong Kong					
Henderson Hotel Management Limited	I				
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	1	–	100
Newton Hotel Hong Kong Limited	I				
– Ordinary shares		2	1	–	100
– Non-voting deferred shares		2	1	–	100
Newton Inn (North Point) Limited	I	2	1	100	–
Newton Place Hotel Limited	I	1	1	–	100

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(i) Management and agency services					
Incorporated and operates in Hong Kong					
Henderson Leasing Agency Limited	I	1	1	–	100
Henderson Property Agency Limited		200,000	1	–	100
Henderson Real Estate Agency Limited	I	2	100	100	–

	Note	Particulars of issued shares Number of ordinary shares	Par value HK$	% of shares held by The Company	Subsidiaries
(j) Professional services and others					
Incorporated and operates in Hong Kong					
Hang Oi Charitable Foundation Limited		–	–	–	100
Henderson Warmth Foundation Limited		–	–	100	–
Megastrength Security Services Company Limited	I				
– Ordinary shares		10,000	1	–	100
– Non-cumulative preference shares		400	1	–	100
Standard Win Limited	I	1	1	–	100

	Issued/ contributed registered capital RMB	% of equity interest held by The Company	Subsidiaries	% of profit sharing by subsidiaries
(k) Infrastructure				
Established and operates in mainland China				
Sino-Foreign Equity Joint Venture Enterprise				
Hangzhou Henderson Qianjiang Third Bridge Company, Limited	200,000,000	–	60	60
Sino-Foreign Co-operative Joint Venture Enterprise				
Tianjin Jinning Roads Bridges Construction Development Company Limited	23,680,000	–	70	70

Notes:

I *Companies audited by KPMG.*

The above list gives the principal subsidiaries of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

Principal Associates

at 31 December 2012

Details of the principal associates, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by The Company	Subsidiaries	Principal activities
Listed			
The Hong Kong and China Gas Company Limited	–	39.88	Production, distribution and marketing of gas, water and energy related activities
Hong Kong Ferry (Holdings) Company Limited	–	31.36	Property development and investment
Miramar Hotel and Investment Company, Limited	–	44.21	Hotel operation, property investment, food and beverage operation and travel operation
Unlisted			
Star Play Development Limited	–	33.33	Property investment

The above list gives the principal associates of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

Principal Jointly Controlled Entities

at 31 December 2012

Details of the principal jointly controlled entities, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by		
	The Company	**Subsidiaries**	**Principal activities**
Billion Ventures Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	50	Investment holding
Central Waterfront Property Investment Holdings Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	34.21	Investment holding
Newfoundworld Holdings Limited	–	20	Property investment and hotel operation
Special Concept Development Limited	–	25	Property development
Teamfield Property Limited	–	49.18	Property development
Surbana-Henderson (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Surbana-Henderson II (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Long Global Investment (Chengdu) Limited (established and operates in mainland China)	–	30	Property development

The above list gives the principal jointly controlled entities of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

Corporate Information

Board of Directors

Executive Directors

Dr Lee Shau Kee
(Chairman and Managing Director)
Lee Ka Kit *(Vice Chairman)*
Lam Ko Yin, Colin *(Vice Chairman)*
Lee Ka Shing *(Vice Chairman)*
Yip Ying Chee, John
Suen Kwok Lam
Lee King Yue
Fung Lee Woon King
Lau Yum Chuen, Eddie
Li Ning
Kwok Ping Ho
Wong Ho Ming, Augustine

Non-executive Directors

Lee Pui Ling, Angelina
Lee Tat Man

Independent Non-executive Directors

Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong
Woo Ka Biu, Jackson
Leung Hay Man
Professor Poon Chung Kwong
Dr Chung Shui Ming,Timpson
Au Siu Kee, Alexander

Audit Committee

Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong
Leung Hay Man

Remuneration Committee

Wu King Cheong
Dr Lee Shau Kee
Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung

Nomination Committee

Dr Lee Shau Kee
Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong

Corporate Governance Committee

Dr Chung Shui Ming, Timpson
Leung Hay Man
Professor Poon Chung Kwong

Company Secretary

Liu Cheung Yuen, Timon

Registered Office

72-76/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Telephone	:	(852) 2908 8888
Facsimile	:	(852) 2908 8838
Internet	:	http://www.hld.com
E-Mail	:	henderson@hld.com

Registrar

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen’s Road East
Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited (Stock Code: 12)

Shares are also traded in the United States through an
American Depositary Receipt Level 1 Programme
(Ticker Symbol: HLDCY
CUSIP Reference Number: 425166303)

Authorised Representatives

Lam Ko Yin, Colin
Liu Cheung Yuen, Timon

Auditor

KPMG

Solicitors

Woo, Kwan, Lee & Lo
Lo & Lo

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
The Bank of East Asia, Limited
Standard Chartered Bank

Group Executives

Lee Shau Kee
GBM, DBA (Hon), DSSc (Hon), LLD (Hon)
General Manager

Lee Ka Kit
JP
Deputy General Manager

Lam Ko Yin, Colin
FCILT, FHKIoD
Deputy General Manager

Lee Ka Shing
Deputy General Manager

Yip Ying Chee, John
LLB, FCIS
Assistant General Manager

Departmental Executives

Group Business Development Department
Yip Ying Chee, John
LLB, FCIS
Executive Director

Project Management (1) Department
David Francis Dumigan
BSc, C Eng, FICE, FHKIE, RPE
General Manager

Project Management (2) Department
Kwok Man Cheung, Victor
BA (AS), B Arch (Dist), MSc (Con P Mgt),
EMBA, FHKIA, MAPM, RIBA,
Authorized Person (Architect), Registered Architect (HK)
PRC Class 1 Registered Architect Qualification
General Manager

Siu Sing Yeung, Tony
B. Arch (Hons), HKIA,
Authorized Person (Architect), Registered Architect (HK),
PRC Class 1 Registered Architect Qualification
Senior Deputy General Manager

Property Development Department
Wong Ho Ming, Augustine
JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP)
Executive Director

Leung Shu Ki, Shuki
BA (Hons), MHKIP, MRTPI,
MCIP, RPP (HK), MCILT, MCIArb, AHKIArb
Deputy General Manager

Property Planning Department
Leung Kam Leung
MSc, PGDMS, FHKIS, FRICS, RPS (GP)
General Manager

Construction Department
Wong Wing Hoo, Billy
JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE
General Manager

Engineering Department
Cheng Yuk Lun, Stephen
BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE,
Registered Structural Engineer, Registered Geotechnical Engineer,
Authorized Person (List II), PRC Class 1 Registered Structural
Engineer Qualification
General Manager

Building Quality Planning Department
Lam Sik Kong, Eddy
General Manager

Sales Department
Wong Man Wa, Raymond
LLB., PCLL, Solicitor
Senior General Manager

Sales (1) Department
Lam Tat Man, Thomas
MEM(UTS), DMS, EHKIM, MHIREA,
CHINA GBL MANAGER
General Manager

Sales (2) Department
Hahn Ka Fai, Mark
BSc, MRICS, MHKIS, RPS (GP)
General Manager

Portfolio Leasing Department
Lee Pui Man, Margaret
BHum (Hons)
Senior General Manager

Sit Pak Wing, Patrick
ACIS, FHIREA
General Manager

Property Management Department
Suen Kwok Lam
JP, MH, FHIREA
Executive Director

Retail and Hotel Management Department
Li Ning
BSc, MBA
Executive Director

Comm. & Ind. Properties Department
Ng Ngok Kwan
General Manager

General Manager Department
Wong Kim Wing, Ball
BA(AS), B. Arch, PhD (Finance), FHKIA,
Registered Architect (HK), Authorized Person (List 1, HK)
Group Consultant

Ngai Tung Hai, Karsky
FRICS, MHKIS, AACI
Manager

Finance Department
Lau Yum Chuen, Eddie
Executive Director

Lee King Yue
Executive Director

Kwok Ping Ho
BSc, MSc, Post-Graduate Diploma in Surveying, ACIB
Executive Director

Cashier Department
Fung Lee Woon King
Treasurer

Human Resources Department
Lam Ko Yin, Colin
FCILT, FHKIoD
Executive Director

Wong Ying Kin, Frankie
MSc, MBA, BBA, DMS, MIHRM
General Manager

Company Secretarial Department
Liu Cheung Yuen, Timon
BEc, FCPA, CA (Aust), FCS, FCIS
General Manager

Accounts Department
Wong Wing Kee, Christopher
BSc (Econ), FCA
General Manager

Audit Department
Choi Kam Fai, Thomas
B Comm, CMA
General Manager

Information Technology Department
Au Tit Ying
BSc, Grad Dip Com (IS)
General Manager

Corporate Communications Department
Ngan Suet Fong, Bonnie
BBA
General Manager

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at the Four Seasons Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 3 June 2013 at 11:30 a.m. to transact the following business:

1. To receive and consider the Audited Accounts and the Reports of the Directors and Auditor for the year ended 31 December 2012.

2. To declare a Final Dividend (with an option for scrip dividend).

3. To re-elect retiring Directors.

4. To re-appoint Auditor and authorise the Directors to fix Auditor's remuneration.

5. To consider as special business and, if thought fit, pass the following resolutions as Ordinary Resolutions:

   (A) "**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares of HK$2.00 each in the capital of the Company to be issued pursuant to this Resolution ("Bonus Shares"), and upon the recommendation of the Directors, an amount standing to the credit of the share premium account of the Company which is equal to one-tenth of the aggregate nominal amount of the share capital of the Company in issue on 11 June 2013 be capitalised and the Directors be and are hereby authorised to apply such sum in paying up in full at par such number of Bonus Shares in the capital of the Company which is equal to one-tenth of the number of shares in the Company in issue on 11 June 2013 to be allotted and credited as fully paid to and among the shareholders of the Company whose names are on the register of members on 11 June 2013 on the basis of one Bonus Share for every ten shares in the Company held by such shareholders of the Company on such date; and that the Bonus Shares to be allotted, and issued pursuant to this Resolution shall rank pari passu in all respects with the existing issued shares in the Company except that they will not be entitled to participate in any dividend declared or recommended by the Company in respect of the financial year ended 31 December 2012 and that the Directors be and are hereby authorised to deal with any fractions arising from the distribution by the sale of the Bonus Shares representing such fractions and to retain the net proceeds for the benefit of the Company and further that the Directors be and are hereby authorised to do all acts and things as may be necessary and expedient in connection with the issue of the Bonus Shares."

   (B) "**THAT**:

      (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase ordinary shares of HK$2.00 each in the capital of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Stock Exchange and the Securities and Futures Commission for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

      (b) the aggregate nominal amount of the shares of the Company to be repurchased pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders in general meeting."

(C) "**THAT**:

(a) a general mandate be and is hereby generally and unconditionally given to the Directors to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements or options (including, without limitation, Rights Issue (as hereinafter defined), warrants, bonus warrants, bonds, debentures, notes and other securities convertible into shares in the Company) which would or might require the exercise of such powers either during or after the Relevant Period, provided that the aggregate nominal amount of the share capital of the Company to be allotted, issued and dealt with pursuant to the general mandate herein, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iii) an issue of shares in the Company upon the exercise of the subscription rights or conversion rights attaching to any warrants or convertible notes which may be issued by the Company or any of its subsidiaries, or (iv) any scrip dividend pursuant to the Articles of Association of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

(b) for the purposes of this Resolution:

"Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting; and

"Rights Issue" means an offer of shares in the capital of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares of the Company whose names appear on the Register of Members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(D) "**THAT**:

the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Ordinary Resolution (C) of item no. 5 as set out in the notice convening this Meeting be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to repurchase such shares under the authority granted pursuant to Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution."

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 25 April 2013

Registered Office:
72-76/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Notes:

(1) At the above Meeting, the Chairman will exercise his power under Article 80 of the Articles of Association to put each of the resolutions to be voted by way of a poll.

(2) A Member of the Company entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and on a poll, to vote instead of him. A proxy need not be a member. Form of proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power of authority) must be lodged at the registered office of the Company at 72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.

(3) For the purpose of determining Shareholders who are entitled to attend and vote at the above 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. In order to qualify for attending the above Meeting, all transfer documents accompanied by the relevant share certificates must be lodged 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.

(4) For the purpose of determining Shareholders who qualify for the proposed issue of 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 issue of 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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 6 June, 2013. The proposed issue of final dividend and Bonus Shares will be paid to Shareholders whose names appeared on the Register of Members of the Company on Tuesday, 11 June 2013.

(5) An explanatory statement containing further details concerning Ordinary Resolution (B) of item 5 above and a circular containing the proposed scrip dividend scheme will be sent to members for perusal.

(6) Concerning Ordinary Resolutions (C) and (D) of item 5 above, approval is being sought from Members, as a general mandate in compliance with Section 57B of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, that in the event it becomes desirable for the Company to issue any new shares of the Company, the Directors are given flexibility and discretion to allot and issue new shares up to 20 per cent. of the issued share capital plus the number of shares repurchased by the Company pursuant to the general mandate approved in Ordinary Resolution (B) of item 5 above. Save as disclosed (if any), the Directors, however, have no immediate plans to issue any new shares of the Company under the said mandate being sought.

(7) If Resolutions 2 and 5(A) above are approved, the final dividend will be payable on Monday, 15 July 2013 and share certificates for the Bonus Shares will be dispatched to the shareholders of the Company on the same day.

Financial Calendar

Interim Results	Announced on Wednesday, 22 August 2012
Final Results	Announced on Monday, 25 March 2013
Annual Report	Posted to Shareholders on Thursday, 25 April 2013
Closure of Register of Members	(1) To be closed from Thursday, 30 May 2013 to Monday, 3 June 2013 for the purpose of determining Shareholders who are entitled to attend and vote at the Annual General Meeting (2) To be closed from Friday, 7 June 2013 to Tuesday, 11 June 2013, for the purpose of determining Shareholders who qualify for the proposed final dividend (with an option for scrip dividend) and bonus shares
Annual General Meeting	To be held on Monday, 3 June 2013
Dividends – Interim	HK$0.32 per share – paid on Tuesday, 16 October 2012
– Final (Proposed)	HK$0.74 per share (with an option for scrip dividend) – payable on Monday, 15 July 2013
– Bonus Shares (Proposed)	One bonus share for every ten shares held
Issue of Bonus Shares (Proposed)	Share certificates to be posted to Shareholders on Monday, 15 July 2013

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Environmentally friendly paper has been used in the production of this annual report.

恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED