WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

ANNUAL REPORT 2012

STOCK CODE: 4

"Mein Baum" by Lee Chang-Min, 2008
Oil on canvas, 270 X 220 cm.

Corporate Profile

Backed by a long standing mission of "Building for Tomorrow" and a distinguished track record, 2012 marked a record year for Wharf. The Group's strong value creation ability and product leadership in new and existing projects are evidenced by and culminated in a record financial performance in 2012 — a return on Shareholder's equity of 21% and an increase in core profit by 37% to HK$11 billion, nearly four times the value of the entire Company in 1982. Its net book value stood at HK$249 billion in 2012, a surge when compared with HK$3 billion in 1982. The Group's prudent and disciplined financial management ensures sustainability at all times.

With prime real estate as the Group's primary strategic focus, site acquisition, financing, development planning, design, construction and marketing are its core competencies. Mall development and retail management remain its strategic differentiation.

Select investment properties form the backbone of Wharf's business model. The entire investment property portfolio (including hotels) represented 61% of Wharf's total operating profit in 2012.

Landmark Harbour City and Times Square lead Wharf's prized portfolio of select investment properties. They represented 50% of Wharf's total business assets and accounted for nearly 10% of total Hong Kong retail sales in 2012 with unique critical mass. They command a combined value of HK$177 billion, underpinned by a 20% compound annual growth rate in retail sales in the past 10 years. Our leadership position in retail is further maintained with the new lease for the Ocean Terminal lot.

Wharf's mission of Building for Tomorrow underlines the Group's asset expansion programme in recent years. The new base includes a land bank of 12.3 million square metres across 15 cities, a fast emerging hotel business and valuable port assets in China. The Mainland portfolio contributes to 30% of the Group's core profit.

Two International Finance Square (IFS) projects under development in Chengdu and Changsha lead Wharf's new select investment properties and create substantial new value. Each is designed to be a prime property as large as Harbour City and as dominant in their respective markets. Three other IFSs are also being built in Chongqing, Wuxi and Suzhou. Rental income from the Mainland for the first time exceeded HK$1 billion in 2012 and it will multiply upon the completion of the five IFSs by 2016.

China property is our second most important business with attributable property sales (excluding Greentown China Holdings Limited ("Greentown")) in 2012 totaled RMB15 billion.

In mid-2012, the Group acquired 25% of equity stake in Greentown, a leading property developer in the Mainland, for about HK$2.7 billion. This timely investment added synergy to Wharf's China development initiative and increased our attributable development land bank in the Mainland by 50% to 18 million square metres across more than 40 cities.

The Group's Marco Polo Hotels operates 13 owned or managed hotels in Asia Pacific, principally in China. 10 new hotels will come on stream over the next five years to significantly expand Marco Polo's network.

Also contributing to Wharf's presence in the Mainland are key port assets along the China coast, the most dynamic coastline in the world for cargo movement in the coming decades.

"Building for Tomorrow" also extends to Wharf's corporate social responsibility ("CSR"). An up to 1% of annual core profit is earmarked to support the community backed by our enthusiastic staff volunteers through our 'Business-in-Community' initiative.

In 2012, besides "Caring Company" logo, the Group's flagship Project *WeCan* was awarded the Outstanding Partnership Project Award, a prestigious honour by the Hong Kong Council of Social Service to recognise the partnership commitment and the collective efforts demonstrated in the Project to support the deserving students. We are also named a constituent member of Hang Sang Sustainability Benchmark Index with an A-rating for the Group's sound performance in CSR.

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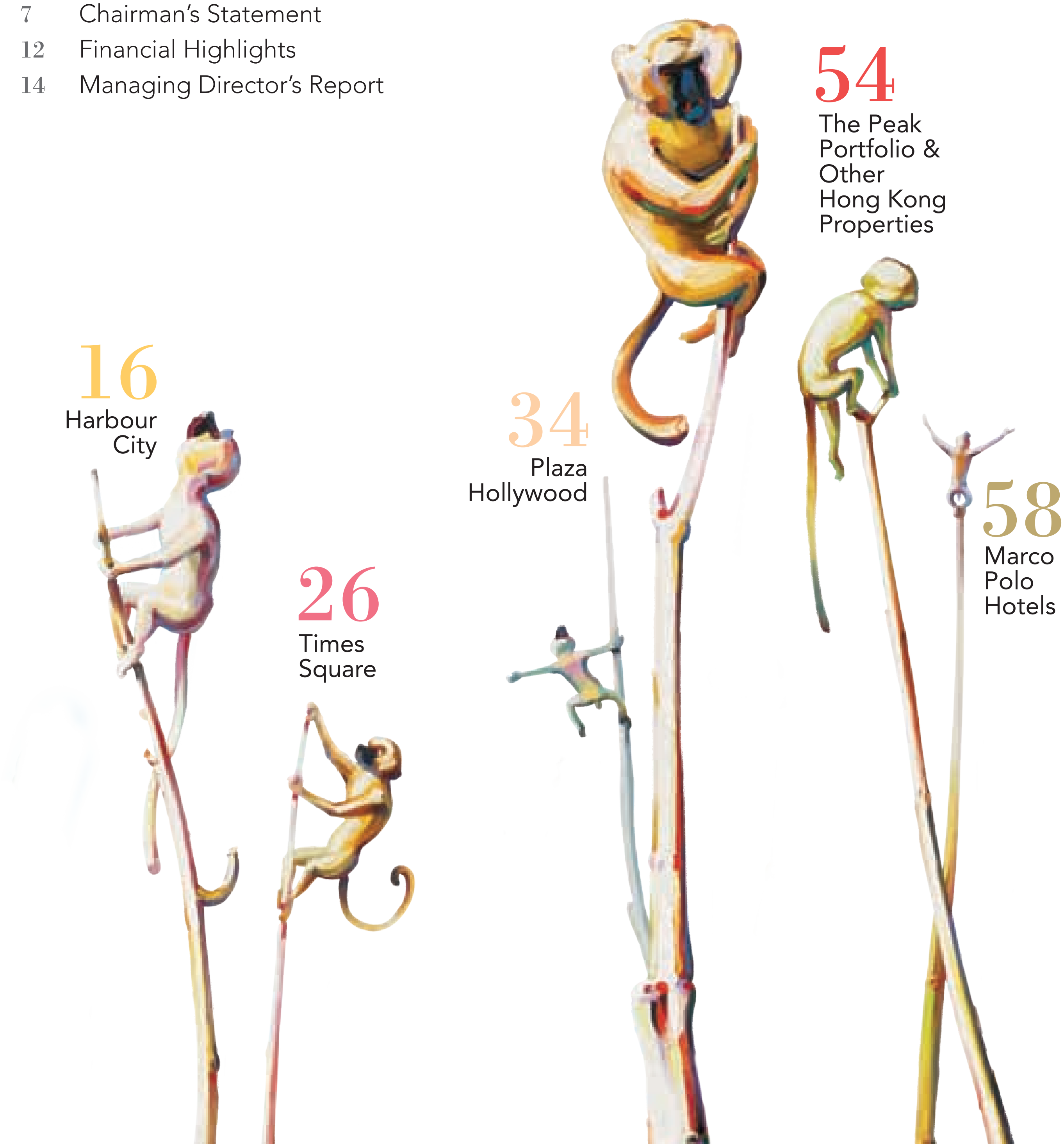

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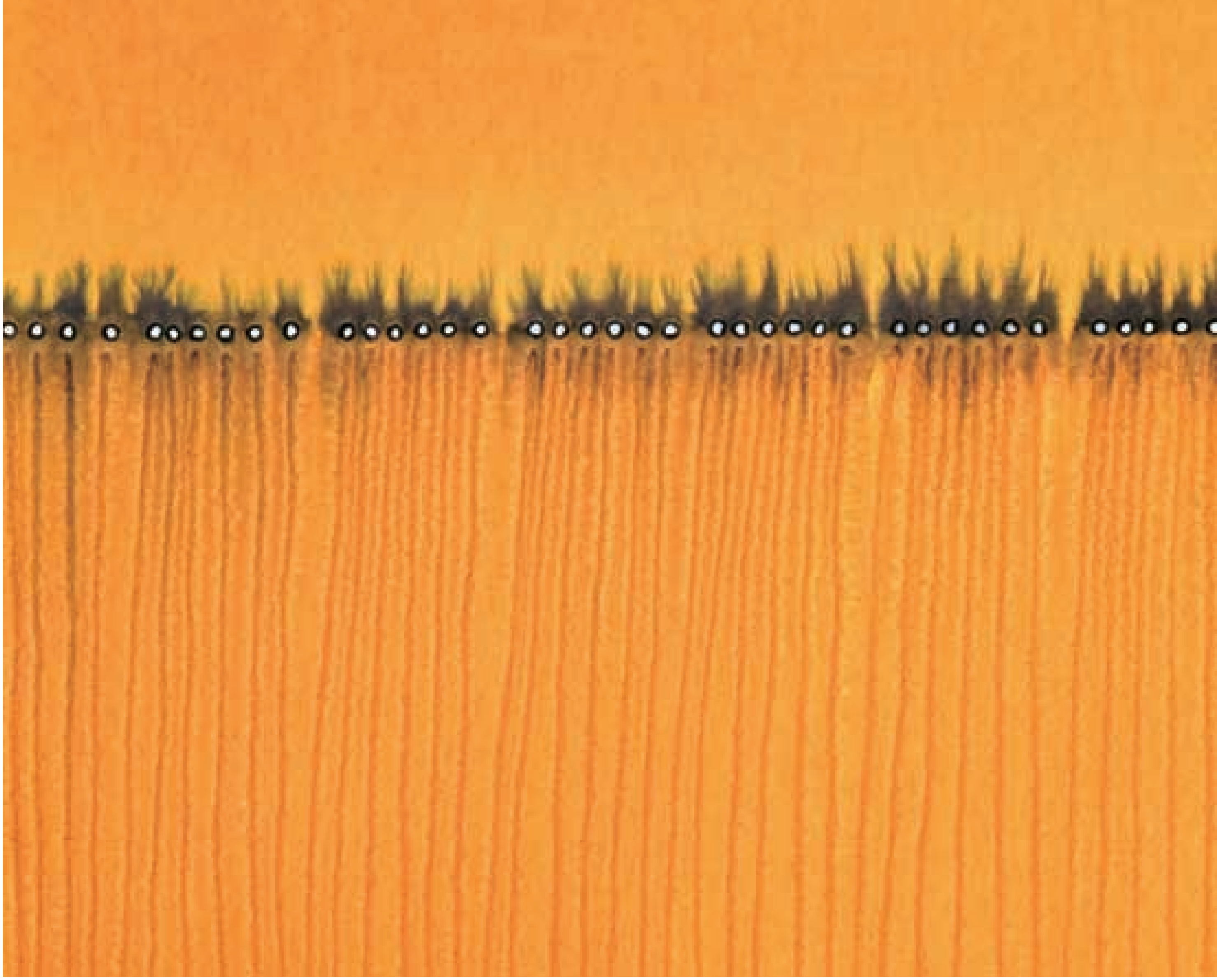
"Mein Baum" (Detail) by Lee Chang-Min, 2008
Oil on canvas, 270 X 220 cm.

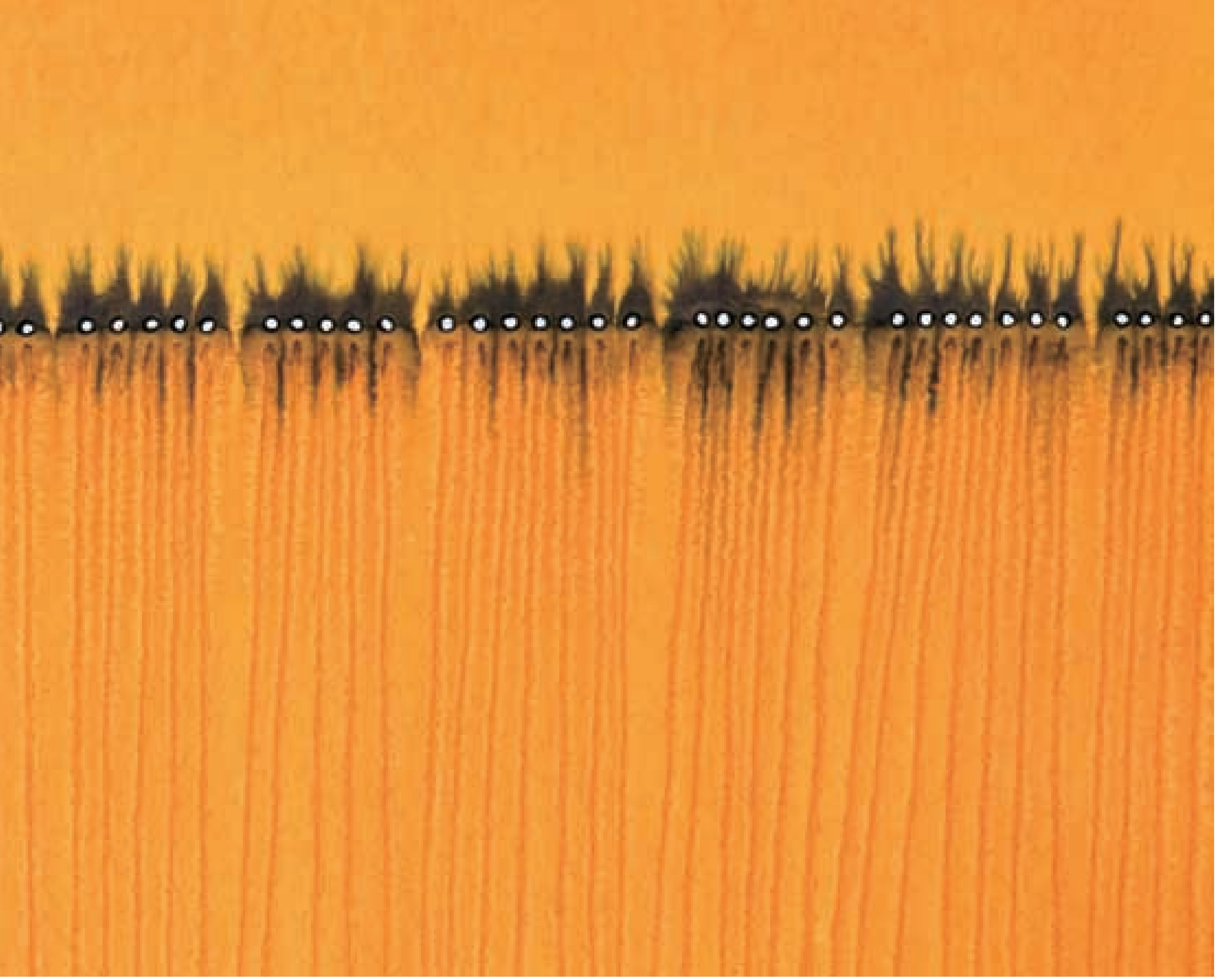


Corporate Information

Board of Directors
Mr Peter K C Woo, GBM, GBS, JP, *Chairman*
Mr Stephen T H Ng, *Deputy Chairman & Managing Director*
Mr Andrew O K Chow, *Vice Chairman*
Ms Doreen Y F Lee, *Executive Director*
Mr T Y Ng, *Executive Director*
Mr Paul Y C Tsui, *Executive Director & Group Chief Financial Officer*
Ms Y T Leng

Independent Non-executive Directors
Mr Alexander S K Au, OBE*
Professor Edward K Y Chen, GBS, CBE, JP
Dr Raymond K F Ch'ien, GBS, CBE, JP
Hon Vincent K Fang, SBS, JP*
Mr Hans Michael Jebsen, BBS*
Prof the Hon Arthur K C Li, GBS, JP
Mr James E Thompson, GBS*

* Members of the Audit Committee



"Purusha VI" (Detail) by Sohan Qadri, 2008
Ink and dye on paper, 100 X 140 cm.

Secretary
Mr Wilson W S Chan, FCIS

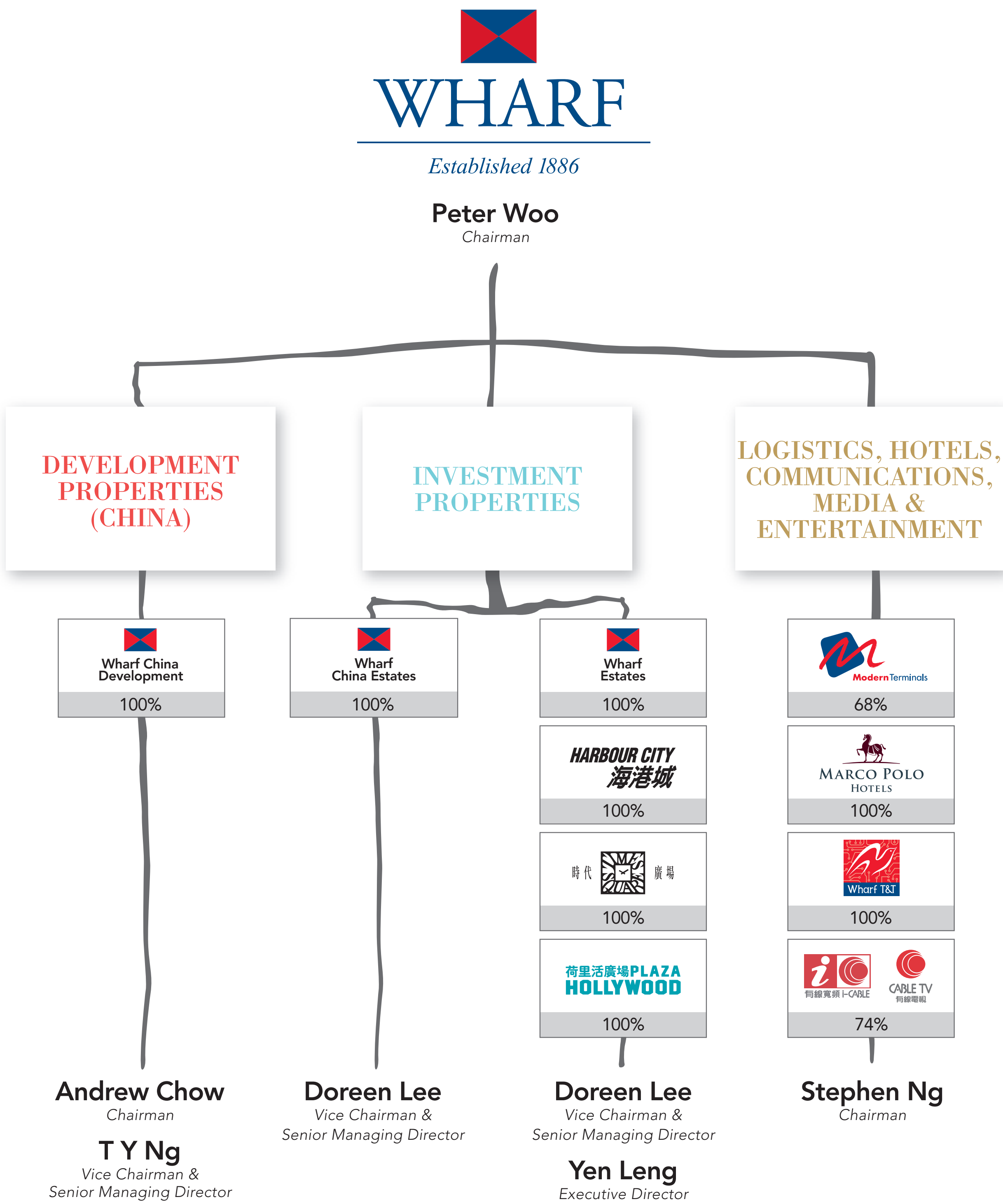
Auditors
KPMG, Certified Public Accountants

Principal Banker
The Hongkong and Shanghai Banking Corporation Limited

Registrars
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Registered Office
16th Floor, Ocean Centre, Harbour City,
Canton Road, Kowloon, Hong Kong
Telephone: (852) 2118 8118
Fax: (852) 2118 8018
Website: www.wharfholdings.com

Group Business Structure



% refers to the effective equity
interest held by the Group

Chairman's Statement

A Record Year from Building for Tomorrow

2012 was a truly remarkable year in the history of our Company.

It also marked 30 years for me at Wharf, which I joined as Managing Director in 1982. At that time, Wharf's book value was HK$3.2 billion while its market capitalisation was HK$3 billion. In 2012, Wharf's net book value stood at HK$249 billion with a market capitalisation of HK$184 billion.

Core profit for 2012 exceeded HK$11 billion — nearly four times the value of the entire Company in 1982. Overall profit in 2012 topped HK$47 billion, a number that would have been unimaginable back in 1982 and was certainly not budgeted for at the beginning of 2012.

We salute the late Sir YK Pao's wisdom and foresight in his strategic acquisition of control of Wharf which started in 1978. He took the Chair in June 1980. The robust foundation built by the late Sir YK and the vision he had for this company, makes Wharf what it is today. And it ensures that even in a challenging environment such as last year we were capable of achieving record-breaking results. I wish to acknowledge the tremendous contribution of my past and current senior colleagues and thank them for the success that Wharf enjoys today.

Last year was plagued by challenges on the domestic and international fronts. Hong Kong reported a modest GDP growth rate of 1.4%, down from the above-trend rate of 4.9% in 2011. Nevertheless, the domestic sector held up reasonably well with private consumption expenditure grew steadily. Visitor arrivals increased by 16% to reach a new record of 48.6 million of which 72% came from Mainland China. Thriving inbound tourism continued demand for hotel rooms and consumer goods. Hong Kong retail sales posted a moderate growth rate of 9.8% in 2012, after a record performance in 2011.

Meanwhile, China's GDP growth rate decelerated to 7.8% in 2012, from 9.2% in 2011. The Mainland property market was affected by the introduction of home purchase restrictions at the beginning of the year but gradually stabilised in both housing prices and home-sale transactions. Cooling measures imposed by the government should facilitate a healthier and more sustainable market development in the longer term.

Completion of the Beijing to Shenzhen high-speed railway during 2012 will consolidate business activity and stimulate economic growth, particularly in the central China region. The Central government's commitment to double GDP by 2020 will further accelerate urbanisation, substantially grow the service sector and drive domestic demand. This should be a very positive force in spurring new demand for quality urban living and unique 'shoppertainment' experiences.

In 1992, Wharf published the "Hong Kong Plus" paper, which highlighted the opportunities Hong Kong would have post 1997 with Mainland China — namely, the trade services explosion which would drive Hong Kong's economic viability and the financial services platform which would complement this. Looking back, we laid out much of the Hong Kong story that has subsequently unfolded. We foretold a story of success because we did not subscribe to "the sky is falling" panic preceding and during the change of sovereignty. It has been quite a success story for Hong Kong. At Wharf, we quietly carried on with our mission — "Building for Tomorrow" — one block at a time. We thank our shareholders for their unfailing support throughout.

Chairman's Statement

Many feel the real transition to Hong Kong's reunification with China actually started when the Sino-British negotiation started in 1982. These 30 years from 1982 to 2012 represented the most volatile period in Hong Kong's history, packed with risks and opportunities. 1997 was just the watershed between the two 15-years before and after. That is now all behind us.

The next 15 to 30 years should be even more exciting for Hong Kong.

The high-speed railway to Guangzhou and beyond, the bridge to the western region of the Pearl River Delta and the third airport runway will all provide new and substantial pipelines to facilitate fast growing demand for Hong Kong as the premier universal service platform on the doorstep of China.

The urbanisation of China is surely a once-in-a-lifetime opportunity for Hong Kong — the right time, the right place and the right harmony, as the Chinese saying goes. The top 15% of almost every Mainland city's urban population will be in need of services which are not adequately provided for in the city where they reside. Hong Kong has the critical mass, and is the reliable platform that can offer many of the services the Mainland Chinese seek. To our many neighbours, Hong Kong is indeed that top brand on the many services that they prefer.

The extraordinary surge in demand will continue to challenge Hong Kong's capacity and creativity. Hong Kong must stay fully alert to the huge demand from the Mainland, while serving our own residents, and overseas visitors, anchoring on our assured quality, reliability, professionalism and integrity. While many developed economies are still in a state of shock and suffering sluggish demand since the 2008 financial tsunami, this extraordinary surge in demand in Hong Kong is clearly a "happy problem" that many other economies would wish to have. In order for Hong Kong to stay ahead of the curve, it is crucial we learn to deal with the surge and not to turn our back to it. We must relentlessly build on our critical mass, to keep our standards high in order to support our core services and to create new services.

Hong Kong should not be and cannot be seen to be inward looking. We certainly have ample fiscal means and the capacity to deal with our political and social issues. Perhaps we ourselves are still not believers of our own success, something international observers would find strange. Being ultra-prudent, we have repeatedly underestimated our fiscal revenues year after year, putting our own governance creditability at risk with our community. We should be more ambitious about realising the many and varied opportunities offered by this new, exciting era.

For Hong Kong, the transition has been successful and is fully behind us. The sky has not fallen and it is not going to fall. We can handle any problem. We look forward, not backward.

Business Performance

The Group reported another year of record revenue and profit.

Our principal core business is the investment property ("IP") portfolio, which includes hotels. This segment increased total revenue by 12% to reach HK$11 billion and operating profit by 11% to HK$8.6 billion, representing 61% of the Group's total operating profit.

The Group continued to maintain a leading position in the Hong Kong retail market. Total retail sales at Harbour City and Times Square surged to a new record of HK$40 billion in 2012, commanding a 9% share of total Hong Kong retail sales despite 17% of the retail space at Times Square being withdrawn from the market during the major renovation to relocate the cinema to the Food Forum floors.

On a per square foot basis, Harbour City's retail sales soared to HK$2,600 per month and Times Square's to HK$1,700. These two assets had a combined value of HK$177 billion at the end of 2012, up from HK$137 billion in 2011, and represented 50% of the Group's business assets and HK$58 per Wharf share on an attributable basis.

Harbour City's success stems from its premier location, critical mass, strategically calibrated trade mix and forward looking retail marketing. We are pleased to have finalised the new lease for Ocean Terminal with the Government. This will consolidate our retail footprint on Canton Road while opening up many opportunities for trade mix refinement and premises enhancement to maintain our leadership positioning in retail.

The enhancement projects along Canton Road continued to bring new excitement to the city. Some non-retail areas on Canton Road were converted into multi-level flagship stores for Fendi and Giorgio Armani. Premises enhancement is an ongoing initiative to provide a captivating "shoppertainment" experience for all shoppers. Over the past 10 years, Harbour City completed a minimum of 17 major projects and invested more than HK$1.7 billion to make Harbour City what it is today. These included the LCX conversion in 2002, the Ocean Terminal Praya upgrade in 2005, the Ocean Centre conversion to create an outdoor dining area in 2007 and Gateway courtyard upgrades in 2008 and 2012. The average payback period is three to five years. Rome was not built in a day. Neither is Harbour City!

Times Square has been operating for 18 years and I believe it is now the most successful vertical mall in the world. The highest retail rent was achieved on the 8th floor, and reached HK$600 per square foot per month in 2012. Times Square is now undergoing a major enhancement project with an investment of HK$500 million to relocate the cinema from the ground and lower floors to the 12th and 13th floors, bringing in exciting top luxury retail brands, while Lane Crawford will expand. It will truely be a new era for Times Square.

Book value of the Group's investment properties in Hong Kong and China doubled in three years to HK$232 billion at the end of 2012, primarily the result of continuous efforts invested in premises enhancement initiatives and tenant-mix refinement.

Harbour City and Times Square delivered a 20% compound annual growth rate in retail sales in the past 10 years, outpacing the Hong Kong retail market by nine percentage points.

The Group's investment properties in Mainland China performed solidly in 2012. Total rental income increased by 26% to HK$1 billion. Shanghai Wheelock Square is the tallest office tower in Puxi and remains the preferred office location for multinationals given its prime location and elegant sense of arrival. Average spot rent achieved in 2012 was among the highest office rental rates in Shanghai.

Looking ahead, the Group's commercial properties and retail area in Hong Kong and China will multiply, particularly with the completion of five International Finance Squares (IFS) on the Mainland by 2016, which will significantly increase rental income.

Chengdu IFS, a mega-sized retail mall of 200,000 square metres which will be the largest in Chengdu and Western China, is scheduled to open in the first quarter of 2014. Pre-leasing has progressed well with 80% of total retail space committed by year end. The IFS retail malls in Chengdu and Changsha will have a total retail area of 444,000 square metres when completed — equivalent to the creation of two Harbour City malls. The Group's total retail area in Hong Kong and China will increase to 11 million square feet by 2016 — triple the retail area in Hong Kong.

Chairman's Statement

Business Performance (Cont'd)

As our core business, our investment property portfolio presents two dimensions of value creation for our shareholders: one from rentals and the other from capital appreciation. We have in the past taken a low profile on the second aspect although it goes very much hand in hand with the first. Property funds in the marketplace deliver overall returns to their investors as assessed every three to five years in terms of internal rate of return which includes both aspects.

The overall return for our investment property portfolio this year is HK$43 billion, from which HK$7 billion is contributed from operations and HK$36 billion from capital appreciation. Against the total asset value as at the start of 2012, this represents a 25% aggregated return for the year and rather substantial value creation for shareholders.

China property is now our second most important business. China sales continued to gain pace in 2012. Revenue increased by 51% to HK$9.6 billion. A total of 1.3 million square metres of properties were sold or presold which generated attributable sales proceeds of RMB15 billion, 18% up on 2011. The net order book at year end increased to RMB15.7 billion for 1.4 million square metres. The total land bank in China stood at 12.3 million square metres at the end of 2012, spanning 15 cities. The 2013 sales budget has been set at RMB20 billion. Attributable interest held through associated company Greentown China Holdings Limited ("Greentown") has not yet been included.

Total contribution from China increased to 30% of the Group's core profit, up from 21% in 2011. This RMB portfolio which has been substantially built up over the last seven years now totalled RMB99 billion. The development of a sustainable organisation in local markets continues and is our high priority.

In June 2012, we made a timely acquisition of a 25% equity stake in the leading Mainland property developer Greentown for about HK$2.7 billion at HK$5.20 per share. That entitled us to a HK$900 million share in Greentown's 2012 profit for a 33% return in less than seven months. In addition, a paper gain of nearly HK$9.00 per share or 173% was recorded by the end of the year, translating to a notional profit of HK$4.7 billion. This was only partly reflected in our profit and loss account for 2012. Outside of the equity stake, we also invested HK$2.6 billion in a Greentown convertible instrument with a composite return of over 12% per annum on redemption. While direct financial benefits have been rewarding, going forward, we are more excited about the synergistic commercial additives to our Mainland property initiative with this partnership.

Financial Results

Group revenue increased by 29% to HK$31 billion with strong recurrent rental income and Mainland property completions. Operating profit grew by 24% to HK$14 billion.

Profit attributable to Shareholders excluding net investment property revaluation surplus and exceptional items increased by 37% to HK$11 billion. Including the net surplus from revaluation of investment properties and exceptional items, profit attributable to Shareholders was HK$47 billion and earnings per share were HK$15.60. Book net asset value increased to HK$82 per share.

The Group continues to practise prudent financial management with net debt at HK$55.6 billion at year end. Gearing stabilised at 21.7%. Funding sources were expanded to lengthen maturity and reduce over-reliance on any single financing platform.

The Board has raised the total dividend for the year by 56% to HK$1.65 per share. This also means an increase in the payout ratio to 45%, from around 40% in previous years. This we feel will better reflect the returns generated by our investment property portfolio which our shareholders value greatly.

Business in Community

The Group continued to realise its "Building for Tomorrow" mission through the pursuit of its Business In Community programme (BIC). The Group will earmark up to 1% of annual core profit to support worthy and specific BIC projects in which staff volunteering can also play a key part.

The Group's flagship Project *WeCan* aiming to help students and schools of humble backgrounds was lifted to a new level with the enthusiasm of 10 participating secondary schools plus hundreds of staff volunteers from the Group's business units, and the support of the Quality School Improvement Project of The Chinese University of Hong Kong ("CUHK").

In the past 18 months, more than 100 activities were arranged for teachers, parents and 10,000 students. The Group opened 100 spaces across various business units to students for the first ever job-tasting programme during the last summer holiday so they could experience a real working environment. In January 2013, a joint school Chinese New Year Bazaar was held at Plaza Hollywood with more than 200 Project *WeCan* students taking the lead from planning to final execution. We are thankful for the Government's support. The appearance of the Chief Secretary for Administration of Hong Kong at the opening ceremony gave a major confidence boost to the students.

The Group supported the Wu Zhi Qiao (Bridge to China) Charitable Foundation again by sponsoring a new project in Gansu in the summer of 2012. Project *WeCan* earned the Outstanding Partnership Project Award in 2011/2012, the top honour given to a Caring Company by The Hong Kong Council of Social Service.

At the other end of the spectrum, two talented architecture postgraduates from the CUHK were selected to undertake a 12-month internship with top and leading international design firms overseas through the Architectural Design Internship programme established by The Wharf ArchDesign Resource Trust which aims at broadening young architects' horizons.

The care-for-others spirit is a critical component of the Group's core values. I thank the 800 staff who have enrolled as volunteers to serve different members of society.

Outlook

2013 is likely to remain challenging for the global economy in light of the fragile fiscal position in Europe and the US while the major economies will stay on a slow-growing path. Nevertheless, economic fundamentals in Hong Kong remain positive on the back of a low unemployment rate, improving household incomes and a series of tax relief measures. The inbound tourism and the associated retail services platform will continue to benefit from increasing visitor arrivals. The Hong Kong government is expecting the economy to hold up better than in 2012 and is forecasting a 1.5–3.5% GDP growth rate. China's commitment to double 2010 GDP by 2020 is equivalent to a sustainable economic growth of 7.5% per year over the next eight years. The next phase of growth should continue to be underpinned by accelerating urbanisation and domestic consumption. The fast-expanding middle class with spending power will continue to spur demand for quality urban living and unique 'shoppertainment' experiences. Completion of the Shenzhen to Hong Kong high-speed railway section by 2015 will link up Hong Kong to key cities on the Mainland and further strengthen economic ties. Hong Kong's economy will continue to benefit from the Mainland's vibrant and sustainable growth.

On behalf of Shareholders and my fellow Directors, I wish to express our heartfelt appreciation to my senior colleagues and all Staff for their dedication and contributions throughout the year.

Peter K C Woo
Chairman
26 March 2013

Financial Highlights

	2012 HK$ Million	2011 HK$ Million	Change
Results			
Revenue	30,856	24,004	+29%
Operating profit	14,170	11,388	+24%
Core profit (note a)	11,040	8,083	+37%
Profit before property revaluation surplus	13,927	6,727	+107%
Profit attributable to equity shareholders	47,263	30,568	+55%
Total dividend for the year	4,998	3,211	+56%
Earnings per share (note b)			
Core profit	HK$3.64	HK$2.70	+35%
Before property revaluation surplus	HK$4.60	HK$2.25	+104%
Attributable to equity shareholders	HK$15.60	HK$10.22	+53%
Dividend per share			
First interim	HK$0.45	HK$0.36	+25%
Second interim	HK$1.20	HK$0.70	+71%
Total for the year	HK$1.65	HK$1.06	+56%
Financial Position			
Total assets	368,998	317,973	+16%
Total business assets (note c)	343,901	280,837	+22%
Net debt	55,625	43,465	+28%
Share capital (Ordinary shares of HK$1 each)	3,029	3,029	–
Shareholders' equity	248,501	203,257	+22%
Total equity	256,906	210,874	+22%
Net asset value per share	HK$82.04	HK$67.10	+22%
Net debt to total equity	21.7%	20.6%	+1.1%pt

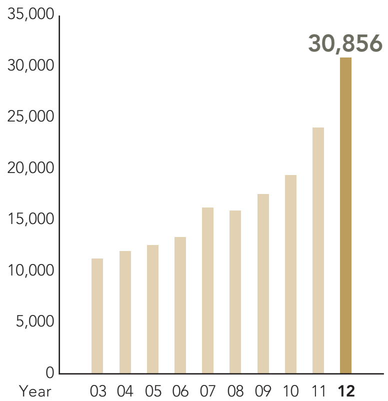
Notes:

(a) Core profit excludes net property revaluation surplus, mark-to-market changes on swaps and other non-recurring booking accounting differences including the negative goodwill on acquisition of the interests in Greentown.

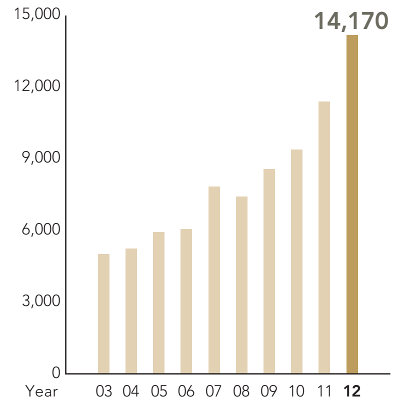
(b) Earnings per share for 2012 is calculated based on 3,029 million ordinary shares in issue during the year (2011: 2,991 million ordinary shares).

(c) Business assets exclude unallocated corporate assets mainly comprising financial investments, deferred tax assets and bank deposits and cash.

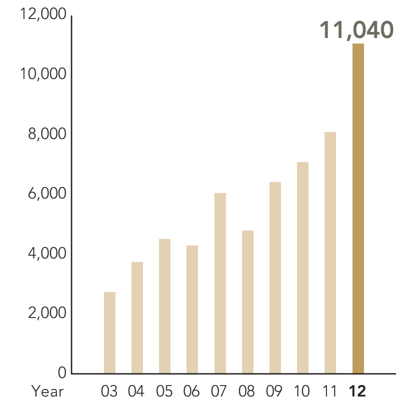
Revenue
(HK$ Million)



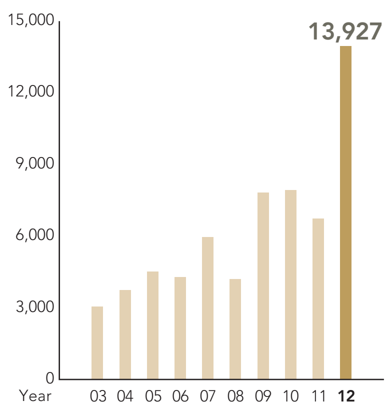
Operating Profit
(HK$ Million)



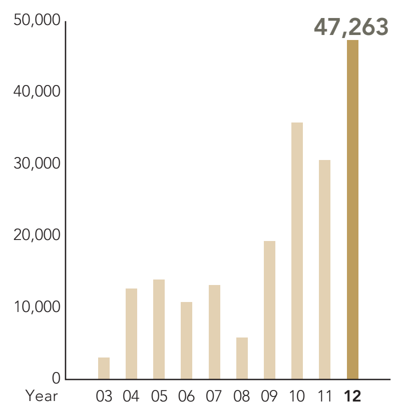
Core Profit
(HK$ Million)



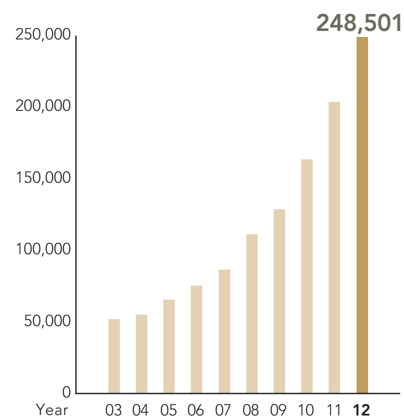
Profit Before Property Revaluation Surplus
(HK$ Million)



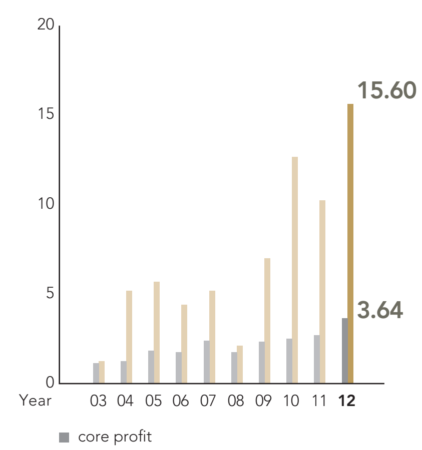
Profit Attributable to Equity Shareholders
(HK$ Million)



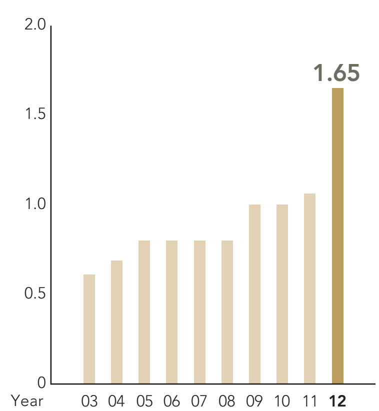
Shareholders' Equity
(HK$ Million)



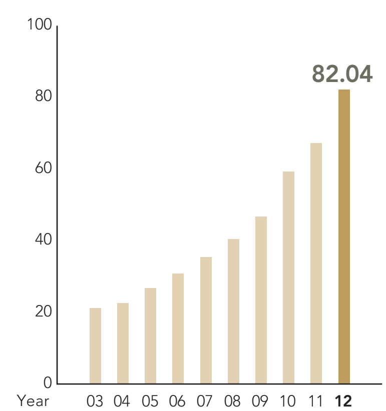
Earnings Per Share
(HK$)



Dividend Per Share
(HK$)



Net Asset Value Per Share
(HK$)



"Zebras" by Fernanda Brunet, 2011
Acrylic on linen, 130 X 150 cm.

Managing Director's Report

HARBOUR CITY

TIMES SQUARE

PLAZA HOLLYWOOD

CHINA PROPERTIES

THE PEAK PORTFOLIO &
OTHER HONG KONG PROPERTIES

MARCO POLO HOTELS

MODERN TERMINALS

OTHER BUSINESSES

Harbour CITY

Business Assets:

126,593 HK$ Million

Gross Revenue:

7,508 HK$ Million

Operating Profit:

5,757 HK$ Million

Harbour City

Business Assets
As at 31 December

	2012 HK$ Million	2011 HK$ Million
Properties (at valuation)	**125,370**	93,550
Hotel and Club (cost less depreciation)	**331**	247
Other assets	**892**	641
Total business assets	**126,593**	94,438

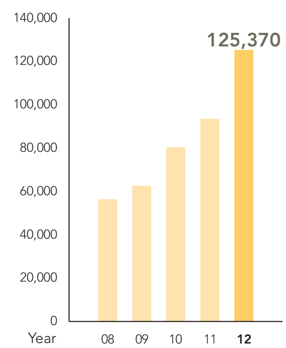
Gross Revenue

	2012 HK$ Million	2011 HK$ Million	Change
Retail	**4,223**	3,571	+18%
Office	**1,710**	1,614	+6%
Serviced Apartments	**310**	300	+3%
Hotel and Club	**1,265**	1,150	+10%
Total gross revenue	**7,508**	6,635	+13%

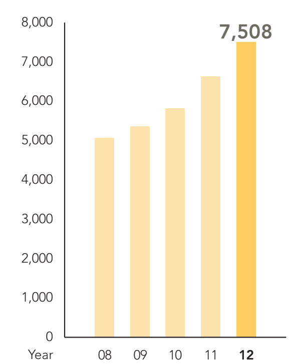
Operating Profit

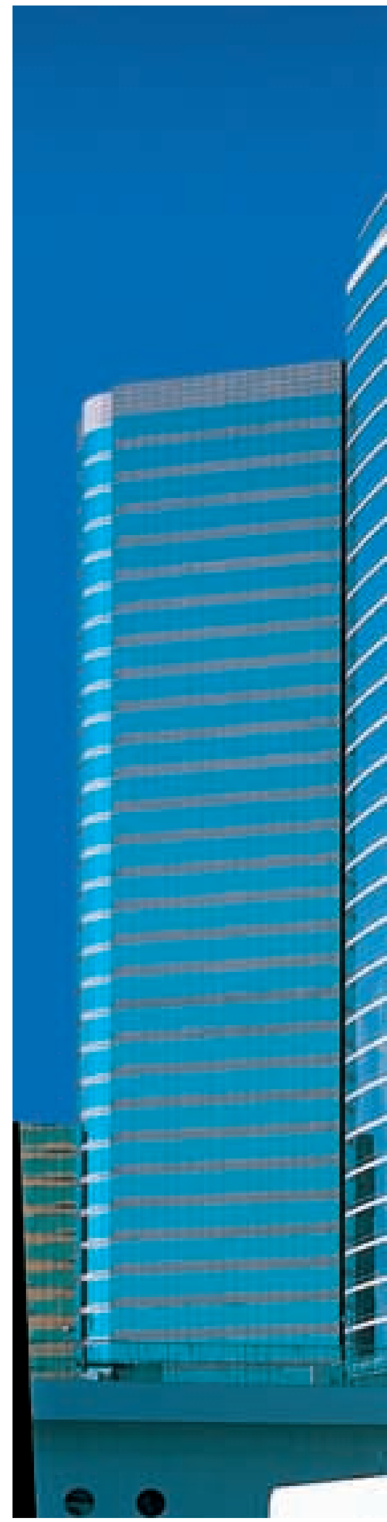
	2012 HK$ Million	2011 HK$ Million	Change
Retail	**3,700**	3,154	+17%
Office	**1,450**	1,365	+6%
Serviced Apartments	**217**	215	+1%
Hotel and Club	**390**	361	+8%
Total operating profit	**5,757**	5,095	+13%

Property Value
(Hotel and Club excluded)
(HK$ Million)



Gross Revenue
(HK$ Million)





The largest retail complex in Hong Kong

Business Review

Harbour City

(Top) The multi-level Giorgio Armani flagship store, (bottom left) the 16,000-square-foot Gap store and (bottom right) Ocean Terminal

Revenue increased by 13% to HK$7,508 million and operating profit by 13% to HK$5,757 million. Excluding the three hotels, and with Ocean Terminal on a new lease for 21 years, Harbour City was valued at HK$125 billion at the end of 2012 representing an increase of 34% over 2011 and 36% of the Group's business assets.

Retail

Hong Kong retail sales reported a moderate 9.8% growth rate in 2012, after a record performance in the past decade to 2011. The market held up well at the beginning of the year before the adverse external environment started to affect consumer sentiments. Gradual revival recorded in the later part of the year as a result of the stabilising European debt crisis and steady economic recovery in the US.

Harbour City performed solidly in 2012, riding on its premier location, craftily-managed trade mix and powerful retail marketing. Total retail sales registered a growth rate of 13% to reach a record of HK$31 billion or about HK$2,600 per square foot per month. Market share increased further to an unmatched 6.9% of total Hong Kong retail sales, demonstrating its continued leadership in the marketplace.

Revenue from Harbour City's retail sector increased by 18% to HK$4,223 million. Occupancy was maintained at virtually 100% at the end of 2012.

Prominently located at the heart of Hong Kong's most dynamic retail district, Harbour City is one of the world's leading shopping destinations. It is understood to be the largest shopping mall in the world, not in terms of size but total tenants' sales. With a two-million-square-foot critical mass and craftily-managed tenant mix across a finely-calibrated price point matrix, Harbour City strives to provide the captivating "shoppertainment" experience for all shoppers.

During 2012, brand offerings were further enriched and diversified with a host of highly celebrated brands on board including Brunello Cucinelli, Emilio Pucci, Galliano, Gap, Miu Miu, Repetto and Samsung plus the debut of internationally renowned Aland, Alexander Wang, Bape Kids and Silver Cross.

The Food and Beverage sector has been fine-tuned, with the recruitment of the Michelin-starred chef Sergi Arola's Vi Cool by Sergi Arola, Dressed, Greyhound Café, Ladurée and Maison Eric Kayser. Kid X at Ocean Terminal has gradually transformed into a one-of-a-kind 'Petite Canton Road' with kidswear flagship stores including Burberry Kids, Fendi Kids, Gucci Kids and Miss Blumarine.

In the meantime, rejuvenation and conversion works continued to bring excitement to the market and maximise retail value. Fendi and Giorgio Armani opened their multi-level flagship stores on Canton Road. Gap opened its 16,000-square-foot store at Level Three, Gateway. These new retail stores were converted from previous non-retail areas such as hotel and office lobbies.

In addition to the annual iconic Christmas and Chinese New Year festive decorations, Harbour City has rolled out a series of fun and engaging marketing events attracting more foot traffic and retail sales. The acclaimed and popular 'Doraemon' and 'Yue Minjun' exhibitions during 2012 instantly became talk-of-the-town events and attracted many locals and tourists.

Harbour City will continue to focus on value creation by putting its best efforts to enhance its unrivalled position and fortify its competitive edge to stay ahead in the market.

Business Review

Harbour City

Retail Tenant Mix (by Rental and Area)

	% by Rental	% by Area
Fashion	31.0	29.1
Leather Goods - Shoes, Bags & Related Trades	24.1	11.0
Department Stores, Confectionery Products	16.4	22.1
Jewellery, Beauty and Accessories	16.2	7.7
Restaurant, Fast Food, F&B	3.4	13.8
Children's Wear, Toys, & Related Trades	2.7	6.4
Electrical & Audio-visual Equipments	2.5	2.1
Sports Wear	2.0	2.6
Others	1.7	5.2
Total	100.0	100.0

Portfolio Information

	Gross Floor Area *(sq ft)*	Revenue *(HK$ Million)*	Average Occupancy *(%)*	Year-end Valuation *(HK$ Million)*
Retail	2,049,000	4,223	98	69,644
Office	4,263,000	1,710	96	47,336
Serviced Apartments	670,000	310	84	8,390
Hotel and Club	1,368,000	1,265	85	7,960

Office

Office demand continued to be fueled by business expansion, new lettings and decentralisation. On the back of positive rental reversion, revenue grew by 6% to HK$1,710 million. Rental rates for new commitments increased modestly whereas occupancy climbed to 97% at the end of 2012.

Harbour City continues to be a popular choice for multinationals, as well as Mainland and local enterprises. Riding on its superb location, convenient transportation network and well-rounded ancillary services including the mega shopping mall, three Marco Polo hotels, a fitness centre and a private recreational club, Harbour City has an unrivalled competitive edge compared to 'pure offices'.

Lease renewal retention rates held up reasonably well at 62% during the year, with favourable rental increments. These included a host of anchor tenants such as AIA, Elegant Watch & Jewellery, Prudential, Roberto Cavalli, Sony Corporation and United Airlines.

To stay ahead in the increasingly competitive marketplace, the leasing and property management teams will continuously improve the premises and be flexible to market changes.

Serviced Apartments

Revenue grew by 3% to HK$310 million for serviced apartments with occupancy maintained at 85% at the end of 2012.

Marco Polo Hotels in Harbour City

The Marco Polo Hongkong Hotel, Gateway Hotel and Prince Hotel in Harbour City continued to benefit from Hong Kong's thriving inbound tourism and strong hotel room demand in 2012. The favourable location in the heart of Tsimshatsui and close integration with Harbour City provide convenience for both business and leisure travellers.

Consolidated occupancy of the three Marco Polo hotels in Hong Kong reached 85% in 2012, with an increase of 8% in average room rate. Marco Polo Hongkong Hotel delivered a solid performance, with occupancy rising by seven percentage points to 91%. Prince and Gateway are undergoing room renovation scheduled for completion in 2013.

Harbour City represents 75% of the retail area of Canton Road

Business Review
Harbour City

Yue Minjun Exhibition was one of the talk-of-the-town events

Harbour City launched a series of fun and engaging marketing events in 2012

Times Square

Business Assets:

43,643 HK$ Million

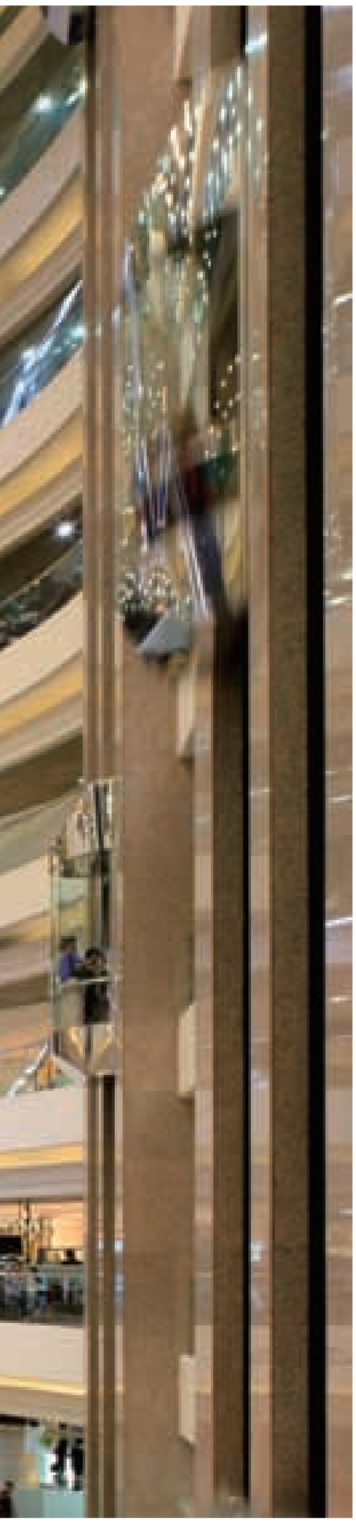
Gross Revenue:

1,908 HK$ Million

Operating Profit:

1,678 HK$ Million

The most successful and tallest vertical shopping mall in Hong Kong



Times Square

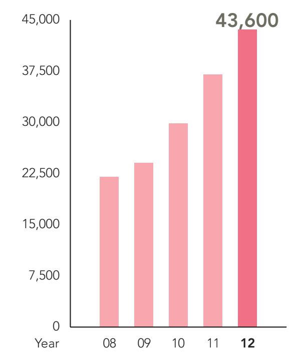
Business Assets

As at 31 December

	2012 HK$ Million	2011 HK$ Million
Properties (at valuation)	**43,600**	37,000
Other assets	**43**	51
Total business assets	**43,643**	37,051

Property Value

(HK$ Million)

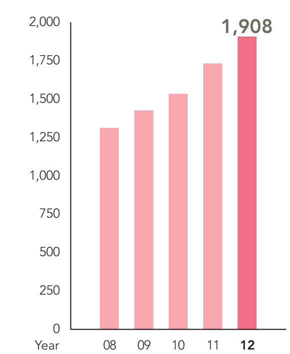


Gross Revenue

	2012 HK$ Million	2011 HK$ Million	Change
Retail	**1,352**	1,258	+7%
Office	**556**	474	+17%
Total gross revenue	**1,908**	1,732	+10%

Gross Revenue

(HK$ Million)



Operating Profit

	2012 HK$ Million	2011 HK$ Million	Change
Retail	**1,198**	1,121	+7%
Office	**480**	401	+20%
Total operating profit	**1,678**	1,522	+10%

Business Review

Times Square

Withdrawal of 17% of total retail space from the market for a major renovation moderated the growth rate of Times Square compared to recent years. Revenue increased by 10% to HK$1,908 million and operating profit by 10% to HK$1,678 million. Times Square was valued at HK$44 billion at the end of 2012, an increase of 18% over 2011, representing 13% of the Group's business assets.

Retail

Times Square is the most successful vertical mall in Hong Kong. Its success stems from its unique 16-level design, comprehensive trade-mix and direct linkage to the Mass Transit Railway in the prime retail district of Causeway Bay on the Hong Kong Island. Total retail sales at Times Square maintained a 1.5% growth to HK$9.3 billion despite the withdrawal of approximately 85,000 square feet of lettable area or 17% of total retail space from the market for cinema relocation during the year. On a per-square-foot basis, Times Square's retail sales posted a 15% growth over 2011 to over HK$1,700.

Revenue of Times Square's retail sector increased by 7% to HK$1,352 million. Occupancy was maintained at virtually 100% at the end of 2012 (excluding the areas vacated for refurbishment).

The cinema relocation, with a view to adding immense retail value to Times Square, progressed as planned. The new retail shops at the ground and lower floors, as well as the new cinema on 12th and 13th floors are scheduled to open in the second half of 2013.

In an attempt to enrich Times Square's product offerings, tenant-mix was further refined during the year with the recruitment of international and trendy labels including Blackbarret, Cartier, Chaumet, Georg Jensen, IWC, Jill Stuart, Loewe. Galerie, Omega, Repetto and Samsung. Some existing tenants including A.T. by Atsuro Tayama, Bose, Chanel Beauté, Furla, Jurlique and Links of London were relocated to uplift the shopping experience. The opening of BLT Burger further widened the culinary selection at Times Square.

Innovative marketing campaigns at Times Square continued to capture shoppers attention and reinforce its positioning of "The Place of Happenings". The New Year's Eve Apple Countdown remains one of the most popular events in Hong Kong. The 'Lego Christmas Village' was installed during Christmas to celebrate the 80th anniversary of the iconic Danish toy manufacturer. Large scale art and cultural events such as the Fang Lijun Art Exhibition, the Korean Contemporary Art Exhibition and the UK Festival were held during the year.

Completion of the cinema relocation will further enhance Times Square's zoning strategy and shoppers' traffic distribution for the mall. Times Square will strive to strengthen its leading position as a must-visit shopping landmark in Hong Kong through brand-mix refinement for an all-round and unique shopping experience.

Office

Revenue of the office sector increased by 17% to HK$556 million, on the back of positive rental reversion. Occupancy stood high at 98% at the end of 2012.

Times Square remains the preferred office location for multinationals in the service and consumer goods industries. Lease renewal retention was maintained at 67%, with renewals from tenants including Assicurazioni Generali, Bates Asia, Dennis Lau & Ng Chun Man Architects & Engineers, EF Education, JT International and Walt Disney. New lettings during the year included Alliance Global, Chanel, Forex Trade, Kosei International, Unity and Workday Asia. There were also in-house expansions from Aon Hong Kong, Apple, Balenciaga, Google, Honda Motor, Lane Crawford and L'Oréal.

Times Square — "The Place of Happenings"

Business Review

Times Square

The New Year's Eve Apple Countdown remains one of the most popular events in Hong Kong and Asia

Retail Tenant Mix (by Rental and Area)

	% by Rental	% by Area
Fashion	34.8	24.8
Jewellery, Beauty and Accessories	27.2	15.2
Department Stores, Confectionery Products	15.4	23.6
Electrical & Audio-visual Equipment	9.0	9.0
Sports Wear	6.5	4.8
Restaurant, Fast Food, F&B	5.8	18.6
Others	1.3	4.0
Total	100.0	100.0

Notes:
(a) UA Times Square (20,348 sq. ft.) moved out in the end of January 2013
(b) 12/F and 13/F of Food Forum (49,705 sq. ft.) was under reconfiguration

Portfolio Information

	Gross Floor Area *(sq ft)*	Revenue *(HK$ Million)*	Average Occupancy *(%)*	Year-end Valuation *(HK$ Million)*
Retail	936,000	1,352	98	29,751
Office	1,033,000	556	97	13,849

PLAZA HOLLYWOOD

Revenue increased by 11% to HK$420 million and operating profit by 10% to HK$307 million. Average occupancy was maintained at 99%. Retail sales grew by 15% in 2012 to HK$2.4 billion or HK$570 per square foot per month, riding on its success in brand repositioning and tenant mix refinement. As a regional shopping mall targeting primarily local shoppers, Plaza Hollywood has successfully established its presence in the Kowloon East region.

Plaza Hollywood is purposely-designed with no towers above it to provide maximum planning and re-planning flexibility. It has a highly efficient layout with lettable floor area representing 65% of gross floor area. It comprises over 200 retail outlets, including a purpose built stadium seating six-screen multiplex with 1,625 seats. Parking for 527 vehicles is provided.

Located in Kowloon East, with a catchment area that comprises 1.42 million residents, this property is directly linked to the Diamond Hill MTR Station, which will be the future interchange hub for the new Shatin-Central line with the existing network. It is also directly linked to the Diamond Hill bus terminus and at the entrance to Tate's Cairn tunnel, a vehicular transport hub to link Kowloon East with New Territories East and beyond that to Shenzhen.

A series of structural reconfiguration of tenants started since 2010. International fashion and accessories brands were introduced. Annual footfall in 2012 rose to 19.4 million.

Retail Tenant Mix (by Rental and Area)

	% by Rental	% by Area
Fashion	21.9	22.5
Jewellery, Beauty and Accessories	19.9	12.0
Restaurant, Fast Food, F&B	16.7	21.6
Department Store, Healthcare & Confectionery Products	12.3	12.2
Electrical & Audio-visual Equipment & Entertainment	11.4	19.2
Travel, Telecommunication and Other Services	8.3	4.9
Sports Wear	5.2	4.0
Others	4.3	3.6
Total	100.0	100.0

Plaza Hollywood features one of the largest atriums in Hong Kong
with 10,000 square feet of event space and a ceiling height of nearly 80 feet.

CHINA PROPERTIES

Business Assets:

122,015 HK$ Million

Total Land Bank:

12.3 Million square metres

Total Land Bank (including Greentown):

18.0 Million square metres


九龍倉|國賓1號
AMBASSADOR VILLA

Chengdu IFS, Hong Xing Road, Chengdu

China Properties

Business Assets

As at 31 December

	2012 HK$ Million	2011 HK$ Million
Investment properties	**37,748**	30,638
Property inventory and development	**47,367**	45,524
Interest in associates/jointly controlled entities	**22,146**	19,035
Investment in Greentown	**8,621**	–
Hotel properties and other fixed assets	**1,321**	874
Other assets and investments including Sino-Ocean Land	**4,812**	2,352
Total business assets	**122,015**	98,423

Land Bank Distribution*

	%
East	52
West	34
South	4
Other Regions	10
Total	100

Project Nature*

	%
Development Properties for Sale	80
Upcoming IFSs	17
Completed Investment Properties	3
Total	100

* Excluded Greentown

Business Review

China Properties

Property Investment

Wheelock Square, 1717 Nanjing Xi Road, Shanghai

Revenue of this sector grew by 26% to HK$1,005 million and operating profit increased by 29% to HK$634 million, on account of considerably higher contribution from Shanghai Wheelock Square and Chongqing Times Square. The investment properties in China were valued at HK$16 billion at the end of 2012.

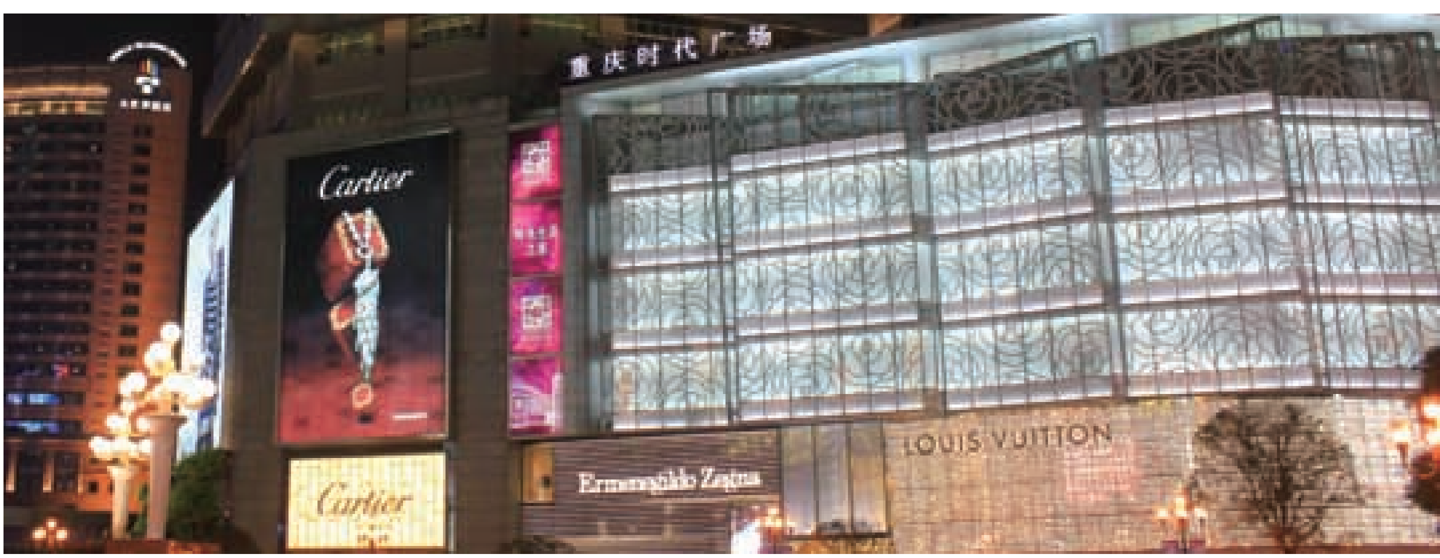
Shanghai Wheelock Square continued to attract multinationals and major corporations, riding on its premier address on Nanjing Xi Road, distinctive design and world-class management. At the end of 2012, 92% of the office space was leased. Average spot rent stood at RMB430 per square metre per month, with the highest headline rent at RMB476 per square metre per month, which is among the highest office rental rates in Shanghai. Celebrated tenants committed during the year including Daiichi Sankyo, Luenmei, SAP and Tod's. The gross rental yield on cost increased to 13% in 2012, with the property still in its first lease cycle. Wheelock Square was valued at HK$8.3 billion at the end of 2012.

Dalian Times Square's retail mall occupancy stood at 100% at the year end. The tenant mix was further refined with the introduction of Bottega Veneta, Chanel, Sportmax, Tod's and Versace plus the expansion of Dior Homme. It strives to maintain its leadership position for high-end luxuries in the northeast provinces. The gross rental yield on cost soared to 59% in 2012, with only four years of operation.

Chongqing Times Square's retail mall occupancy was maintained at 94% at the year end, after the re-opening in July 2011. In addition to the existing first tier international labels on the ground level, more young fashion and accessories brands such as Anteprima Wirebag, Armani Exchange, Carat and Pandora were recruited at other floors to enrich the overall product offerings. The gross rental yield on cost was maintained at 22% in 2012.

Since the opening in December 2009, Chengdu Times Outlets has instantly become one of the most-visited outlets destinations in Chengdu. Located in close proximity to the Chengdu Shuangliu International Airport, it received 2.3 million visitors in 2012. The gross rental yield on cost rose gradually to 30% in 2012, with just three years of operation.

Shanghai Times Square's retail mall has been closed for renovation since May 2012, except for Wagas Express Café and Zara. It is scheduled to re-open in the third quarter of 2013 with a brand new tenant mix and anchor stores.



Chongqing Times Square, 100 Zou Rong Road, Chongqing

Business Review

China Properties

Property Investment

(Clockwise from Top left): Wheelock Square, Dalian Times Square, Times Outlets and Shanghai Times Square

Business Review

China Properties

Property Investment - International Finance Square

The Group is developing a series of five International Finance Squares (IFSs) in China, with a scale comparable to Harbour City and Times Square. Upon their completion between 2013 and 2016, the Group's commercial properties and retail area in Hong Kong and China will multiply.

The first phase of Chengdu IFS, including a 200,000 square metre mega-sized retail mall and a Grade A office tower, is scheduled for completion in the second half of 2013. Retail pre-leasing has exceeded plan, with 80% of the retail space committed at the year end at rental rates above budget. Mirroring the success of Harbour City, Chengdu IFS retail mall is to become the one-stop flagship shopping landmark in Western China with the most diversified trade mix and entertainment anchors. Hongxing Road, the replica of Canton Road in Hong Kong, will emerge as home to duplex flagship stores. The ground level has obtained the most prestigious fashion brands' commitment, such as Dolce & Gabbana, Emporio Armani, Fendi, Giorgio Armani, Prada and Tod's, etc. A host of prestigious jewellery and watch labels including Chaumet, Franck Muller, Jaeger-LeCoultre, Piaget and Van Cleef & Arpels have taken up space on Level Three, the second ground floor. To enhance the shopping ambience, fashion concept stores including Uniqlo and the fashion trend leader I.T Group will offer hip and street fashion on the upper levels, whereas UA Cineplex and a bowling lounge will provide shoppers with comprehensive entertainment elements. The retail mall is scheduled to open by the first quarter of 2014. Full completion is scheduled for 2014.

Wuxi IFS is located in the Taihu Plaza, Wuxi's new CBD. The development comprises a 339-metre landmark tower and two other towers, offering Grade A offices and a five-star hotel with total gross floor area ("GFA") of 271,000 square metres. Full completion is scheduled for 2014.

Chongqing IFS is located in Jiangbei District, Chongqing's new CBD, where the Yangtze River meets the Jialing River. The development enjoys a panoramic river view and convenient connectivity through three nearby bridges and light railway lines 6 and 9. It is a 50:50 joint venture development with China Overseas Land, with an attributable GFA of 234,000 square metres. It comprises an iconic 300-metre landmark tower and four other towers atop a 102,000 square meters retail podium, offering up-market retail, Grade A offices and a five-star hotel. Full completion is scheduled for 2015.

Suzhou IFS is a 450-metre skyscraper landmark development located in Suzhou's new CBD, Suzhou Industrial Park, overlooking Jinji Lake. It comprises Grade A offices, a five-star premium sky hotel and luxury apartments, with a GFA of 278,000 square metres attributable to the Group's 80% ownership. Full completion is scheduled for 2016.

Changsha IFS is located in the prime area of Jiefang Road in Furong District with a total GFA of 725,000 square metres. The development comprises an iconic 452-metre tower and another 300-metre tower atop a 229,000 square metres mega-sized retail mall, offering upscale retail, Grade A offices and a five-star hotel. The planned retail mall will be larger than the retail malls at Chengdu IFS and Harbour City, and among the largest in Changsha and Central China to capture the growing consumption demand in the region. Full completion is scheduled for 2016.

Business Review

China Properties

Property Investment - International Finance Square

Chengdu IFS (248 metres) — upscale retail, Grade A offices, a five-star international hotel and luxury residence

Changsha IFS (452 metres) — upscale retail, Grade A offices and a five-star international hotel

Business Review

China Properties

Property Investment - International Finance Square

Wuxi IFS (339 metres) — Grade A offices and a five-star international hotel

Chongqing IFS (300 metres) — upscale retail, Grade A offices and a five-star international hotel

Suzhou IFS (450 metres) — Grade A offices, a five-star international hotel and luxury residence

Business Review

China Properties

Property Development

China property development continued to be a key source of additional growth. Completion accelerated in 2012 with 758,000 square metres completed and recognised, compared to 546,000 square metres in 2011. Revenue generated from subsidiary projects increased by 51% to HK$9,573 million and operating profit increased by 57% to HK$3,562 million. Recognition during the year primarily included Chengdu Tian Fu Times Square, Shanghai Xiyuan and Wuxi Times City.

Sales continued to gain pace. Seven new projects were launched for presales in 2012 in the cities of Chengdu, Foshan, Guangzhou and Hangzhou. Together with projects previously launched, the Group has 30 projects on sale across 12 cities. On an attributable basis, a total of 1.3 million square metres were sold in 2012 which generated proceeds of RMB15 billion, 18% over 2011 and 50% above target. All key regions delivered solid growth, demonstrating the pent-up demand locally for quality developments and the Group's sales execution capability. The net order book (net of business tax) increased to RMB15.7 billion for 1,448,000 square metres of properties at the end of 2012.

The Group acquired six property development sites during the year in the cities of Beijing, Changzhou, Chengdu, Dalian and Shanghai with an attributable GFA of 0.84 million square metres for RMB4.8 billion. Total land bank was maintained at 12.3 million square metres at the end of 2012, spanning 15 cities.

In March 2013, a residential project in Shanghai Pudong District with a GFA of 97,900 square metres was acquired at RMB1.3 billion. The development is surrounded by three rivers and in close proximity to MTR line 16 station to be completed in 2014.

Suzhou Ambassador Villa

Eastern China

Sales

The Eastern China region posted a 21% growth rate in contracted sales over 2011. There are 12 projects on sale across five cities.

In Hangzhou, the first phase of Palazzo Pitti and Junting were launched for presales in December. A total of 7,400 square metres and 14,500 square metres were promptly presold for proceeds of RMB250 million and RMB90 million respectively.

Suzhou Times City launched additional phases and sold a further 197,700 square metres for proceeds of RMB2.2 billion. Wuxi Times City sold 123,000 square metres for proceeds of RMB1.0 billion. Changzhou Times Palace launched additional phases and presold 112,600 square metres for proceeds of RMB770 million. Shanghai Xiyuan sold a further 15,900 square metres for proceeds of RMB705 million during the year.

Other projects for sale included Glory of Time and Xiyuan in Wuxi, Ambassador Villa and Kingsville in Suzhou, No. 1 Xin Hua Road in Shanghai and Golf Landmark in Hangzhou.

Acquisitions

In September 2012, the Group acquired a 60,200-square metre residential site in Shanghai's Pudong District through a joint venture development with Greentown China Holdings Limited ("Greentown") and Sunac China Holdings Limited's joint venture company. The Group has a 50% interest of the development, which has an attributable GFA of 36,100 square metres. Design planning is underway.

In December 2012, the Group acquired a 107,500-square metre commercial site in Shanghai's Xuhui District through a joint venture development with China Vanke Co Limited and Greenland Group Co Limited. The Group has a 27% interest in the development. The site, with an attributable GFA of 133,000 square meters, is situated next to the Shanghai South Railway Station and well-connected to existing Metro Line 1, Line 3 and future Line 15 stations. Design planning is underway.

In December 2012, the Group acquired a 109,600-square metre residential site in Changzhou's Xinbei District adjacent to Feng Huang Lake. The development has a GFA of 245,000 square metres. Design planning is underway.

Development Progress

Construction of Shanghai Xiyuan, which consists of 11 medium-rise towers (510 fitted-out units) and a luxurious club house, was fully completed in June 2012. Certain phases of Wuxi Times City involving 127,000 square metres of GFA were completed during the period. Construction of Changzhou Times Palace is underway, with full completion scheduled for 2014. The State Guest House, a five-star hotel and serviced apartments will be completed in stages between 2013 and 2014. Construction progress of other developments in Eastern China is as planned.

Business Review

China Properties

Property Development

Western China

Sales

The Western China region posted a 21% growth in contracted sales over 2011. There are nine projects on sale in Chengdu and Chongqing.

In Chengdu, the Sirius of International Commerce Centre and Times Town of Shuangliu Development Zone were launched for presales in April and December. Tian Fu Times Square and Crystal Park sold a further 82,800 square metres and 96,400 square metres for proceeds of RMB1,484 million and RMB1,049 million respectively. The Orion and Le Palais have met with a favourable response.

In Chongqing, initial phases of retail units and additional phases of residential units of the U World were launched to generate attributed proceeds of RMB555 million. International Community sold a further 85,300 square metres for attributed proceeds of RMB662 million. The Throne has also met with good demand.

Acquisitions

In November 2012, the Group acquired a 74,400-square metre residential site in Chengdu. The site is located in Shuangliu District with a GFA of 222,000 square metres. It is being planned as a quality residential community in the Southern part of Chengdu. Design planning is underway.

Development Progress

In Chengdu, construction of Times Town commenced in the second quarter of 2012. Four additional residential towers of Crystal Park were completed in June 2012. Construction of the remaining residential towers and one office block is underway, with full completion scheduled for 2014. The last office tower of Tian Fu Times Square is scheduled for completion in 2013. Tower 1 of The Orion and Phase 1 (eight residential towers) of Le Palais are scheduled for completion in 2013.

In Chongqing, construction of International Community, the U World and the Throne is underway. These projects are developed through joint ventures with COLI, with the Group's shareholding ranging between 40% and 55%.

Southern China

Sales

The Southern China region posted a 41% growth in contracted sales over 2011. There are five projects on sale in Foshan and Guangzhou.

In Foshan, the first phase of Evian Riviera and Evian Buena Vista were launched for presales in March and April. Total 34,300 square metres and 29,000 square metres were sold for attributed proceeds of RMB394 million and RMB220 million respectively. Evian Town and Evian Uptown sold a further 50,860 square metres and 35,100 square metres for proceeds of RMB842 million and RMB345 million respectively on an attributable basis. These four projects are developed through 50:50 joint ventures with China Merchants Property ("CMP").

In Guangzhou, the first phase of Donghui City was launched for presales in November. Total 17,700 square metres were promptly presold for proceeds of RMB233 million on an attributable basis. This is a joint venture development with China Vanke Co. Limited and CMP, in which the Group has a 33% interest.

Development Progress

The third phase of Evian Town and the second phase of Evian Uptown in Foshan were completed in 2012. Construction of Donghui City in Guangzhou commenced during the year, with full completion scheduled in 2015. All other developments are progressing as planned.

Other Regions

Sales

In Tianjin, the Peaceland Cove presold further 90,900 square metres for proceeds of RMB1,144 million on an attributable basis. The Magnificent has also met with a favourable response.

Acquisitions

In February 2012, the Group acquired a 72,700-square metre residential site in Beijing's Chaoyang District through a joint venture development, in which the Group has an interest of 33% with the remaining interest held by CMP and Overseas Chinese Town Group. The development offers an attributable GFA of 60,000 square metres and is in close proximity to a future subway station. Construction commenced in the fourth quarter of 2012. Completion is scheduled for 2015.

In November 2012, the Group acquired an 85,700-square metre residential site in Dalian's Zhongshan District through a 60:40 joint venture development with Greentown. The development, with an attributable GFA of 144,000 square metres, enjoys picturesque scenery in the neighbourhood and well-established transportation network nearby. Design planning is underway.

Development Progress

The Magnificent in Tianjin was completed in 2012. Construction of residential developments in Wuhan and Beijing commenced in the fourth quarter of 2012. The other developments are progressing as planned.

Greentown

On 8 June 2012, the Group entered into subscription and investment agreements with Greentown, under which Greentown issued new shares and perpetual subordinated convertible securities ("PSCS") respectively to the Group. Following completion of the transactions on 2 August 2012, the Group holds approximately 24.6% of the equity interest of Greentown and together with the PSCS for a total consideration of approximately HK$5.3 billion. The investment in Greentown is for the long term, complementing the Group's business strategy of continual expansion in property investment and development businesses in China.

The Group envisages that with Greentown's strength in property development and the Group's strength in financial management and undisputed excellence in commercial properties management, there are many strategic co-operation opportunities ahead. The acquisitions of two residential sites in Shanghai and Dalian through joint ventures with Greentown in the second half of 2012 were good examples of closer co-operation and synergy, which will benefit the Group over the long term.

Business Review

China Properties

China Property List

	Project Nature					Status			
	Retail	Office	Residential	Hotel	Attributable GFA (sq m)	Completed	Under Construction	Under Planning	Effective % Owned
Eastern China — Changzhou									
Changzhou Times Palace			•	•	705,000*		•		71
Feng Huang Hu Shu (formerly known as Changzhou Feng Huang Hu Project)			•		305,000		•		100
Feng Huang Hu Site 03 Project (Huang He Lu and Feng Xiang Lu)			•		245,000			•	100
Eastern China — Hangzhou									
Palazzo Pitti (formerly known as Hangzhou Hangyimian Lot C/D)			•		225,000*		•		100
Junting (formerly known as Hangzhou Qianjiang Economic Development Area)			•		220,000*		•		100
Golf Landmark	•		•		179,000* (50%)**		•		50
Shi Ji Hua Fu (formerly known as Hangzhou Fuyang District)	•		•		129,000		•		100
Jun Xi (formerly known as Hangzhou Wenhui Road Project)			•		82,000		•		100
Eastern China — Ningbo									
Ningbo Eastern New Town (formerly known as Ningbo Eastern New Town Shuixianglinli Project)			•		49,000 (50%)**		•		50
Petrus Bay (formerly known as Ningbo Baoqingsi Project)			•		39,000 (50%)**		•		50
Eastern China — Shanghai									
Shanghai Pudong Huangpujiang Project			•		136,000			•	100
Shanghai South Station	•	•			133,000 (27%)**			•	19
Wheelock Square	•	•			111,000	•			98
Shanghai Zhoupu			•		98,000			•	100
Shanghai Times Square	•	•	•		97,000	•			100
Shanghai Songjiang Xianhe Road Project			•		82,000		•		100
Jingan Garden			•		71,000			•	55
Shanghai Tangzhen			•		36,000 (50%)**			•	50
Shanghai Xi Yuan			•		16,000	•			71
No.1 Xin Hua Road			•		6,000	•			85
Eastern China — Suzhou									
Suzhou Industrial Park									
Suzhou International Finance Square (formerly known as Suzhou IFC)		•	•	•	278,000		•		57
Suzhou Times City			•		907,000*		•		57
Bellagio (formerly known as Suzhou Yin Shan Lake)			•		385,000		•		100
Suzhou Ambassador Villa			•		153,000*		•		100
Suzhou Kingsville			•		77,000* (50%)**		•		50
Eastern China — Wuxi									
Wuxi Taihu Plaza Project									
Wuxi International Finance Square (formerly known as Wuxi IFC)		•		•	271,000		•		100
Wuxi Times City			•		607,000*		•		100
Bi Xi (formerly known as Wuxi Old Canal Lot 73)			•		367,000		•		100
Wuxi Xiyuan			•		231,000*		•		100
Wuxi Glory of Time		•	•		194,000*		•		100

	Project Nature					Status			
	Retail	Office	Residential	Hotel	Attributable GFA (sq m)	Completed	Under Construction	Under Planning	Effective % Owned
Western China — Chengdu									
Shuangliu Development Zone									
Times Outlets	•				63,000	•			100
Times Town (formerly known as Shuangliu Development Zone)	•	•	•		848,000*		•		100
Chengdu International Finance Square (formerly known as Chengdu IFC)	•	•	•	•	600,000		•		100
Chengdu ICC (formerly known as Chengdu Shahe Project)	•	•	•	•	345,000* (30%)**		•		30
Le Palais	•		•		318,000*		•		100
Chengdu Times City	•		•		222,000			•	100
Tian Fu Times Square	•	•	•		140,000*		•		100
Crystal Park	•	•	•		99,000*		•		100
The Orion			•		59,000*		•		100
Western China — Chongqing									
International Community	•		•		562,000* (40%)**		•		40
The Throne			•		427,000* (50%)**		•		50
Chongqing International Finance Square (formerly known as Chongqing IFC)	•	•		•	234,000 (50%)**		•		50
The U World			•		182,000* (55%)**		•		39
Chongqing Times Square	•	•			68,000	•			100
Southern China									
Evian Buena Vista, Foshan (formerly known as Foshan Nanhai District Shishan County Project)	•		•		154,000* (50%)**		•		50
Evian Riviera, Foshan	•		•		111,000* (50%)**		•		50
Evian Uptown, Foshan	•		•		95,000* (50%)**		•		50
Evian Town, Foshan	•		•		94,000* (50%)**	•			50
Guangzhou Donghui City (formerly known as Guangzhou Development Zone KXCD-D1-2 Project)	•		•		89,000* (33%)**		•		33
Other Regions									
Unique Garden, Beijing	•		•		60,000 (33%)**		•		33
Changsha International Finance Square (formerly known as Changsha IFC)	•	•		•	725,000		•		100
Dalian Times Square	•		•		28,000	•			100
Dalian Buxiuxiang			•		144,000 (60%)**			•	60
Peaceland Cove, Tianjin			•		120,000* (50%)**		•		50
The Magnificent, Tianjin	•		•		17,000* (50%)**	•			50
Wuhan Moon Lake Site B			•		127,000		•		100
Wuhan Times Square	•		•	•	39,000	•			100

For details of completion date of above properties, please refer to Schedule of Principal Properties on pages 224 to 237

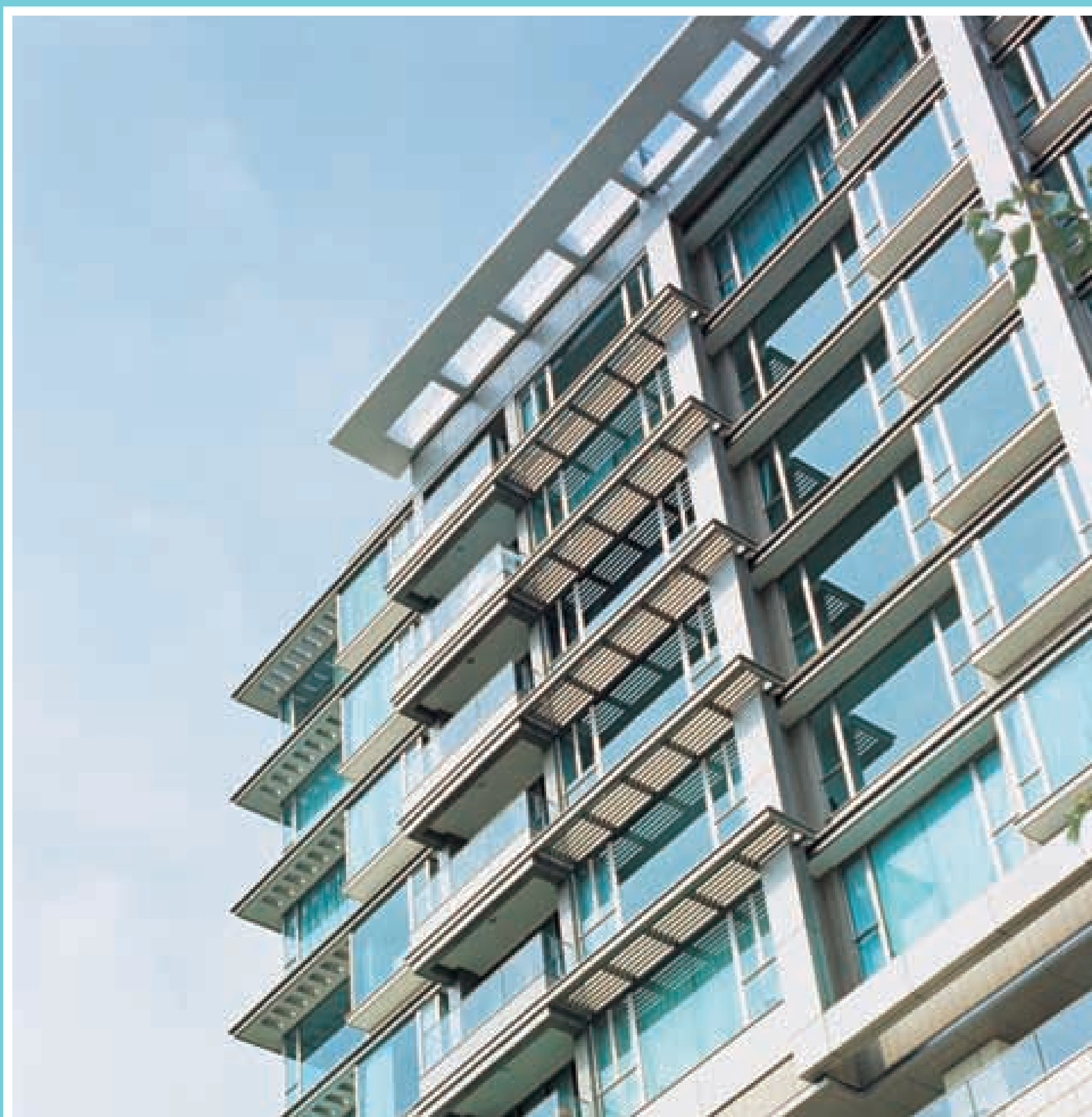
* Partly pre-sold

** Being attributable percentage held through jointly controlled entities/associates and the respective GFA are shown on an attributable basis

THE PEAK Portfolio & Other HONG KONG PROPERTIES

Business Assets:

21,733 HK$ Million



The Peak Portfolio & Other Hong Kong Properties

Business Assets

As at 31 December

	2012 HK$ Million	2011 HK$ Million
Properties	17,179	16,241
Interest in associates/jointly controlled entities	2,794	2,752
Property inventory and development	1,548	1,987
Other assets	212	30
Total business assets	21,733	21,010

Sales

One Midtown in Tsuen Wan, a high-rise industrial/loft building with a GFA of 644,000 square feet, was completed in June 2012. This enabled the Group to recognise HK$2.6 billion of revenue and HK$1.3 billion of operating profit during the period.

The Group sold Delta House in 2012, the 349,000-square foot commercial development in Shatin, for HK$1.3 billion.

Development Progress

The master layout plan for Mount Nicholson Project has been approved. This 50:50 joint venture development with Nan Fung Group offers an attributable GFA of 162,000 square feet and will be developed into exclusive luxurious residences with a panoramic view of the Victoria Harbour. Construction work is underway.

Redevelopment of the Peak portfolio including No. 1 & No. 11 Plantation Road and 77 Peak Road is progressing as planned.

The redevelopment plan of Kowloon Godown in Kowloon Bay into a residential and commercial development with a GFA of 829,000 square feet has been approved. Lease modification application is underway.

Yau Tong Godown's redevelopment plan into a residential and commercial development with a GFA of 256,000 square feet has been approved. Premium for the lease modification was settled in July. Foundation work is underway.

Master layout plan for the Yau Tong Bay joint venture project, in which the Group has approximately a 15% interest, was approved by the Town Planning Board in February 2013. The development comprises 12 blocks of residential and commercial buildings with GFA of approximately 4 million square feet.

The redevelopment plan of Wharf T&T Square into a high-rise Grade A commercial building with a GFA of 596,200 square feet has been approved. The premium for the lease modification has been settled.

Other Hong Kong Properties Highlights

	Project Nature					
	Retail	Office	Residential	Industrial	Attributable GFA (sq ft)	% Owned
Peak Portfolio						
1 Plantation Road*			•		91,000	100
Mountain Court*			•		46,000	100
Chelsea Court			•		43,000	100
77 Peak Road*			•		42,200	100
Strawberry Hill - various units			•		13,000	100
8 Mount Nicholson Road*					162,000	50
Wharf T&T Square#+		•			513,000	100
Cable TV Tower - various units				•	566,000	100
Kowloon Godown#			•		829,000	100
Star House - various units	•				50,800	71
One Midtown				•	4,600	100
Yau Tong Godown*	•		•		256,000	100
Yau Tong JV Project#	•		•		596,000	15

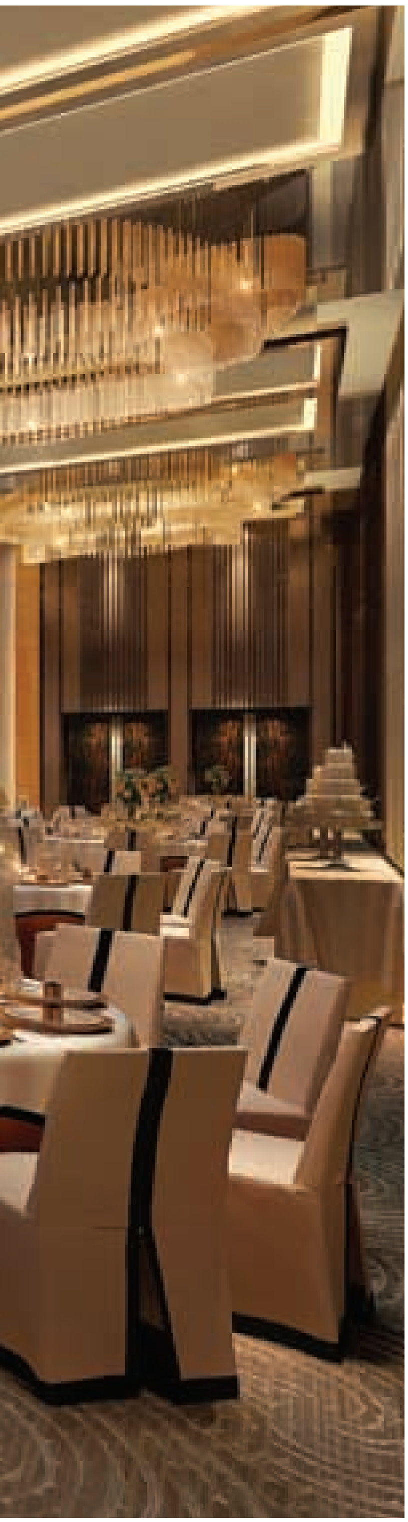
* under development
\# planning for redevelopment
\+ Including carpark area, total GFA amounted to 596,200 square feet

MARCO POLO Hotels

13 Hotels
OWNED AND MANAGED
in Asia Pacific

10 Hotels
UNDER DEVELOPMENT

Grand Ballroom, Marco Polo Chongqing (under planning)



Marco Polo Hotels

The Group currently operates 13 owned or managed hotels in the Asia Pacific region. Among them, the three in Harbour City, Hong Kong commands a spectacular Victoria Harbour view while the one in Wuhan is on the bund and overlooks the Yangtze River.

The Marco Polo Lingnan Tiandi in Foshan and Marco Polo Suzhou were added to the portfolio in 2012. A pipeline of 10 new hotels in the cities of Changsha, Changzhou, Chengdu, Chongqing, Guiyang, Suzhou, Tianjin and Wuxi in the Mainland, as well as Manila in the Philippines and Bangkok in Thailand will strengthen our hotel network upon their completion over the next five years.

In particular, six of the new hotels owned by the Group will be coming on stream and bring new attraction to the respective cities, among them, four being sky hotels, three are part of the Group's multi-use retail-office complexes; these hotels would take us to the next level of services and hospitality. The remaining hotel is a part of a State Guest House complex with vast garden space for major events and weddings.

The Gateway Hotel in Harbour City has been renovated. The new exciting lobby and the roof deck on the third floor which is ideal for alfresco dining and entertainment are attractive features that helped create a fresh oasis for guests and shoppers in the city on Canton Road.

A solid portfolio of its 10 owned hotels exceeding HK$10 billion will form the core platform of an expanding hotel network outside of Hong Kong over the next five years.

All Marco Polo hotels performed strongly in their respective locations. Total revenue for the hotels and club grew by 9% to HK$1,391 million. Operating profit increased by 5% to HK$391 million. Consolidated occupancy of the three Marco Polo hotels in Hong Kong was maintained at 85%, with an increase of 8% in average room rates. Marco Polo Wuhan On the Bund continued to achieve a dominant market position in the local market. The unrivaled positions of our hotels in Wuhan and Xiamen helped house coveted brands like Louis Vuitton in their lobbies. The new Marco Polo hotels in Foshan and Suzhou have met with a favourable initial response.

Business Review

Marco Polo Hotels





Six of the new hotels owned by the Group will be coming on stream and bring new attraction to the respective cities

The hotel group is poised for growth with a management change in mid 2012. Mr Eric Waldburger, a seasoned hotelier who formerly held management positions in various international hotel groups such as the Peninsula Group became President of Marco Polo Hotels. Mr Steve Kleinschmidt, the former president, has taken on a new role as Vice Chairman, providing good continuity after his five-year tenure as President.

Marco Polo Hotels is a member of Global Hotel Alliance, the world's largest alliance of independent hotel brands encompassing over 320 upscale and luxury hotels with over 75,000 rooms across 57 countries.

Marco Polo Hotels' Network (existing)

Hong Kong	Marco Polo Hongkong Hotel Gateway, Hong Kong Prince, Hong Kong
China	Marco Polo Parkside, Beijing Marco Polo Lingnan Tiandi, Foshan Marco Polo Jinjiang Marco Polo Shenzhen Marco Polo Suzhou Marco Polo Xiamen Marco Polo Wuhan
The Philippines	Marco Polo Davao Marco Polo Plaza, Cebu
Thailand	The Panwa Beach Resort, Phuket

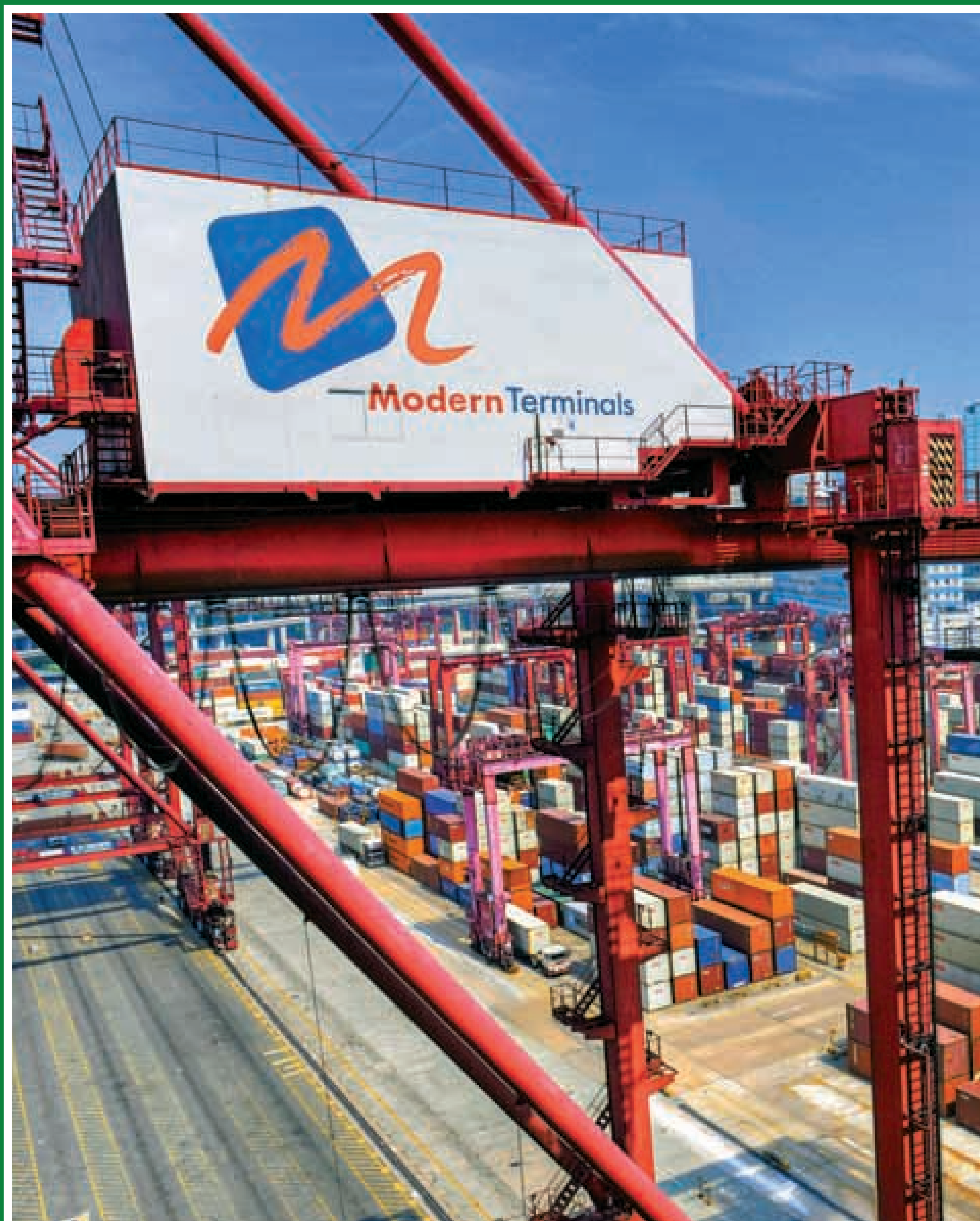
Modern Terminals

Business Assets:

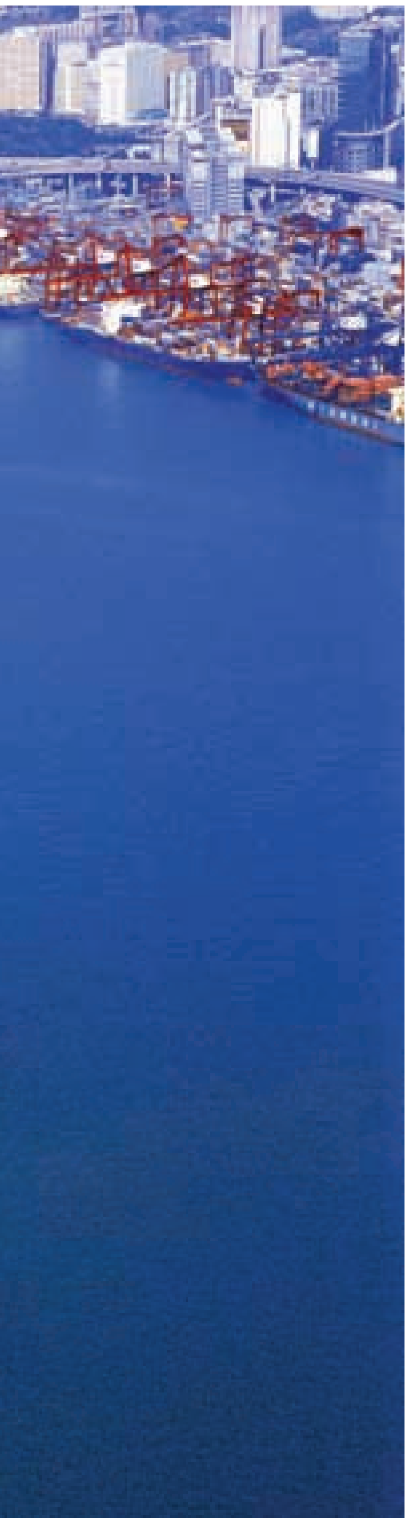
19,045 HK$ Million

Throughput (attributable total):

7.8 Million TEU


Modern Terminals

Modern Terminals is one of the world's most efficient operators by productivity



Modern Terminals

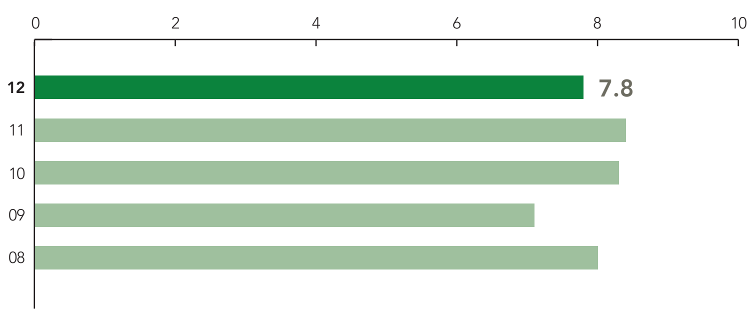
Business Assets

As at 31 December

	2012 HK$ Million	2011 HK$ Million
Fixed assets	**14,180**	14,061
Interest in associates/jointly controlled entities	**4,189**	4,168
Goodwill	**297**	297
Other assets	**379**	440
Total business assets	**19,045**	18,966

Throughput (attributable total)

(Million TEUs)



Business Review

Modern Terminals

Global trade growth continued to be overshadowed by the debt crisis in Europe and economic slow-down in the US. South China's container throughput grew modestly by 0.7% in 2012. Hong Kong's throughput grew marginally by 0.3% while Shenzhen's throughput increased by 1.1%. Market shares of Shenzhen and Kwai Tsing were 55% and 45% respectively for 2012.

Modern Terminals' consolidated revenue decreased by 13% to HK$2,969 million mainly due to a one-off income recovery in 2011. Excluding this one-off impact, consolidated revenue decreased by 6.3%. Consolidated operating profit decreased by 26% to HK$1,142 million. Throughput in Hong Kong declined by 9% to 4.8 million TEUs.

In the Mainland, throughput at Taicang International Gateway in Suzhou grew by 1% to 1.5 million TEUs, while Da Chan Bay Terminal One in Shenzhen handled 572,000 TEUs during the period. Throughput at Shekou Container Terminals in Shenzhen, in which Modern Terminals holds a 20% stake, increased by 11% to 4.5 million TEUs. Chiwan Container Terminal, in which Modern Terminals holds an 8% attributable stake, handled 3.3 million TEUs.

Modern Terminals has an established presence in the Pearl River Delta and Yangtze River Delta, the two largest manufacturing and export regions in China. This places Modern Terminals in an excellent position to benefit from China's robust economy and recovery of the European and US markets.

Da Chan Bay Terminal One in Shenzhen

Other Businesses

The Group's other businesses include i-CABLE, Wharf T&T, The 'Star' Ferry and Hong Kong Air Cargo Terminals.

i-CABLE

Competitive pressure remained high during the year while the operating environment remained challenging.

Following the fast growth in previous years, there were signs of the television customer base entering a new phase in a close to saturated market. Television turnover was maintained at a similar level as 2011 but higher programming costs were incurred due to the London Olympics and European football leagues. Competition in the broadband and telephony sectors remained keen and aggressive price competition affected both turnover and customer base.

Consolidated revenue increased by 1% to HK$2,127 million with net loss at HK$278 million. A healthy financial position was maintained with net cash of HK$188 million.

Wharf T&T

Wharf T&T again reported record revenue and profit in 2012. Revenue increased by 4% to HK$1,826 million and operating profit rose by 9% to HK$250 million. The net cash inflow position started to recover as the investment in +EN rollout for a 95% Fibre-To-The-Desk (FTTD) network coverage for the business market passed its peak. 90% of the planned coverage was achieved at the end of 2012. Robust data and systems integration businesses, resulting from market share gain and contributions from signature projects including the Hong Kong Exchange SDNet Wide Area Network, fuelled the growth momentum.

The 'Star' Ferry

The Star Ferry operates two inner harbour ferry services, namely Tsim Sha Tsui – Central and Tsim Sha Tsui – Wanchai. In a bid to improve its non-fare box revenue, the Star Ferry has been working on the Tsim Sha Tsui pier top redevelopment project with a view to converting the roof top into food and beverages outlets.

Hong Kong Air Cargo Terminals

Hong Kong Air Cargo Terminals, a 20.8% associate of the Group, posted a 2% growth in throughput in 2012 due to healthy growth from the Asia and Middle East markets despite continued weak demand from the European and US markets. 2012 marked its second best year in throughput volume with 2.8 million tonnes.

"Sirens Call" by Michael Muir, 2012
Oil on canvas, 198 X 167 cm.

Corporate Social Responsibility

OUR SOCIETY & WORKPLACE

OUR ENVIRONMENT

CORPORATE GOVERNANCE

Corporate Social Responsibility
Introduction

Guided by our mission of Building for Tomorrow, we have been conducting our businesses in a way that fosters the sustainable development of the Group and the society. We are dedicated to serving the communities in which we operate in the best possible way to improve people's quality of life and to enable a greener future. We maintain an open dialogue with our stakeholders to ascertain that their expectations are reflected in our corporate social responsibility ("CSR") strategy.

The Group strives to fulfill its CSR with an emphasis on **Social and Workplace**, **the Environment**, and **Corporate Governance**. With strong support from our senior management, we make every effort to implement our CSR initiatives in a sensible and effective way, backed by active involvement of our staff, business associates and supply chains across our business units, as well as a set of comprehensive policies and practices.

Our stakeholders: employees, customers, investors, business partners, suppliers, general public and government.

At Wharf, we believe in the fundamental value and dignity of individuals. As a member of society, we continue to work with various organisations and partners as well as engage our staff to support initiatives that help the vulnerable. As a responsible employer, we strive to create an inclusive and encouraging work environment, in which every staff member has an equal opportunity to pursue career development. As a business organisation, we are committed to serving our customers beyond their expectations. We endeavour to perform our various roles effectively for the best interest of society, not only through a set of proven business practices but also a spirit of care for others.

For the second consecutive year, Wharf has been selected as a constituent member of the 2012 Hang Seng Corporate Sustainability Benchmark Index with an "A" rating, and a higher than average improvement rate, a testament to the Group's sound performance and reporting in CSR and sustainability. In 2012, Wharf together with 12 business units were awarded Caring Company Logo. While i-CABLE was given a Five Years Plus logo and Modern Terminals and Wharf T&T a 5th Consecutive Years logo, The "Star" Ferry was presented 10th Consecutive Years logo by The Hong Kong Council of Social Service.

The Group spearheads CSR efforts under the banner of "Business-in-Community" ("BIC") with the objectives of:

- Balancing corporate, social, economic and environmental responsibilities
- Instigating fundamental dignity and value of people
- Building a better Hong Kong

This report highlights the efforts and achievements of Wharf, its group companies, associates and subsidiaries in the area of CSR in 2012. It is one of the major channels to communicate the Group's CSR efforts and policies to our stakeholders.

Corporate Social Responsibility

Our Society & Workplace

"We are committed to fostering a harmonious society and an inclusive environment for every individual to pursue a better life."

Our Focus

Social
- Foster youth development
- Support the vulnerable
- Encourage volunteering
- Promote art and culture

Workplace
- Staff development
- Occupational safety and health
- Staff communications
- Work-life balance

Driving change in Hong Kong: youth development

The Group spares no effort in spearheading a series of projects with an aim of creating a level playing field for our future generations. By injecting new funds, the Group has spearheaded a number of BIC initiatives working closely with different stakeholders.

The Group launched its youth development programme **Project *WeCan***. With the enthusiasm of 11 participating schools and our partnering business units, and backed by the support of the programme planner CUHK, the Project is now making an impact on the lives of over 11,000 students who have fewer opportunities but great potential through all-rounded support.

It is also encouraging to see that the admission rate for tertiary institutions and pre-S1 attainment test results have marked improvement among our partner schools over the last two years.

Our hard work paid off with a long established high-end jewelry and watch retailer Elegant Watch & Jewellery agreed to take up an additional school soon after the launch of Project *WeCan*, making the total number of beneficiary schools to 11. To date, there were about 40 organisations including businesses, education organisations and NGOs rendering their support in different forms.

Project *WeCan* Participating Schools (in alphabetical order)

- Buddhist Ho Nam Kam College
- CCC Kei Heep Secondary School
- Chiu Chow Association Secondary School
- Cotton Spinners Association Secondary School
- Fung Kai No 1 Secondary School
- Lok Sin Tong Yu Kan Hing Secondary School
- Nam Wah Catholic Secondary School
- Ng Yuk Secondary School
- Po Chiu Catholic Secondary School
- Po Leung Kuk C W Chu College
- Yan Oi Tong Chan Wong Suk Fong Memorial Secondary School

Corporate Social Responsibility
Our Society & Workplace

"I would like to express my gratitude to the staff volunteers from Wharf for spending their precious spare time and sharing their professional knowledge with the students. I hope that the students of this programme will follow the footsteps of the staff volunteers, grow and excel, and contribute to the society, helping the needy in the future."

— Mrs Carrie Lam, GBS, JP, Chief Secretary for Administration of Hong Kong SAR at "Spring" Up Your Business Bliss CNY Bazaar opening ceremony

The Group's CSR efforts have been extended to Mainland China. In the summer of 2012, the Group again sponsored Wu Zhi Qiao (Bridge to China) Charitable Foundation for renovating the community centre in a remote village in Gansu, a six-hour ride from the city. About 40 Project *WeCan* students joined our staff volunteers. Students of Xi'an Jiaotong University and The Hong Kong Polytechnic University also participated in this meaningful project.

Going forward, we are looking to expand Project *WeCan* by expanding the school portfolio, enabling more students to benefit. It has also been our on-going effort to invite others to support this meaningful initiative.

Types of activities held	
Company visits, career talks and job tasting programme	• Modern Terminals, Wharf T&T, HACTL, Harbour City (Operation Centre), Marco Polo Hotels, i-CABLE news centre, tram depot, Lane Crawford warehouse • A group-wide job tasting programme
Educational	• English speaking class and reading clubs • The "Star" Ferry Civic Educational Tour • "One-hour Classics for Schools" by HK Sinfonietta • Art/design workshop at SCAD, Little Lawyer Workshop
Liberal studies and others	• "Spring" Up Your Business Bliss Chinese New Year Bazaar • Table manner class by Marco Polo Hotels and Pacific Club • i-CABLE news reporting talk, "Stars" talks by various experts • Times Square Christmas Lighting and party • Hiking, student-corporate run, Outward Bound • Luncheon with the delegation of Shenzhou-9 manned space flight mission
Serve together	• Charity walks • Ocean Park Fun Day with Hong Kong Christian Service Small Group Home by Wharf T&T • A trip to Datan village, Gansu for Wu Zhi Qiao

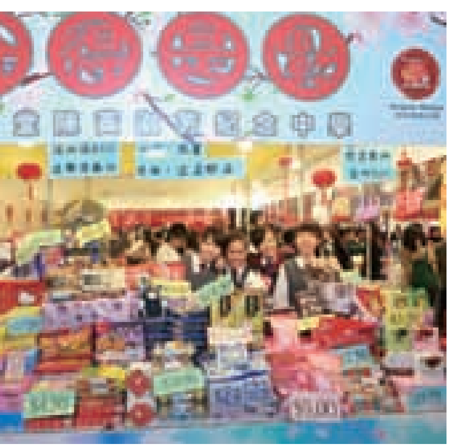
In the past 18 months,
more than 100 activities were arranged
for teachers, parents and 10,000 students


天主教普照中學












年宵兵團


It is music to the ears that Project *WeCan* earned the Outstanding Partnership Project Award in 2011/2012, the top honour given to a caring company by the Hong Kong Council of Social Service.

"There are many deserving schools which are of great potential, and the last thing we want is that students with great talent are not being recognised or properly groomed because of their less resourceful background."

Doreen Lee, Executive Director of The Wharf (Holdings) Limited and Convener of Project WeCan

"We can never buy such experience with money or gain such knowledge by reading books. Without Project WeCan, our school will not be able to participate in this bazaar, nor will we be able to have a host of exposures in Hong Kong and overseas. This is what I call true learning. I am confident that students' horizon can be widened through this Project."

— Dr Tsang Wing Hong, Principal, Chiu Chow Association Secondary School "Spring" Up Your Business Bliss CNY Bazaar

"This programme enabled me to appreciate … something very different from my past experience of working at a fast food shop. I am convinced that I should study hard so that I can do clerical instead of labourious jobs upon my graduation."

— Chan Hiu Yeung, F4 Po Chiu Catholic Secondary School, a participant of Project WeCan job tasting programme 2012

"I had never imagined myself being on stage and recognised…I wish to thank my school for the care and Wharf for giving us the opportunities through Project WeCan, including funding for activities and new equipment, so that we can have a better learning environment."

— Yau Mei Ling F2 Nam Wah Catholic Secondary School who received an award from the Project WeCan Scholarship scheme

"I not only got to know the situation of poor villages in the mainland, but also became friends with a lot of university students in this trip. My horizon has definitely been broadened, which helped me reflect on my life goal."

Sze Hoi Hong, F5 student of Cotton Spinners Secondary School who joined the WZQ project in Datan, Gansu

"In the Chinese New Year Bazaar, I wrote the business proposal together with Modern Terminals' corporate volunteers, and learned what market analysis and sourcing are, how to do marketing, profit forecast and budget preparation — indeed a valuable lesson to me."

— Ng Yau Hang, F5 student of Cotton Spinners Secondary School "Spring" Up Your Business CNY Bazaar

"I could see the precious experiences gained by the students - trying the kitchen with the chefs, serving the food with the managers and waiters, and padding on the "grannies" with hearts. This could not have happened without the training beforehand, the special setting of the function room and the hall, and "the help of Pacific Club's professional catering team members."

— Lau Chi Fai, Teacher, Panel Chairman of Applied Learning, Buddhist Ho Nam Kam College


WHARF


WHARF


香港工商界熱烈歡迎
神舟九號載人航天代表團午
HKGC












Corporate Social Responsibility
Our Society & Workplace

The Architectural Design Internship Programme established by The Wharf ArchDesign Resource Trust enters into its second year. Launched in 2011, the programme aims at fostering excellence in architecture and grooming future star architects by providing students with placement opportunities in international setting that are at the cutting edge of architectural design. Completing their 12-month internship in Switzerland, the two first year's awardees from CUHK returned to Hong Kong with enhanced architectural design skills as well as international exposure.

Soon, two more postgraduates of CUHK will follow the foot step of their predecessors and undertake internships overseas. The Trust offers a similar programme to students of Department of Architecture of The University of Hong Kong by September 2013.

The Group is keen to support the more vulnerable young people. The Group supported the **Youth Outreach** by providing funding to enable them to extend the service hours of their youth centre "Hang Out", which provides a great and safe shelter for young people and help them to re-integrate into society by going back to school or joining the job market. In the first six months after the service hours were extended, nearly 10,000 young people used the centre every month on average, exceeding our target by 100% and we were glad to learn that some of the young people stopped engaging in socially undesirable activities as a result.

To show their love and care, volunteers took part in an midnight outreach service and staff from i-CABLE organised a series of activities, including a three-a-side football match and dessert making classes for these young people. These interactions allowed our colleagues to instill positive attitudes in their young friends.

Plaza Hollywood supported Changing Young Lives Foundation ("CYLF") by funding some of the centre's facilities upgrade and various multi-intelligence classes, which were opened to children who were not able to afford them elsewhere.

This initiative received tremendous response with the number of users soaring from 299 to 761 by the year end. Over 20 different types of art and cultural workshops were introduced. In addition to regular service for the children, staff volunteers also helped organise CYLF Graduation Variety Show in March 2012.

For the second year, the Group sponsored the Future Star Beijing Study Tour organised by Wen Wei Po and Communication University of China. 100 undergraduates from the discipline of Communications in Hong Kong attended an eight-day tour to gain a deeper and wider understanding about the Mainland.

"I am thankful to the Trust for providing me with the invaluable opportunity. I have enhanced my architectural design skills through the internship, better still work in my dream firm soon after my graduation."

— Lau Hing Ching, 2011/2012 awardee, The Architectural Design Internship programme


商界展關懷
caringcompany
HKCSS


Architectural Design Internship 2012/2013 Presentation Ceremony

Corporate Social Responsibility

Our Society & Workplace

Making-a-Difference

To foster a harmonious society and promote a sense of love and care, Times Square has sponsored the production of a community care and education series called **Making-a-Difference**, on i-CABLE's news channel since 2011 (http://cablenews.i-cable.com/webapps/program/wish/wish.php). As at the end of 2012, over 100 stories featuring how members from different walks of life took their own initiative and make a difference to the society have been broadcasted. The series has been well received by the public as evidenced by the results of the 4th stage of RTHK's 2012 TV Programme Appreciation Index Survey, which rated the programme among the top 10 programmes in Hong Kong.

A Caring Company

The Group together with its business units have been supporting charitable and community programmes in both good and challenging times. During 2012, we supported close to 400 programmes through cash or in-kind donations, venue sponsorships, advertising spaces and staff participation. For more than a decade, the Group has been supporting The Community Chest, one of Hong Kong's leading non-governmental organisations ("NGOs") in Hong Kong. In 2012, Wharf has again pledged a donation to the Corporate and Employee Contribution Programme to support The Community Chest's work on local social welfare.

We are particularly proud of The "Star" Ferry which was the first and only public transport operator in Hong Kong to offer complimentary rides to holders of a valid senior citizen card in addition to providing concessionary fares to the physically-challenged.


香港公益金


green monday
green monday


WHARF
同心協力 關心社會 眾志成城

Corporate Social Responsibility
Our Society & Workplace

Staff volunteering

Corporate volunteerism plays a crucial part in the Group's CSR strategy and strives to build a better Hong Kong. We encourage our staff from all levels and members of society to support organisations and initiatives that cultivate meaningful opportunities for civic engagement and serving the community together.

Whether it is mentoring young people, serving the elderly, a day out with the vulnerable, cleaning up the environment or making personal financial contributions, each year Wharf people are being inspired to serve the community.

The Group and its business units have established their own volunteer teams involving nearly 800 staff members and this number continues to grow. In addition to engaging in the numerous activities of Project *WeCan*, our volunteers collectively spent more than 5,000 hours to support 50 community programmes in partnership with over 30 community organisations in 2012.

Other programmes included supporting The Salvation Army to repaint a total of 15 homes of the singleton elderly; donating moon cakes and other festive food to the needy through NGOs; donating furniture, reusable household appliances and electrical goods; accompanying the less privileged children from Hong Kong Christian Service to Ocean Park; serving the elderly together with Project *WeCan* students.

To equip our staff volunteers with the necessary skills, we arranged a half day training with Agency for Volunteer Service at the start of 2013 for our staff volunteers across the Group. Nearly 100 staff members attended the training to learn how we can serve others better. In addition to some basic concepts, some advanced skills involved in volunteer work were also introduced. Volunteer training with different focuses will be planned throughout the year. It is our hope that through training, some of our staff volunteers can become volunteer leaders as they continue to serve the community and influence other people with the serving-together spirit.

"Joining Wu Zhi Qiao in their service in a remote village in Gansu, Sichuan, not only allowed me to know more about my motherland, but also develop friendships with Xi'an and local university students beyond the geographical and age boundaries. I was glad to have been a mentor to my younger counterparts in this trip while trying to perfect myself at the same time."

— Mabel Leung, Staff Volunteer at Wharf

Corporate Social Responsibility
Our Society & Workplace

Art & Culture

Art and culture form an important part of the quality of life in any society. The Group strives to promote people's interest in and appreciation for art and culture by bringing high quality international exhibition to Hong Kong and nurturing local young talents.

For the second year, the Group organised the territory-wide art competition, The Wharf Hong Kong Secondary Schools Art Competition for students in Hong Kong, with an aim of promoting art and creativity among young people. This year, the response was overwhelming, with more than 2,000 entries from over 280 schools.

The Group's landmarks Harbour City and Times Square also play a leading role in bringing first-class art exhibitions and events to Hong Kong.

Harbour City is among the first mall in Hong Kong to incorporate art elements into its mall events, making art appreciation a part of people's daily lives. It has devoted a 1,000-square-foot prime retail space on Level Two of Ocean Centre for a unique art gallery - commanding an unrivalled view of the Victoria Harbour, Gallery by the Harbour is an admission-free gallery showcasing a wide variety of world-renowned artists' collections.

Times Square collaborates with local and internationally-acclaimed artists to bring inspiring art exhibitions and events to Hong Kong. Highlighted programmes in the year included Korean Contemporary Art Exhibition, Fang Lijun Living Multitudes Art Exhibition and Mike Stilkey's solo exhibition.

More than 20 art exhibitions in different forms such as paintings, sculptures, glass art, installation art, and photography were held at Harbour City and Times Square during the year.

As far as performing art is concerned, Harbour City initiated the first of its kind Music in the City at its mall back in 2000, creating a platform for singers and musicians alike to shine whilst enhancing the shopping experience of visitors.

The Group supports the Hong Kong Philharmonic Orchestra through its Platinum membership in Club Maestro since 2003 to further its support for art and culture. Other forms of support included complimentary hotel accommodation for exhibition organisers offered by our Marco Polo Hotels as well as free advertising space and venue sponsored by The "Star" Ferry.


2012-13

Corporate Social Responsibility
Our Society & Workplace

Our Inclusive Work Environment
People are a valuable asset of the Group. Wharf and its subsidiaries have demonstrated their respect for human rights by implementing appropriate procedures and frameworks in our business process. The Group is an equal opportunity employer. We promote equal opportunities; scrutinise staff promotion and development in accordance with individual performance and genuine job requirements, provide a comprehensive training programme and development opportunities. A policy is in place to ensure non-discrimination against gender, disability, family, age and race in employment.

We put much emphasis on finding the right people for the right job. We are open to different recruitment approaches to enable us to recruit the right talent. We started our Management Executive Programme back in the 1990s which has proved to be successful with a number of executives groomed and taken up senior positions in the Group since then.

Staff Development
We value our people, encourage their development and reward their performance. An appraisal scheme is in place which is a two-way discussion between associates and their managers to evaluate associates' performance and potential, discuss their business goals, training needs and career plans for their continued development. High potential staff members are identified for development as part of the Group's succession planning. Opportunities are also available for staff to move around the Group in order to improve their knowledge and skills as well as to maximise their potential.

In 2012,

350 ***training courses were conducted***

9,000 ***staff attended***

1,180 ***staff received company sponsorship for external training***

A learning organisation, we provide training, seminars and workshops for associates at all levels as part of our people development programme. In 2012, the Group and its business units organised more than 350 in-house trainings for nearly 9,000 staff, ranging from management, leadership training, business ethics, negotiation skills, problem-solving, customer service, to languages, business writing, lateral thinking, computer software, law and regulation. Orientation programmes and on-the-job training are offered to new staff to enable them to adapt to the new work environment as easy as possible. We also sponsor our staff for external job-related courses.

People development opportunities are extended to outsourced associates. Supported by full-time trainers, Wharf Institute of Service Excellence (WISE) is an in-house training academy offering regular core competence programmes and refresher courses for the malls' direct employed and outsourced staff. The programme aims to train and shape frontline service attitudes, service delivery standards and technical skills, ensuring a premier property management service is maintained.

The Group has integrated CSR considerations into its workforce plan in an innovative way. Since 2010, the Group's shopping malls have introduced the "Bright Senior Ambassador Programme", offering training and re-employment opportunities for the retired senior citizens from all walks of life who wish to continue their contributions to society. Pacific Club is a long-time supporter for hiring the vulnerable. Through partnership with various NGOs, it provides full-time employment to people with disabilities.


erb
僱員再培訓局20周年開展禮 暨
第三屆「ERB人才企業嘉許計劃」頒授典禮
24.4.2012

Corporate Social Responsibility
Our Society & Workplace

Occupational Safety and Health
Occupational safety and health ("OSH") are the Group's priority. Policies, manuals, guidelines, procedures and circulars are issued with training held regularly to continuously promote work safety among staff. OSH committees made up of staff from all levels have been established in various business units to review OSH policies, formulate safety management plans, monitor OSH performance and implement new preventive measures. Targets and objectives have been set to meet operational needs. Where applicable, site inspections, independent and/or internal audits are conducted regularly.

As a core business of Wharf, our shopping malls have made every effort to ensure workplace safety with a sound policy and a well-developed OSH system in place. The Safety and Health Executive Committee, and sub-committees of individual properties meet regularly to review their OSH performance, keep track of the implementation and effectiveness of various initiatives, assess current status of facilities and personal protective equipment, and identify potential risks and improvement areas. A Safety Coordinator has been appointed in each property to oversee OSH matters including training, workshops and audits. A comprehensive work safety manual that sets out the policy, commitments and key areas including OSH responsibilities of different departments and external parties, training programmes, regulations, guidelines, work procedures, safety audits, equipment and facilities, accident investigation and contingency plans is available. To measure OSH performance, the malls conduct regular and thorough site inspections and develop various safety records such as bi-monthly summary of work injuries with investigation results and recommendations, internal audit report and half-year audit report by independent safety consultant. Besides, health and safety tips, annual safety competition, training and seminars are indispensable to raise awareness of work safety.

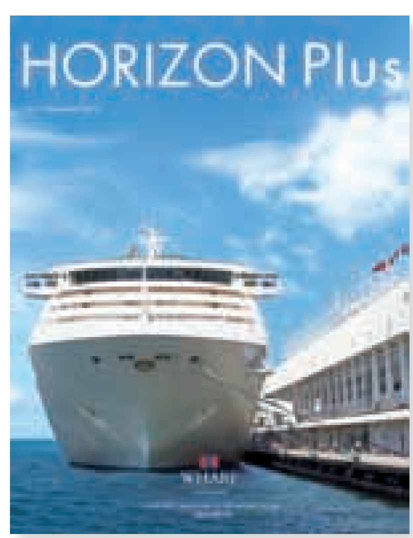
The Group's concern for OSH has extended to its supply chain partners, who are required to fulfill the Group's and statutory requirements relating to OSH. Our shopping malls, have incorporated relevant clauses and statutory requirements in the tendering documents and only those contractors with a track record in work safety will be considered. Contractors are required to set up their OSH guidelines for employees and risk assessment is performed before the commencement of works every time. The malls will also conduct regular safety audits to ensure they are in compliance with our OSH practices.

Staff Communications
To foster better understanding of corporate strategy, the Group makes use of various channels to keep staff from different business units abreast of the latest developments of the Group. A wealth of information includes the Group's latest activities, our code of ethics, policies and practices, rules and procedures and health tips are available on the company's Intranet. A bilingual staff bulletin "The LiNK" is an important means of internal communications with featured stories, business updates, CSR pursuits and staff activities.

Our business units maintain an open communication with their staff through management, departmental and team meetings, get-togethers, luncheons, staff newsletters, etc. Employee Satisfaction Surveys ("ESS") are conducted by various business units on a regular basis to solicit staff opinions about their work environment and room for improvement. Among others, Marco Polo Hotels conducts a survey annually with the latest round completed in late 2012. It recorded a moderate increase in high employee satisfaction rate. The survey results are distributed to the respective operations, who are required to develop an action plan with recommendations on how to make further improvement on work environment.

The Group and its business units were recognised with a host of awards for their good corporate citizenship during the year:

Awardees	Awards / Recognitions	Schemes / Issuing Authorities
Wharf	President's Award	The Community Chest
	Distinguished Award	Corporate and Employee Contribution Programme ("CECP") by The Community Chest
	• Overall 3rd Top Fund-raiser Award • 3rd Top Fund-raiser Award and Highest donation Increment Award in the Companies & Organisations Category	Dress Special Day 2012 by The Community Chest
Wharf and 12 business units	Caring Company Logo	Caring Company 2012 by The Hong Kong Council of Social Service
The "Star" Ferry	Caring Company Logo (10th consecutive year)	Caring Company 2012 by The Hong Kong Council of Social Service
	Manpower Develop 1st	Manpower Developer Award Scheme by Employees Retraining Board
Pacific Club	18 Districts Caring Employers 2012 Award	Co-organised by the Rehabilitation Advisory Committee of Labour & Welfare Bureau, the Hong Kong Joint Council for People with Disabilities and the Hong Kong Council of Social Service



Corporate Social Responsibility

Our Society & Workplace

Work-life Balance

Wharf Staff Recreation Committee, established more than 20 years ago, is charged with fostering staff wellness by providing a variety of activities for staff and their families meeting different interests and needs. It organised 17 interest classes, sports and recreational activities in the year with over 1,400 participants joining. Including 83 additional activities organised by various business units, a total of more than 9,110 staff and their family members participated.

Customer Engagement

Customers' feedback is critical to our success. Wharf is committed to providing a high standard of service not only to meet customer expectations but exceed them by all means. We conduct annual customer/tenant satisfaction surveys to gauge customer opinions and suggestions, identify service gaps and bring in new thoughts which enable us to better serve our customers. We also make available for customers a number of communication channels such as comment cards, customer service counters, hotlines, emails and social media platforms to ensure customer's voice is heard.

Marco Polo Hotels for example, conducts an online survey throughout the year to better understand their guests' staying experience. The 2012 survey results for the three hotels in Hong Kong are encouraging as they saw continued improvement over last year in all aspects. Yearly service pledge is made and communicated to the hotel guests through its customer service programme "The Marco Polo Way".

Our shopping malls and service apartments have taken the lead to conduct annual tenant services surveys, which constantly show that most tenants are highly satisfied with their services. Based on the yearly performance pledges to their tenants, the malls assess their service levels against a set of measurable targets and share the survey results with the tenants.

As a major communications supplier for SMEs in Hong Kong, Wharf T&T has a Customer Charter in place to measure and benchmark its service against the industry's best practices through weekly customer satisfaction surveys. The results are posted on the company's website and updated from time to time.

We strive to maintain an open and timely communication with our customers. Apart from the abovementioned channels, our business units provide a wealth of information about the companies, products and services through their websites and publications.

20 *years ago, Wharf Staff Recreation Committee has been set up in a bid to encourage a balanced work life for staff*

100 *recreational activities were organised across the Group and its companies in 2012*

More than 9,110 *staff and their family members participated*

Corporate Social Responsibility
Our Environment

Building a Greener Future

"We are committed to minimising the environmental impact of our business to facilitate sustainable development."

The Group is devoted to building a greener future by minimising the impact on the environment and raising awareness of environmental protection among its associates and the community at large. Environmental policies and practices are in place across various business units and extended to all business associates, supply chain and stakeholders where appropriate. A number of internal and external initiatives supporting the sustainable use and protection of natural resources have been implemented. Wherever possible, our business units adopt an environmental management system ("EMS") in the course of their business with procedures to measure the performance and effectiveness against targets.

Our Focus
- Green policies and practices
- Energy saving and carbon reduction
- Raising green awareness

A Green Pioneer
The Group embraces the pivotal role of the private sector in helping to conserve the environment. We demonstrate our commitment by supporting the following external initiatives/organisations:

- The Group has been a Patron of the Harbour Business Forum since its launch in 2005 to support the preservation of the long-term economic, social and environmental interests of the Harbour.
- Wharf and its various business units have endorsed the Clean Air Charter initiated by the Hong Kong General Chamber of Commerce and the Hong Kong Business Coalition on the Environment in an effort to combat air pollution and improve air quality in the Greater Pearl River Delta.
- The Group's business units and fellow subsidiaries have become a Carbon Audit • Green Partner by signing the Carbon Reduction Charter and pledged to carry out activities to support the reduction of greenhouse gas emission.
- Modern Terminals became a Corporate Partner of the Low-carbon School Programme 2012-2013 organised by the Business Environment Council to support youth education on environmental protection.
- Wharf has been WWF's corporate member since 2001, and in recent years a Double-Diamond member. Modern Terminals also supports WWF as a Silver member.

Modern Terminals successfully completed a massive project of converting diesel-powered rubber–tyred gantry cranes ("RTGs") into electric-RTGs ("E-RTGs") in 2012. As a result, each E-RTG in operation can reduce about 60% in carbon dioxide emission compared to a traditional RTG.

Corporate Social Responsibility
Our Environment

WWF
Double Diamond Member
雙鑽石會員2012
HONG KONG

LOOP
GOLD
WWF


LOOP
低碳辦公室計劃
Low-carbon Office Operation Programme


WWF
WWF-Hong Kong Corporate Membership Programme Award


Silver Award
銀獎
Harbour City Estates Ltd


我們慳了
142,767,493
度電


企業綠色駕駛獎勵計劃頒獎典禮2012
Corporate Green Driving Award Scheme 2012 Award Ceremony

Corporate Social Responsibility
Our Environment

Green Policies and Practices

Green policies and practices have been adopted across the Group's diversified operations with the setup of green committees or task forces led by senior management. Where appropriate, our business units have extended their green policies to their suppliers and contractors with guidelines and terms and conditions set out in contracts to ensure that they are in full compliance with the Group's stringent requirements. Green procurement policies or guidelines are also in place to align our procurement practices with the Group's environmental policy.

At Modern Terminals, an ISO14001 certified company, environmental considerations form an integral part of its culture and decision-making. An Environmental Committee represented by staff from all levels is established to oversee the execution of its EMS, monitor and evaluate its environmental performance, set annual targets and promote environmental awareness. The Green Terminal Model and Guidelines have been introduced to provide a framework for major environmental considerations when developing a new terminal.

Reduce, Reuse, Recycle

The Group makes every effort to reduce greenhouse gas emission and usage of energy, fuel, water, paper and other resources. A host of energy saving initiatives have been implemented. Recycling programmes for paper, toners, used computer devices and equipment, plastic products and glass bottles, and used fluorescent lamps have been implemented across various business units. Where appropriate, light bulbs, halogen lamps and neon light are replaced with LED lighting, and we retrofit existing air-conditioning systems to achieve higher energy efficiency.

To further heighten the awareness, seminars and green tips have been arranged to promote environmental protection and green living among employees and tenants.

> ***Times Square has incorporated green elements into its fit-out handbook and guidelines to encourage its tenants to not only use environmentally-friendly materials and energy saving equipment but also reuse the fitting out materials.***

Wharf T&T successfully reduced its annual greenhouse gas emission by 11.4% as well as its energy usage and paper usage by 19.0% and 25.2% over 2011 respectively. The "Star" Ferry also continued its effort in reducing energy and fuel usage and achieved a reduction of 7.9% and 15.3% respectively compared with 2011.

For the second consecutive year, Modern Terminals organised its in-house "Give and Take" campaign to promote the concepts of reuse and recycling. This year, apart from all Modern Terminals staff, contractors and warehouse tenants were invited to participate in this meaningful campaign. More than 440 items were collected, which were either adopted for reuse or donated to schools and NGOs.

Gateway Apartments, Harbour City and Pacific Club continued their support for various recycling programmes, results of which are shown below.

Collected Items for Recycling [1]	Quantity
Waste paper	720,000 kg
Food waste [2]	71,900 kg
Plastic waste	31,300 kg
Paper, plastic and metal	17,600 kg
Glass bottle	15,100 kg
Waste carton	13,000 kg
Used fluorescent lamps	3,500 kg
Used clothes	900 kg
Used computer	510 pcs
Used toner	170 pcs

1 We partnered with The Salvation Army, Friends of the Earth (HK), Hong Chi Association, Caritas Hong Kong, and specialist contractors to handle the collected items for recycling.

2 The collection of food waste for decomposition began in 2012.

Gateway Apartments, Harbour City, Pacific Club and Plaza Hollywood have all received various recognitions under the Hong Kong Awards for Environmental Excellence, including the Energywi$e Label, Wastewi$e Label, and the Carbon "Less" Certificate.

Raising Green Awareness

The Group teams up with various green advocates to promote environmental conservation. As long-time supporters of WWF, the Group and its business units actively participated in WWF's events such as Earth Hour by switching off external lights of the various shopping malls and properties during the designated time, offering free advertising spaces to the campaign, and promoting it to customers and staff. Nature tours with WWF were arranged for staff to promote a sense of nature conservation.

To promote marine conservation and sustainable seafood, various business units have pledged support for WWF's "No Shark Fin" policy and Seafood Choice Initiative, which encourages both individuals and organisations to make informed choices in selecting seafood.

Corporate Social Responsibility
Our Environment

In partnership with Kadoorie Farm & Botanic Garden and Tai Po Environmental Association, the "Star" Ferry organises the LOHAS Square which is held weekly at the Central Pier to host a local fair-trade platform that bridges and encourages mutual support between consumers and local NGOs, social enterprises, self-employed artists and organic farmers for environmental services and products. It also serves as an education platform to promote a Lifestyle of Health and Sustainability to the general public. A donation of HK$10 is collected from each participating booth in the LOHAS Square each week. In turn, the donations will be spent on the purchase of vegetable or herb seedlings for the School Edible Garden Project which provides children from 10 local primary schools with the opportunity to experience food planting and learn to appreciate food and nature. The "Star" Ferry also sponsors the weekly Farmers' Market at Central Pier organised by the Sustainable Ecological Ethical Development Foundation.

Our shopping malls have been active venue sponsors for various campaigns organised by NGOs and the government to spread environmental conservation messages. Campaigns supported include Greenpeace East Asia's Greenpeace Global Environment Citizens Road Show and Greenpeace Esperanza East Asia Tour, the Environmental Campaign Committee's World Environment Day 2012 — Green Home Action Opening Ceremony and Exhibition, and Friends of the Earth (HK)'s Green Driving Workshop.

The Group is a long-time supporter of the Walk for the Environment, an annual fundraising event organised by the Conservancy Association. In 2012, besides a cash donation, the Group also for the first time invited students from the participating schools of Project *WeCan* to join our staff and their family members to support this meaningful event, a step to further promote our "serve-together" spirit. A total of 57 students and nine teachers from six participating schools joined the event.

As a Corporate Partner of the Low-carbon School Programme 2012-2013 organised by the Business Environment Council, Modern Terminals hosted a number of visits for schools to educate the youth about environmental protection.

Training is organised for staff from time to time to equip them with relevant knowledge on environmental protection and practices. In 2012, a number of workshops were held including Take a "Brake" Low Carbon Action 2012 — Green Driving Workshop, Carbon Audit Workshop for Listed Companies, and Green Home Green Office seminar. Wharf T&T also launched its own Green@Work Power-off Competition and Green Walker Week and e-Commuting Campaign to encourage staff to take positive action to improve their environmental performance.

Green Recognitions

In 2012, the Group and its business units received close to 40 awards and certificates relating to environmental excellence, carbon reduction, indoor air and water qualities, and waste reduction granted by the Environmental Protection Department, Environmental Campaign Committee, Water Supplies Department, NGOs and District Councils. These were granted in recognition of our continued commitment to environmental sustainability and our group companies' achievements in this respect.

MAJOR ENVIRONMENTAL ACCOMPLISHMENTS AND RECOGNITIONS:

Austin Station Residential Developments, jointly developed by the MTR Corporation and a joint-venture between New World Development Company Limited and Wheelock Properties Limited have achieved the ***BEAM Plus Gold Certification*** *(Provisional Assessment), which is the highest rating for residential buildings that has been issued by the Hong Kong Green Building Council to date since the launch of the BEAM Plus in April 2010.*

Gateway Apartments and Modern Terminals were awarded the ***Silver Award (Hotels and Recreational Clubs)*** *and the* ***Bronze Award (Transport and Logistics)*** *respectively for the first time under the 2011 Hong Kong Awards for Environmental Excellence.*

Gateway Apartments was awarded the ***Certificate of Merit*** *under the 2012 HSBC Living Business Green Achievement Award for the first time.*

Modern Terminals was awarded its second ***ISO14001*** *accreditation which demonstrates the effectiveness and comprehensiveness of its EMS.*

Wharf T&T was awarded the ***Gold Label*** *in the Low-Carbon Office Operation Programme ("****LOOP****") Labelling Scheme organised by WWF. Wharf T&T was awarded the label for the third consecutive year.*

Corporate Social Responsibility

Corporate Governance

A High Standard of Governance

"We are committed to maintaining high corporate governance standards with enhanced accountability and transparency by a responsible board, a sound internal control system as well as a comprehensive code of conduct."

Good corporate governance is essential to the long-term success of a business. The Group strives to achieve the highest standard of corporate governance through board responsibility, a sound internal control system as well as a comprehensive code of conduct.

As a publicly-listed company, every effort has been made to ensure that the Group adheres to best practices and is in good compliance status in all regulatory aspects. As far as possible, the Group complied with all code provisions in the Corporate Governance Code (applicable to financial reports covering a period after 1 April 2012) and the former Code on Corporate Governance Practices, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The reasons for any deviations from the code provisions are clearly stated in the Corporate Governance Report.

Directors' training and development is an important element of good corporate governance. The Group has arranged for Directors to attend training sessions and forums which place emphasis on the roles, functions and duties of a listed company director as well as the development of regulatory updates and issues, and encouraged all Directors to pursue continuous professional development.

Wharf's management has been closely involved in the development of the Group's business conduct and ethics, risk management, audit and compliance as well as shareholders' rights and reporting. Any changes to regulations that affect the Group's corporate affairs and businesses, and changes to accounting standards are closely monitored. In 2012, the Group implemented a set of Whistleblowing Policy and Procedures to demonstrate its commitment to the highest standards of openness, probity and accountability, details of which are posted on the corporate website.

The Group has devised a sound and effective internal control system to safeguard shareholders' investment and the Group's assets. The Group's Board of Directors, through the Audit Committee, ensures the system's effectiveness by conducting an annual review and reporting to Shareholders.

Good corporate governance also requires the co-operation of every colleague. In addition to a set of policies and practices, staff are briefed and updated on the Group's comprehensive code of conduct and are required to conduct their business in an ethically responsible manner and behave in accordance with the Group's norms, values and regulatory requirements. A regular column covering related topics has been established in our staff newsletter to heighten the awareness of best business practices among staff.

To maintain the accountability and transparency of the Group's operations, we keep our stakeholders informed of our performance and activities through regular website updates, the Annual and Interim Reports, as well as announcements and press releases, which are accessible through the corporate website.

The Corporate Governance Report, which sets out the Group's corporate governance structure and practices in detail, is available from page 110 to 133 of this Annual Report.

Channels used to ensure effective and timely communications:

- corporate website
- annual and interim reports
- announcements
- press releases
- intranet
- circulars
- staff newsletters
- client newsletters

Corporate Social Responsibility

The Outlook

Enabling capacity building and self-sustainability

With "Building for Tomorrow" as our long standing mission, the Group strives to be a good corporate citizen through a sustainable and visionary approach. Our unwavering commitment to grow with society will drive us not only to fulfill our social, environmental and governance obligations and expectations but also exceed them.

Social and Workplace

- Foster youth development and support the vulnerable by leveraging on our resources and business networks and working closely with NGOs;
- Become an employer of choice – we strive to promote staff well-being by encouraging work-life balance, health and safety, equal opportunities and human rights and provide greater and better opportunities for our people and future talent;
- Foster our "serve-together" philosophy by building a stronger and bigger volunteer team to support the community and promote it to the people we deal with in order to maximise the impact of our CSR efforts. We will also put more emphasis on the ways our people can bring their unique skills to the benefit of non-profit organisations and the less privileged.

Environment

- Manage our environmental impacts through an established environmental management system;
- Measure our environmental performance and effectiveness against targets using proper procedures;
- Adopt green policies and practices and extend these to our key stakeholders where appropriate;
- Implement initiatives to reduce our greenhouse gas emission and usage of resources, and to facilitate reuse and recycling;
- Promote green awareness to our staff, business partners, customers and suppliers, and the wider community.

Governance

To demonstrate our commitment to the highest standard of corporate governance in order to protect the interests of our shareholders and other stakeholders, we will:

- implement corporate governance practices not only in accordance with the regulatory requirements but exceeding them where possible;
- exercise the Board's accountability;
- ensure the effectiveness of our internal control system;
- develop our business conduct and ethics, and raise staff's awareness of their responsibilities;
- enhance accountability and transparency of our operations.

We look forward to a better, brighter future and growing with our staff and continuing to contribute to the society in Hong Kong.

Building for Hong Kong's tomorrow, the Group targets to allocate up to 1% of annual core profit to support charitable and community activities in coming years.

Financial Review

(I) REVIEW OF 2012 RESULTS

The Group attained numerous new records for its financial results in 2012 with the reported core profit increased to a new high by 37% to HK$11,040 million from 2011 as prompted mainly by the Group's persistent growth in rental revenue and spiraling development property profit. Added to this by certain exceptional accounting gains and increase in investment property revaluation surplus, the Group's profit attributable to shareholders also increased to a new high by 55% to HK$47,263 million.

Revenue

Group revenue increased by 29% to HK$30,856 million (2011: HK$24,004 million), benefitting from the higher contribution from property sales achieved both in Hong Kong and the Mainland and the revenue increase achieved by the Property Investment segment.

Property Investment revenue from Hong Kong increased by 11% to HK$8,875 million, supported by the outstanding sales achieved by the retail tenants and the continuous positive rental reversions for office areas particularly in Harbour City and Times Square. In the Mainland, rental revenue increased by 26% to HK$1,005 million benefitting from the escalating revenue generated by Shanghai Wheelock Square as well as the renovated Chongqing Times Square. Hotel revenue increased by 9% to HK$1,391 million as sustained by the increase in room rates with occupancy remaining at a high level though this was adversely affected by the rooms renovation work for the Gateway Hotel. In aggregate, the segment reported an increase in revenue of 12% to HK$11,271 million.

Property Development continued to bear fruit with recognised sales increased by 92% to HK$12,207 million (2011: HK$6,343 million). Revenue recognition mainly derived from Chengdu Tian Fu Times Square, Shanghai Xi Yuan and Wuxi Times City in the Mainland totalling HK$9,573 million and from One Midtown in Hong Kong of HK$2,634 million.

During the year, inclusive of joint ventures and associates (other than Greentown) on an attributable basis, the Group recorded contracted property sales totalling RMB15.0 billion (2011: RMB12.7 billion) in more than ten cities in the Mainland, increasing its net order book to RMB15.7 billion by the year end 2012 (2011: RMB13.5 billion) pending for recognition on completion.

Logistics revenue dropped by 13% to HK$3,070 million (2011: HK$3,520 million) due to Modern Terminals' revenue decreasing with lower throughput handled as adversely affected by the slowdown in global trade growth.

CME revenue increased by 2% to HK$3,953 million (2011: HK$3,863 million), with revenue of Wharf T&T and i-CABLE increased by 4% and 1%, respectively.

Operating Profit

Group operating profit increased by 24% to HK$14,170 million (2011: HK$11,388 million) as supported by favourable profit contributions from Property Investment and Property Development.

Property Investment remained the Group's largest profit contributor with an 11% increase in operating profit to HK$8,578 million (2011: HK$7,694 million). Contributions from Harbour City (excluding hotels) and Times Square increased by 13% and 10%, respectively. Operating profit generated from its expanding properties portfolio in the Mainland grew decently by 29%, particularly benefitting from the Group's promising Shanghai Wheelock Square.

Hotels operating profit from the three Marco Polo hotels in Harbour City increased by 8% to HK$390 million although partly impacted by the above mentioned hotel renovation. Including the Mainland hotels, the operating profit increased by 5% only due to the adverse effects of the pre-operating expenses incurred for the new hotel which commenced operation in 2013.

Property Development, with higher property sales achieved and more property completions delivered, increased its operating profit by 114% to HK$4,869 million (2011: HK$2,274 million), including HK$3,562 million attributable to Mainland property projects and HK$1,307 million attributable to a Hong Kong property project, One Midtown.

Logistics' contribution dropped by 26% to HK$1,161 million (2011: HK$1,563 million), mainly due to a decrease in revenue of Modern Terminals.

CME reported a loss of HK$22 million (2011: profit of HK$45 million). Wharf T&T's operating profit increased by 9% to HK$250 million against i-CABLE's operating loss of HK$271 million.

Profit contribution from Investment and Others was HK$134 million (2011: HK$288 million).

Increase in Fair Value of Investment Properties

The book value of the Group's investment property portfolio as at 31 December 2012 increased to HK$231.5 billion (2011: HK$184.1 billion), with HK$210.1 billion thereof stated at fair value based on an independent valuation as at that date, which produced a revaluation surplus of HK$34,751 million (2011: HK$24,968 million), mainly reflecting the continuous strong rental growth of the Group's investment properties. The attributable net revaluation surplus of HK$33,336 million (2011: HK$23,841 million), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Investment properties under development in the amount of HK$21.4 billion are carried at cost and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Other Net Income

Other net income for the year amounted to HK$2,483 million (2011: HK$457 million), mainly including the book accounting gain of HK$2,233 million arising from the acquisition of a 24.6% interest in Greentown as detailed in note 3(a) to the financial statements.

Finance Costs

Finance costs charged to the consolidated income statement were HK$939 million (2011: HK$2,567 million). These included an unrealised mark-to-market gain of HK$573 million (2011: loss of HK$1,387 million) on the cross currency/interest rate swaps in accordance with prevailing accounting standards. Net of non-controlling interests, the mark-to-market gain is HK$590 million (2011: loss of HK$1,356 million).

Excluding the unrealised mark-to-market gain, finance costs before capitalisation were HK$2,108 million (2011: HK$1,627 million), representing an increase of HK$481 million mainly as a result of the increase in gross borrowings and rise in effective borrowing rates. The Group's effective borrowing rate for the year was 2.8% (2011: 2.3%).

Excluding the unrealised mark-to-market gain, finance costs after capitalisation of HK$596 million (2011: HK$447 million) in respect of the Group's related assets were HK$1,512 million (2011: HK$1,180 million), representing an increase of HK$332 million.

Financial Review

Share of Results (after tax) of Associates and Jointly Controlled Entities

The attributable profit from associates increased by 308% to HK$1,473 million (2011: HK$361 million), mainly due to the first-time share of profit of HK$893 million for the period from 15 June 2012 to 31 December 2012 in Greentown, in which the Group has acquired a 24.6% interest during the year, and an increase in profit contributions from the Mainland development properties projects undertaken by other associates.

Jointly controlled entities' profit increased by HK$607 million to HK$641 million (2011: HK$34 million), reflecting their increased profit contributions from property development projects in the Mainland which began to bear fruit.

Income Tax

Taxation charge for the year was HK$4,215 million (2011: HK$3,304 million), which included deferred taxation of HK$1,087 million (2011: HK$901 million) provided for the current year's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred tax, the tax charge increased by 30% to HK$3,128 million (2011: HK$2,403 million) mainly due to increase in profit recognised by Property Development segment.

Non-controlling Interests

Group profit attributable to non-controlling interests increased by HK$332 million to HK$1,101 million, reflecting the increase in net profits of certain non-wholly-owned subsidiaries.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended 31 December 2012 amounted to HK$47,263 million (2011: HK$30,568 million), representing an increase of 55%. Basic earnings per share were HK$15.60, based on 3,029 million shares (2011: HK$10.22 based on a weighted average of 2,991 million shares after taking into account the effect of the Rights Issue).

Excluding the net investment property revaluation surplus of HK$33,336 million (2011: HK$23,841 million), Group profit attributable to equity shareholders for the year was HK$13,927 million (2011: HK$6,727 million), representing an increase of 107%.

Excluding the net investment property revaluation surplus and exceptional items, which included the book accounting gain arising from the acquisition of the interests in Greentown of HK$2,233 million and the attributable mark-to-market gains totalling HK$654 million (2011: loss of HK$1,356 million) on swaps and other financial assets, the Group's core profit rose by 37% to HK$11,040 million (2011: HK$8,083 million). Core earnings per share were HK$3.64 (2011: HK$2.70).

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2012, the Group's shareholders' equity increased by HK$45,244 million or 22% to HK$248,501 million, equivalent to HK$82.04 per share based on 3,029 million issued shares (31 December 2011: HK$67.10 per share based on 3,029 million issued shares).

Including the non-controlling interests, the Group's total equity increased by 22% to HK$256,906 million (31 December 2011: HK$210,874 million).

Total Assets

The Group's total assets increased by 16% to HK$369.0 billion (31 December 2011: HK$318.0 billion). Total business assets, excluding bank deposits and cash, certain available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 22% to HK$343.9 billion (31 December 2011: HK$280.8 billion).

Included in the Group's total assets is the investment property portfolio of HK$231.5 billion, representing 67% of total business assets. The core assets in this portfolio are Harbour City and Times Square in Hong Kong, which are valued at HK$125.4 billion (excluding the three Marco Polo hotels) and HK$43.6 billion, respectively. Together, they represent 73% of the total value of the portfolio.

Other major business assets include other properties and fixed assets of HK$19.9 billion, interests in jointly controlled entities and associates (mainly for Mainland property and port projects) of HK$36.2 billion and properties under development and held for sale (mainly in the Mainland) of HK$48.9 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$133.0 billion (31 December 2011: HK$110.6 billion), representing 39% of the Group's total business assets.

Debt and Gearing

The Group's net debt increased by HK$12.1 billion to HK$55.6 billion as at 31 December 2012 (31 December 2011: HK$43.5 billion), which was made up of HK$74.4 billion in debt and HK$18.8 billion in bank deposits and cash. Included in the Group's net debt was HK$6.4 billion (31 December 2011: HK$8.2 billion) attributable to Modern Terminals, Harbour Centre Development Limited ("HCDL") and other subsidiaries, which is without recourse to the Company and its other subsidiaries. Excluding these non-recourse debts, the Group's net debt was HK$49.2 billion (31 December 2011: HK$35.3 billion). Analysis of the net debt is set out below:

Net debt/(cash)	**31 December 2012** ***HK$ Million***	31 December 2011 *HK$ Million*
Wharf (excluding below subsidiaries)	**49,201**	35,348
Modern Terminals	**11,193**	11,155
HCDL	**(4,581)**	(2,700)
i-CABLE	**(188)**	(338)
	55,625	43,465

As at 31 December 2012, the ratio of net debt to total equity was 21.7% (31 December 2011: 20.6%).

Financial Review

Finance and Availability of Facilities

The Group's total available loan facilities and issued debt securities as at 31 December 2012 amounting to HK$92.2 billion, of which HK$74.4 billion were utilised, are analysed as below:

	31 December 2012		
	Available Facilities *HK$ Billion*	Total Debt *HK$ Billion*	Undrawn Facilities *HK$ Billion*
Company/wholly-owned subsidiaries			
Committed bank facilities	**41.0**	**28.3**	**12.7**
Uncommitted bank facilities	**0.4**	**–**	**0.4**
Debt securities	**30.5**	**30.5**	**–**
	71.9	**58.8**	**13.1**
Non-wholly-owned subsidiaries			
Committed and uncommitted			
— Modern Terminals	**13.7**	**12.3**	**1.4**
— HCDL	**6.1**	**3.2**	**2.9**
— i-CABLE	**0.5**	**0.1**	**0.4**
	92.2	**74.4**	**17.8**

Of the above debt, HK$17.6 billion (31 December 2011: HK$20.1 billion) was secured by mortgages over certain properties under development, fixed assets and shares with a total carrying value of HK$28.2 billion (31 December 2011: HK$27.3 billion).

The Group has diversified the debt portfolio across a bundle of currencies including primarily Hong Kong dollar ("HKD"), United States dollar ("USD") and Renminbi ("RMB"). The funding sourced from such debt portfolio was mainly used to finance the Group's property development and port investments in the Mainland.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate and foreign currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash denominated principally in HKD, USD and RMB and undrawn committed facilities to facilitate the Group's business and investment activities. As at 31 December 2012, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$3.9 billion (31 December 2011: HK$2.7 billion), which is immediately available for liquidation for the Group's use.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group's net cash inflow before change in working capital increased to HK$15.1 billion (2011: HK$12.5 billion). The changes in working capital resulted in a net cash inflow of HK$1.9 billion (2011: outflow of HK$9.6 billion). For investing activities, the Group recorded a net cash outflow of HK$21.7 billion (2011: HK$18.4 billion), mainly for additions to investment properties, including the payment for the lease renewal premium of Ocean Terminal of HK$7.9 billion, land and construction costs for Chengdu IFS, investments in associates and jointly controlled entities involved in property development projects in the Mainland, including HK$2.7 billion paid for the acquisition of a 24.6% equity interest in Greentown, and subscription for Greentown's perpetual subordinated convertible securities of HK$2.6 billion. The net cash outflow was partly compensated by the proceeds received from disposal of certain non-core properties during the year.

Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2012 are analysed as follows:

A. *Major capital and development expenditure*

	Hong Kong *HK$ Million*	Mainland China *HK$ Million*	Total *HK$ Million*
Properties			
Property investment	**8,884**	**5,860**	**14,744**
Development properties	**787**	**13,321**	**14,108**
	9,671	**19,181**	**28,852**
Non-properties			
Modern Terminals	**175**	**436**	**611**
Wharf T&T	**504**	**2**	**506**
i-CABLE	**207**	**2**	**209**
Others	**5**	**–**	**5**
	891	**440**	**1,331**
Group total	**10,562**	**19,621**	**30,183**

i. Property investment expenditure incurred during the year mainly included the lease renewal premium of HK$7.9 billion paid for Ocean Terminal and the land and construction costs for Chengdu IFS.

ii. The Group also incurred HK$14.1 billion for investment in development properties mainly related to Mainland projects, including HK$4.2 billion cash contribution to jointly controlled entities and associates and HK$2.7 billion incurred for the acquisition of a 24.6% interest in Greentown during the year under review.

iii. For Modern Terminals, the capital expenditure was mainly for additions to other fixed assets and the construction of the Da Chan Bay port project in the Mainland while that for Wharf T&T and i-CABLE was incurred substantially for procurement of production and broadcasting equipment, network rollout and internet service equipment. Modern Terminals and i-CABLE, respectively 67.6% and 73.8% owned by the Group, independently fund their own capital expenditure programmes.

Financial Review

B. *Commitments to capital and development expenditure*

As at 31 December 2012, the Group's major commitments to capital and development expenditure that is to be incurred in the forthcoming years was estimated at HK$87.5 billion, of which HK$24.0 billion was authorised and contracted for. By segment, the commitments are analysed as below:

	As at 31 December 2012		
	Authorised and contracted for *HK$ Million*	Authorised but not contracted for *HK$ Million*	Total *HK$ Million*
Property investment			
Hong Kong	1,132	824	1,956
Mainland China	7,197	20,031	27,228
	8,329	20,855	29,184
Development properties			
Hong Kong	164	638	802
Mainland China	15,383	41,133	56,516
	15,547	41,771	57,318
Non-properties			
Modern Terminals	30	420	450
Wharf T&T	119	289	408
i-CABLE	23	128	151
	172	837	1,009
Group total	24,048	63,463	87,511

Properties commitments are mainly for land and construction costs, inclusive of attributable commitments to joint ventures, to be incurred by stages in the forthcoming years. Attributable committed land cost of HK$6.1 billion is payable by 2013.

The above commitments and planned expenditure will be funded by Group's internal financial resources including its surplus cash of HK$18.8 billion, cash flow from operations, as well as bank and other financing with the construction costs self-financed mainly by pre-sale proceeds and project loans. Other available resources include available-for-sale investments.

(III) HUMAN RESOURCES

The Group had approximately 15,200 employees as at 31 December 2012, including about 2,800 employed by managed operations. Employees are remunerated according to their job responsibilities and the market pay trends with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the respective group's achievement and results.

(IV) BUSINESS MODEL

Select investment properties form the backbone of Wharf's business model. The total value they generate combine rental yield growth with annual capital appreciation. Their recurrent cash flow underpins a stable and rising dividend to shareholders. The conservatively leveraged equity cushion offers ample financial capacity to seize new investment opportunities in a timely and selective manner.

Including capital appreciation, the investment properties in operation offered a total return of HK$43 billion in 2012 on an asset base of HK$176 billion at the beginning of 2012. Harbour City and Times Square lead this prized portfolio of select investment properties and accounted for nearly 10% of total Hong Kong retail sales. With a combined GFA of over 10 million square feet and a market value of HK$177 billion, they generated HK$9.4 billion of revenue and HK$7.4 billion of operating profit in 2012.

New select investment properties under development are led by International Finance Square (IFS) in the very heart of Chengdu and Changsha. At a combined development cost of HK$40 billion, each of them will be as large as Harbour City and designed to be just as dominant in their respective markets. Three other IFSs are also under development in Chongqing, Wuxi and Suzhou.

This prized portfolio of select investment properties has also provided the financial capacity to enable Wharf to build other businesses.

From nearly a standing start, Wharf set out a bold policy in 2007 to put 50% of total assets in the Mainland in RMB over the following five years. Since then, Wharf has built itself into one of the most active Hong Kong developers in the Mainland. Inclusive of associated company Greentown, its attributable land bank comprises 18 million square meters across more than 40 cities. In 2012, contracted sales totaled RMB15 billion for 1.3 million square meters. Including the investment in Sino-Ocean Land, Wharf's total RMB portfolio relating to property investment in the Mainland totaled RMB99 billion or HK$122 billion.

In Hong Kong, the development land bank has a different scale and with a much higher AV per square foot comprises 3.2 million square feet. 2012 contracted sales totaled HK$3.5 billion for 0.9 million square feet. To selectively turn over this portfolio with timely acquisitions is the plan. The peak portfolio is a unique collection of properties which is being redeveloped over the next few years.

Outside of properties, other main business interests include hotel operation, container terminals and communications. All are recurrent earning based and many are land based.

(V) BUSINESS STRATEGY

The Group endeavours to continuously enhance its competitiveness and drive sustainable growth through:

1. Product leadership on new development projects to lead the local markets and on existing premises re-planning & improvement, tenant-mix refinement and effective marketing to maximise operating investment properties' rental growth and value;

2. Replicating the success of Harbour City and Times Square, location advantage, and our special relationship with leading tenants, soft power advantage, to expand the portfolio of select investment properties selectively in the Mainland to create substantial new value;

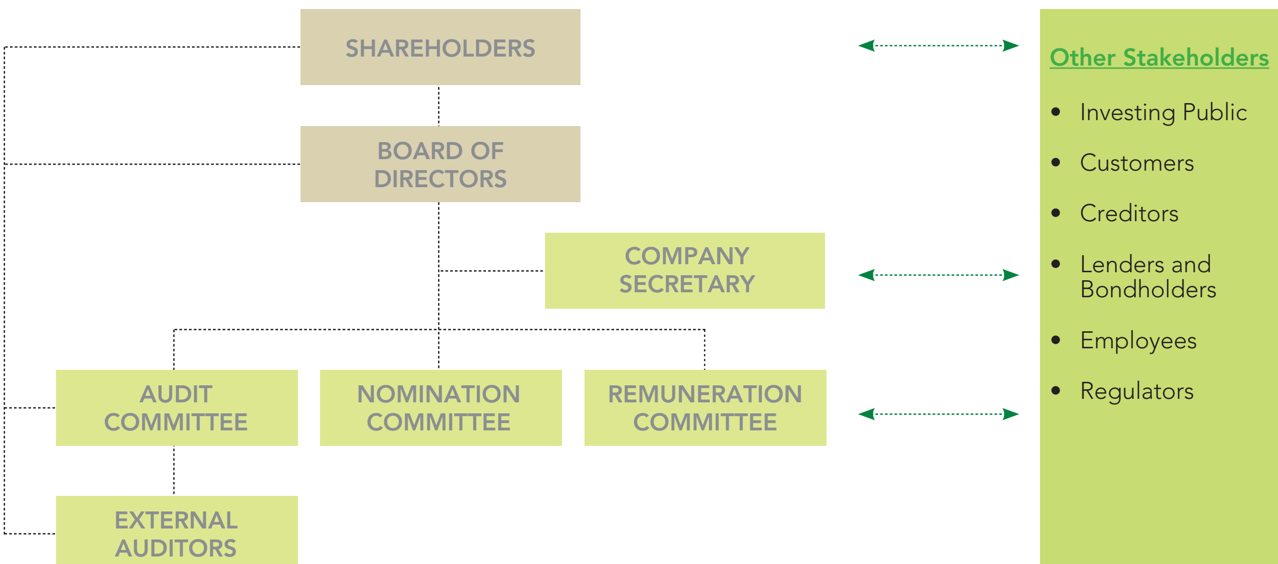
3. Applying core competencies in site selection and acquisition, development planning and design, construction, premium brand building and marketing to build up a young, fast growing and sustainable property development business in the Mainland to dovetail with the urbanisation programme locally;

4. Continuous development of sustainable and localised organisations in the different regions in the Mainland with local market know how and international standards and execution expertise; and

5. Exercising prudent and disciplined financial management to ensure sustainability at all times.

Corporate Governance Report

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE PRACTICES

During the first three-month period in the financial year under review, all the applicable code provisions in the Code on Corporate Governance Practices (which were effective during that three-month period), as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") then in force, were met by the Company, with the exception of one deviation as set out under section A.2.1 below.

During the remaining nine-month period in the financial year under review (i.e. 1 April to 31 December 2012), all the code provisions in the Corporate Governance Code (the "Code") (which is set out in the current version of Appendix 14 of the Listing Rules) were met by the Company, with the exception of three deviations as set out under sections A.2.1, A.6.7 and F.1.3 respectively.

The application of the relevant principles and the reasons for the abovementioned deviations from the Code provisions are stated in the relevant sections below. Key corporate governance principles and corporate governance practices of the Company during the financial year are summarised below (with the Code Provisions numbers stated below being those in force since 1 April 2012):

I. Code Provisions

Code Ref.	Code Provisions
A.	**DIRECTORS**
A.1	**The Board** *Corporate Governance Principle* *The board should assume responsibility for its leadership and control and is collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the company.* *The board should regularly review the contribution required from a director to perform his responsibilities to the company, and whether he is spending sufficient time performing them.*
Compliance Status	**Corporate Governance Practices**
✓✓ Exceed Requirement	Four regular meetings of the board of directors of the Company (the "Board") were held during the financial year ended 31 December 2012, all of which were attended by a large majority of the directors of the Company (the "Directors") entitled to attend. Please refer to the table set out on page 118 for details of the attendance records of the Directors. The Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles of Association. All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued. One month formal notice would be given before each regular meeting and reasonable notices are given for all other ad hoc meetings. The company secretary of the Company ("Company Secretary") prepares minutes and/or written resolutions and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings. Board and Board Committee minutes/resolutions are sent to all Directors/Board Committee members for their comments and record within a reasonable time after each Board and Board Committee meeting. Board and Board Committee minutes/resolutions are available for inspection by Directors/Board Committee members. Final version of Board minutes is put on record within a reasonable time after the Board meeting. Minutes record in sufficient detail the matters considered by the Board/Board Committees and decisions reached.

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	The Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director. Important matters are decided by Directors by way of resolutions passed at Directors' meetings, or, on some occasions, dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors ("INEDs")) can note and comment, as appropriate, the matters before approval is granted. Under the Company's Articles of Association, a Director shall not vote or be counted in the quorum in respect of any contract or arrangement in which he or any of his associate is/are materially interested. If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by Directors' meeting rather than a written resolution. INEDs who, and whose associates, have no material interest in the transaction will be present at that Directors' meeting. The Company has arranged appropriate insurance cover for Directors' and Officers' liability.

Code Ref.	Code Provisions
A.2	**Chairman and Chief Executive** *Corporate Governance Principle* *There are two key aspects of the management of every issuer — the management of the board and the day-to-day management of business. There should be a clear division of responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.*

Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group. The Executive Directors have full executive responsibilities in the business directions and operational efficiency of the business units under their respective responsibilities and are accountable to the Chairman. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive accurate, clear, adequate and reliable information on a timely basis. The Chairman takes into account, where appropriate, any matters proposed by other Directors for inclusion in the agenda. The Chairman may delegate this responsibility to a designated director or the Company Secretary. The Chairman takes primary responsibility for ensuring that good corporate governance practices and procedures are established.

	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs and takes the lead to ensure that it acts in the best interests of the Company. The Chairman encourages Directors with different views to voice their concerns, allows sufficient time for discussion of issues and ensures that Board decisions fairly reflect Board consensus. The Chairman ensures that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. The Chairman at least annually holds meetings with Non-executive Directors (including INEDs) without the executive directors present.
Code Ref.	Code Provisions
A.2.1	*The roles of chairman and chief executive should be separate and should not be performed by the same individual.*
Compliance Status	**Corporate Governance Practices**
X Not Comply with Requirement	Mr Peter K C Woo serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from the Code provision with respect to the roles of chairman and chief executive being performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being INEDs.
Code Ref.	Code Provisions
A.3	**Board composition** *Corporate Governance Principle* *The board should have a balance of skills and experience appropriate for the requirements of the company's business and should include a balanced composition of executive and non-executive directors so that independent judgement can effectively be exercised.*
Compliance Status	**Corporate Governance Practices**
✓✓ Exceed Requirement	The Board has a balance of skills and experience appropriate for the Company's business. Given below are names of the Directors in office during the year: *Chairman* Mr Peter K C Woo *Deputy Chairman & Managing Director* Mr Stephen T H Ng

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	Vice Chairman Mr Andrew O K Chow *Executive Director* Ms Doreen Y F Lee *Executive Director* Mr T Y Ng *Executive Director & Group Chief Financial Officer* Mr Paul Y C Tsui *Director* Ms Y T Leng *(appointed effective from 11 April 2013)* *Independent Non-executive Directors* Mr Paul M P Chan *(resigned effective from 28 July 2012)* Mr Alexander S K Au *(appointed effective from 22 October 2012)* Professor Edward K Y Chen Dr Raymond K F Ch'ien Hon Vincent K Fang Mr Hans Michael Jebsen Prof the Hon Arthur K C Li *(appointed effective from 1 July 2012)* Mr James E Thompson The Directors' biographical information is set out on pages 136 to 140. The Board consists of a total of fourteen Directors, comprising seven INEDs. The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The independence of the INEDs is assessed according to the relevant rules and requirements under the Listing Rules. The composition of the Board, by category and position of Directors and with the names of all Directors, including identification of all the INEDs, is disclosed in all corporate communications. The Company maintains on its corporate website and on the Stock Exchange's website an updated list of Directors identifying their roles and functions and whether they are INEDs.
Code Ref.	Code Provisions
A.4	**Appointments, re-election and removal** *Corporate Governance Principle* *There should be a formal, considered and transparent procedure for the appointment of new directors and plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.*

Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	All Directors, including the INEDs, are subject to retirement once every three years and are subject to re-election. The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by shareholders at the general meeting of the Company. Under the Company's Articles of Association, the Board may from time to time appoint a Director either to fill a casual vacancy or as an addition to the Board. Any such new Director shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at the same general meeting. Each of the INEDs makes an annual confirmation of independence pursuant to the requirements of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in the relevant requirements of the Listing Rules and are independent in accordance with the terms of the guidelines. The re-election of each of those INEDs who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (2) further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.

Code Ref.	Code Provisions
A.5	**Nomination Committee**

Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	The Company has set up a nomination committee (the "NC") with the majority of its members being INEDs. The NC comprises the Chairman of the Company, namely, Mr Peter K C Woo (as the chairman of the NC), and two INEDs, namely, Mr Hans Michael Jebsen and Mr James E Thompson. The terms of reference of the NC are aligned with the Code provisions set out in the Code. The NC is principally responsible for nominating candidates, for the Board's approval, to fill Board vacancies as and when they arise. Given below are the main duties of the NC:

Corporate Governance Report

	(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of INEDs; and (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive. The roles and authorities of the NC were set out in its terms of reference which are available at the Company's corporate website at www.wharfholdings.com. During the year ended 31 December 2012, decisions to nominate the appointments of two INEDs, namely, Prof the Hon Arthur K C Li and Mr Alexander S K Au, were taken by way of circulated resolutions approved by the NC and no physical meeting of the NC was held during the year. For the nomination by the Board of Mr Hans Michael Jebsen and Mr James E Thompson to stand for re-election as INEDs at the Annual General Meeting in 2012, explanatory statements were included in the circular accompanying the relevant notice of meeting to set out the reasons why the Board consider them to be independent.
Code Ref.	Code Provisions
A.6	**Responsibilities of directors** *Corporate Governance Principle* *Every director must always know his/her responsibilities as a director of the company and its conduct, business activities and development.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

The Company has also arranged for Directors to attend training sessions and forums which place emphasis on the roles, functions and duties of a listed company director, as well as the development of regulatory updates and issues. Since January 2012, all Directors have been required to provide training records to the Company and the training record has been maintained by the Company Secretary.

According to the records of training maintained by the Company Secretary, during the financial year under review, all the current Directors pursued continuous professional development and relevant details are set out below:

Directors	Type of training *(See Remarks)*
Mr Peter K C Woo	C
Mr Stephen T H Ng	A, C
Mr Andrew O K Chow	A, C
Ms Doreen Y F Lee	A, C
Ms Y T Leng *(appointed effective from 11 April 2013)*	A, C
Mr T Y Ng	A, C
Mr Paul Y C Tsui	A, C
Mr Alexander S K Au *(appointed effective from 22 October 2012)*	A, C
Professor Edward K Y Chen	A, C
Dr Raymond K F Ch'ien	A, B, C
Hon Vincent K Fang	A, C
Mr Hans Michael Jebsen	A
Prof the Hon Arthur K C Li *(appointed effective from 1 July 2012)*	A
Mr James E Thompson	A, C

Remarks:
A: attending seminars and/or conferences and/or forums
B: giving talks at seminars and/or conferences and/or forums
C: reading journals, updates, articles and/or materials, etc

The INEDs exercise their independent judgement and advise on the future business direction and strategic plans of the Company.

Corporate Governance Report

The INEDs review the financial information and operational performance of the Company on a regular basis.

The INEDs are invited to serve on the Board Committees of the Company.

Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.

The Company has established written guideline, no less exacting the Model Code under the Listing Rules, for all the staff regarding dealings in securities issued by the Group and its associated companies.

Each Director discloses to the Company at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments with indication of relevant time commitment.

Individual attendance records of our Directors at Board meetings, Board Committees meetings and Annual General Meeting during the financial year ended 31 December 2012, are set out below:

	Numbers of Meetings (Attended/Eligible to attend)			
Name of Directors	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Annual general meeting
Mr Peter K C Woo	4/4	N/A	1/1	1/1
Mr Stephen T H Ng	4/4	N/A	N/A	1/1
Mr Andrew O K Chow	4/4	N/A	N/A	1/1
Ms Doreen Y F Lee	4/4	N/A	N/A	0/1
Mr T Y Ng	2/4	N/A	N/A	0/1
Mr Paul Y C Tsui	4/4	N/A	N/A	1/1
Mr Paul M P Chan *(resigned effective from 28 July 2012)*	0/2	2/3	N/A	0/1
Mr Alexander S K Au *(appointed effective from 22 October 2012)*	1/1	1/1	N/A	N/A
Professor Edward K Y Chen	4/4	N/A	N/A	1/1
Dr Raymond K F Ch'ien	3/4	N/A	N/A	1/1
Hon Vincent K Fang	4/4	5/5	N/A	0/1
Mr Hans Michael Jebsen	2/4	2/5	1/1	1/1
Prof the Hon Arthur K C Li *(appointed effective from 1 July 2012)*	2/2	N/A	N/A	N/A
Mr James E Thompson	4/4	5/5	1/1	1/1
Total No. of Meetings Held	4	5	1	1

Code Ref.	Code Provisions
A.6.7	*Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.*
Compliance Status	**Corporate Governance Practices**
X Not Comply with Requirement	A few INEDs were absent from the last Annual General Meeting of the Company held in May 2012 due to their other important engagements at the relevant time. Please refer to the table set out on page 118 for details of attendance records of all Directors at the last Annual General Meeting of the Company held in May 2012.

Code Ref.	Code Provisions
A.7	**Supply of and access to information** *Corporate Governance Principle* *Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	Board papers are circulated not less than three days before regular Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Group Financial Controller of the Accounts Department attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters, as appropriate. Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.

Code Ref.	Code Provisions
B.	**REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION**
B.1	**The level and make-up of remuneration and disclosure** *Corporate Governance Principle* *The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent.*

Corporate Governance Report

<table>
<tr><th>Compliance Status</th><th>Corporate Governance Practices</th></tr>
<tr><td>✓
Comply with Requirement</td><td>The Company has set up a remuneration committee (the "RC") with majority of the members being INEDs.

The RC comprises the Chairman of the Board, Mr Peter K C Woo, and two INEDs, namely, Mr James E Thompson (Chairman of RC from 1 February 2012 onwards) and Mr Hans Michael Jebsen.

The principal responsibilities of the RC include making recommendations to the Board on the Company's policy and structure for Directors and Senior Management remuneration, and reviewing the specific remuneration packages of all Executive Directors and Senior Management by reference to corporate goals and objectives resolved by the Board from time to time.

The terms of reference of the RC are aligned with the Code provisions set out in the Code. Given below are the main duties of the RC:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;

(c) either:

(i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve compensation payable to Executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;</td></tr>
</table>

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.

The roles and authorities of the RC were set out in its terms of reference which are available at the Company's corporate website at www.wharfholdings.com.

There was one RC meeting held during the financial year ended 31 December 2012. Please refer to the table set out on page 118 for the details of attendance of the RC members.

The work performed by the RC, which has the delegated authority and responsibility, for the financial year ended 31 December 2012 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;

(b) consideration and approval of the emoluments for all Directors and Senior Management; and

(c) review of the level of fees for Directors and Audit Committee (the "AC") Members.

The RC has consulted the Chairman about proposals relating to the remuneration packages and other human resources issues of the Directors and Senior Management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel.

The basis of determining the emoluments payable to its Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the fee payable to the Chairman of the Company, currently at the rate of HK$100,000 per annum (proposed to be increased to HK$200,000 per annum with retroactive effect from 1 January 2013), the fee payable to each of the other Directors of the Company, currently at the rate of HK$70,000 per annum (proposed to be increased to HK$100,000 per annum with retroactive effect from 1 January 2013), and the fee payable to each of those Directors who are also Members of the Audit Committee of the Company, currently at the rate of HK$30,000 per annum (proposed to be increased to HK$50,000 per annum with retroactive effect from 1 January 2013), is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors. In respect of the remuneration payable to the Senior Management, please refer to Note 2(b) to the financial statements on page 163 for details.

To enable it to better advise on the Group's future remuneration policy and related strategies, the RC has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.

The Personnel Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the RC.

Corporate Governance Report

Code Ref.	Code Provisions
C.	**ACCOUNTABILITY AND AUDIT**
C.1	**Financial reporting** *Corporate Governance Principle* *The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	From April 2012 onwards, all Directors are provided with a review of the Group's major business activities and key financial information on a monthly basis. The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2012, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the financial year ended 31 December 2012: (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards; (ii) prudent and reasonable judgments and estimates are made; and (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable. The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.3 of the Code. The Directors are satisfied with the Group's performance on the basis that the Company generates or preserves value over the longer term (the business model) and delivers the Company's objectives as referred to in C.1.4 of the Code. With the assistance of the Company's Accounts Department which is under the supervision of the Group Financial Controller who is a professional accountant, the Directors ensure the preparation of the financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner. The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on page 149. The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications.

	The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary works closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

Code Ref.	Code Provisions
C.2	**Internal controls** *Corporate Governance Principle* *The board should ensure that the company maintains sound and effective internal controls to safeguard shareholders' investment and the company's assets.*

Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	The Directors are ultimately responsible for the internal control system of the Group and, through the AC, have reviewed the effectiveness of the system including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions, and their training programmes and budget. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud. The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the AC. The external auditors have access to the full set of internal audit reports. A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function was conducted by the AC and subsequently reported to the Board during the financial year ended 31 December 2012. Based on the result of the review, in respect of the financial year ended 31 December 2012, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

Code Ref.	Code Provisions
C.3	**Audit Committee** *Corporate Governance Principle* *The board should establish formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the auditors.*

Corporate Governance Report

<table>
<tr><th>Compliance Status</th><th>Corporate Governance Practices</th></tr>
<tr><td>✓✓
Exceed
Requirement</td><td>Minutes drafted by the Company Secretary are circulated to members of the AC within a reasonable time after each meeting.

The Company has set up an audit committee (the “AC”) with all members being INEDs, namely, Mr Vincent K Fang (as its chairman), Mr Han Michael Jebsen, Mr James E Thompson, Mr Paul M P Chan (resigned with effect from 28 July 2012) and Mr Alexander S K Au (appointed effective 22 October 2012).

No member of the AC is a former partner of the existing auditing firm of the Company. All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required.

The terms of reference of the AC are aligned with provisions set out in the Code and the recommendations set out in “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of AC:

(I) Relationship with the Company’s auditors
(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;

(b) to review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The AC should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and

(c) to develop and implement policies on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(II) Review of the Company’s financial information
(a) to monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the AC should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;</td></tr>
</table>

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(b) regarding (II) (a) above:

(i) members of the AC should liaise with the Company's Board and Senior Management and the AC must meet, at least twice a year, with the Company's auditors; and

(ii) the AC should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(III) Oversight of the Company's financial reporting system and internal control procedures

(a) to review the Company's financial controls, internal control and risk management systems;

(b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(e) to review the Group's financial and accounting policies and practices;

(f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

(h) to report to the Board on the matters in the Code Provisions in the Listing Rules;

Corporate Governance Report

(i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The AC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(j) to act as the key representative body for overseeing the Company's relations with the external auditors; and

(k) to consider other topics, as defined by the Board.

(IV) Oversight of the Company's Corporate Governance Matters

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to consider other topics, as defined by the Board.

The roles and authorities of the AC, including those set out in the code provision of C.3.3 of the Code, were set out in its terms of reference which are available at the Company's corporate website at www.wharfholdings.com.

There were five AC meetings held during the financial year ended 31 December 2012. Please refer to the table set out on page 118 for the details of attendance of the AC members.

The work performed by the AC for the financial year ended 31 December 2012 is summarised below:

(a) review of the annual audit plan of the external auditors before the audit commences, and discussion with them about the nature and scope of the audit;

(b) approval of the remuneration and terms of engagement of the external auditors;

(c) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

(d) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned C.3(II)(a) above regarding the duties of the AC;

(e) review of the audit programme of the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems;

(g) meeting with the external auditors without executive Board members present;

	(h) review and approval of the whistle-blowing policy, corporate governance policy and shareholders communication policy before submission to the Board for adoption; (i) review of the corporate governance matters and the relevant reports of the Group; and (j) review of and monitoring of the Group's compliance with legal and regulatory requirements. The AC recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, KPMG be re-appointed as the Company's external auditor for 2013. For the financial year ended 31 December 2012, the external auditor of the Company received approximately HK$20 million for audit services and HK$3 million for tax and other services. The Company Secretary can arrange independent professional advice at the expense of the Company should the seeking of such advice be considered necessary by the AC. During the financial year ended 31 December 2012, a Whistleblowing Policy & Procedures of the Group was established and approved by the Company's AC, which has the delegated authority and responsibility, for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the AC and/or the Managing Director and/or Group Financial Officer about possible improprieties in any matter related to the Group.

Code Ref.	Code Provisions
D.	**DELEGATION BY THE BOARD**
D.1	**Management functions** *Corporate Governance Principle* *The company should have a formal schedule of matters specifically reserved for board approval and those delegated to management.*

Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

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Code Ref.	Code Provisions
D.2	**Board Committees** *Corporate Governance Principle* *Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	Three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee (established in February 2012) have been established with specific terms of reference as mentioned in C.3, B.1 and A.5 of above. Board Committees report to the Board of their decisions and recommendations at the Board meetings.

Code Ref.	Code Provisions
D.3	**Corporate Governance Functions**
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	While the Board is and remains principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to the AC to ensure the proper performance of corporate governance functions of the Company. In this connection, the terms of reference of the AC (as revised in February 2012) includes various duties relating to corporate governance matters which are set out in paragraph "*(IV) Oversight of the Company's Corporate Governance Matters*" on page 126.

Code Ref.	Code Provisions
E. **E.1**	**COMMUNICATION WITH SHAREHOLDERS** **Effective communication** *Corporate Governance Principle* *The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals. The Company's notice to Shareholders for the 2012 Annual General Meeting ("2012 AGM") of the Company was sent at least 20 clear business days before the meeting.

Separate resolutions are proposed at the general meetings of the Company on each substantially separate issue, including the election of individual Directors.

The 2012 AGM of the Company was held on 30 May 2012 in the Centenary Room, Ground Floor, The Marco Polo Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong. The Chairman of the Board and the Chairmen of the Board Committees, accompanied by other Directors, attended the 2012 AGM, with the exception that Hon Vincent K Fang being the chairman of the AC was absent due to other important engagement but two other AC members were present at the meeting. Please refer to the table set out on page 118 for the details of attendance of the Directors in the 2012 AGM. The external auditors of the Company, Messrs KPMG, attended the 2012 AGM, during which its representative read out the report of the auditors and was available to answer questions raised by the Shareholders.

The Company recognises the fundamental importance of transparency and accountability. Management believes that Shareholders' value can best be enhanced by articulating the corporate strategies, business strengths and weaknesses, growth opportunities and threats, and future prospects through a continuous and active dialogue with the investment community, the media and the public. To achieve this, the Company is committed to providing Shareholders and the general public access to key information that is reasonably required to make an investment decision on a fair and timely basis.

The Company is aware of its statutory obligations in relation to the disclosure of inside information which is likely to have a material price effect and has established procedures to ensure that all communications with the public, including the investment community and the media, are fair; and that material non-public information is not disseminated on a selective basis.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Press releases are posted and available for download at the Company's corporate website www.wharfholdings.com. In addition, the Company makes full use of the Internet to make information broadly available to Shareholders. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company's Board. Constantly being updated in a timely manner, the website also contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Shareholders Communication Policy was established and approved by the AC and the Board of the Company, such policy is reviewed by the Board on a regular basis to ensure its effectiveness.

Corporate Governance Report

Code Ref.	Code Provisions
E.2	**Voting by poll** *Corporate Governance Principle* *The company should ensure that shareholders are familiar with the detailed procedures for conducting a poll.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	Shareholders have the opportunity to participate effectively and vote in general meetings and are informed of the rules, including voting procedures, that govern general meetings: (a) Shareholders are furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meetings; (b) Shareholders have the opportunity to ask questions to the Board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations; (c) Effective shareholder participation in key corporate governance decisions; (d) Shareholders can make their view known on the remuneration policy for Board members and key executives; and (e) Shareholders can vote in person or by proxy, and equal effect is given to votes whether cast in person or by proxy. The Company has the following procedures for Shareholders to vote by poll: (a) All resolutions put to shareholders in general meetings are voted by a poll demanded by the Chairman at the beginning of the meetings. The circulars and notices of the general meetings express the Chairman's intention to call for voting by poll. (b) The Chairman or the Company Secretary explains the procedures for voting by poll to Shareholders and answer any questions from Shareholders before a poll is required to be conducted at the meetings. (c) The Company ensures votes cast are properly counted and recorded. Independent scrutineers are appointed to count the number of votes cast at general meetings. (d) Poll results are announced on the same day and also published on the Company's and the Stock Exchange's websites not later than the business day following the general meetings.

Code Ref.	Code Provisions
F.	**Company Secretary** *Corporate Governance Principle* *The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.*
Compliance Status	**Corporate Governance Practices**
✓ Comply with Requirement	The Company Secretary is an experienced employee of the Company and has day-to-day knowledge of the Company's affairs. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed. The Company Secretary has also played the role of coordinator to arrange for Directors' participation in the training sessions organised by the Company's auditors.

Code Ref.	Code Provisions
F.1.3	*The company secretary should report to the board chairman and/or the chief executive.*
Compliance Status	**Corporate Governance Practices**
X Not Comply with Requirement	The Company Secretary of the Company has for some years directly reported to, and continues to report to, the Deputy Chairman of the Company, which is considered appropriate and reasonable given the size of the Group. In the view of the Directors, this reporting arrangement would in no way adversely affect the efficient discharge by the Company Secretary of his job duties.

MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding directors' securities transactions during the financial year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

I. Convene an Extraordinary General Meeting

Pursuant to Section 113 of the Hong Kong Companies Ordinance, on requisition by one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

Corporate Governance Report

II. Send Enquiries to the Board

The Company's corporate website provides email address, postal address, fax number and telephone number by which Shareholders may at any time address their concerns or enquiries to the Company's Board.

III. Make Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.

(ii) The procedures for proposing resolution(s) to be moved at a Shareholders' meeting are as follows:

Shareholder(s) can submit a written requisition to move a resolution at a Shareholders' meeting pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) if they –

(a) represent not less than 2.5% of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the Shareholders' meeting; or

(b) are no less than 50 shareholders holding the Company's shares on which there has been paid up an average sum, per shareholder, of not less than HK$2,000.

The written requisition must –

(c) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the Shareholders' meeting;

(d) contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);

(e) be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong) for the attention of the Company Secretary, to be so deposited not less than 6 weeks (as required in most circumstances under the applicable laws) before the Shareholders' meeting in the case of a requisition requiring notice of a resolution, and not less than 1 week before the Shareholders' meeting in the case of any other requisition; and

(f) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all Shareholders in accordance with the requirements under the applicable laws and rules.

There is no significant change in the Company's constitutional documents during the financial year ended 31 December 2012.

Non-Compliance with Rules 3.10(2) and 3.21 under the Listing Rules

During the financial year ended 31 December 2012, Mr Paul M P Chan resigned as an INED and also as a member of the AC of the Company with effect from 28 July 2012. Following such resignation of Mr Paul M P Chan, the Board of Directors of the Company temporarily did not comprise at least one INED possessing the appropriate qualification(s) or expertise as required under Rule 3.10(2) of the Listing Rules, and the AC of the Company also temporarily did not comprise at least one member who is an INED with those qualification(s) or expertise in accordance with Rule 3.21 of the Listing Rules.

To fill the vacancy occasioned by the resignation of Mr Paul M P Chan, Mr Alexander S K Au, who possesses the appropriate qualifications and expertise as required under Rule 3.10(2), was appointed as an INED and also a member of the AC of the Company, effective 22 October 2012. Following such appointments of Mr. Au, the Company is in compliance with the requirements under Rules 3.10 and 3.21 of the Listing Rules.

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 220 to 223.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2012 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 150 to 151.

Appropriations of profits and movements in reserves during the financial year are set out in the Consolidated Statement of Change in Equity on page 155 and Note 28 to the Financial Statements on pages 197 to 198.

DIVIDENDS

A first interim dividend of 45 cents per share was paid on 28 September 2012. The Board has declared a second interim dividend of 120 cents per share, payable on Thursday, 6 June 2013 to Shareholders on record as at 28 May 2013. This second interim dividend is to be paid in lieu of a final dividend in respect of the financial year ended 31 December 2012.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Notes 9 and 10 to the Financial Statements on pages 169 to 172.

DONATIONS

The Group made donations during the financial year totalling HK$22 million.

DIRECTORS

The Directors of the Company during the financial year were Mr P K C Woo, Mr S T H Ng, Mr A O K Chow, Ms D Y F Lee, Mr T Y Ng, Mr P Y C Tsui, Mr A S K Au (appointed effective from 22 October 2012), Mr P M P Chan (resigned effective from 28 July 2012), Professor E K Y Chen, Dr R K F Ch'ien, Hon V K Fang, Mr Hans Michael Jebsen, Prof the Hon A K C Li (appointed effective from 1 July 2012) and Mr James E Thompson. *(Subsequent Note: Ms Y T Leng was appointed as a Director of the Company with effect from 11 April 2013.)*

Mr A S K Au and Prof the Hon A K C Li *(and also Ms Y T Leng)*, who were appointed as Directors of the Company after the last Annual General Meeting, are due to retire from the Board in accordance with Article 94 of the Company's Articles of Association, and Mr T Y Ng, Professor E K Y Chen and Dr R K F Ch'ien are also due to retire by rotation from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of such ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that there existed certain outstanding options to subscribe for ordinary shares of the Company granted under the Company's Share Option Scheme (the "Scheme") to certain executives/employees of companies in the Group, some of whom were Directors of the Company during the financial year.

Under the rules of the Scheme, shares of the Company would be issued at such prices as being equal to the highest of (a) the indicative price as specified in the written offer; (b) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and (d) the nominal value of a share; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the Boards of Directors of the Company. During the financial year, no shares of the Company were allotted and issued to any Director of the Company under the Scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, 26 March 2013

Report of the Directors

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers etc.

(i) *Directors*

Peter Kwong Ching Woo, *GBM, GBS, JP, Chairman* (Age: 66)
Mr Woo has resumed the role of Chairman of the Company since 2002 after having also served in that capacity from 1986 to 1994. He also serves as a member and the chairman of the Company's Nomination Committee and as a member of the Company's Remuneration Committee. He is also the chairman and a substantial shareholder of the Company's ultimate holding company, namely, Wheelock and Company Limited ("Wheelock"), a publicly-listed company in Hong Kong, and a director of Wheelock Properties Limited ("WPL") (formerly a publicly-listed company until it was privatised and became a wholly-owned subsidiary of Wheelock in July 2010) as well as a director of certain subsidiaries of the Company. Furthermore, Mr Woo formerly served as the chairman and a director of Wheelock Properties (Singapore) Limited ("WPSL"), a fellow subsidiary of the Company publicly-listed in Singapore, from May 2006 to March 2013. Mr Woo has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments.

Mr Woo serves as a member of the Standing Committee of the Twelfth National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He was awarded the Grand Bauhinia Medal in June 2012 and the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government and appointed a Justice of the Peace in 1993. He has been appointed a non-official member of the Commission on Strategic Development since June 2007. He had served as the chairman of Hospital Authority from 1995 to 2000, the council chairman of Hong Kong Polytechnic University from 1993 to 1997 and the Government-appointed chairman of the Hong Kong Trade Development Council from 2000 to 2007. He was the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in Australia, Hong Kong and the United States. Under the existing service contract between the Group and Mr Woo, his basic salary and various allowances for the year 2013, calculated on an annualised basis, would be approximately HK$13.21 million per annum (2012: HK$11.91 million).

Stephen Tin Hoi Ng, *Deputy Chairman & Managing Director* (Age: 60)
Mr Ng joined the Company in 1981. He has been the Managing Director of the Company since 1989 and became the Deputy Chairman in 1994. He is the deputy chairman of Wheelock, and the chairman of a fellow subsidiary of the Company, namely, WPSL. He is also the chairman and chief executive officer of i-CABLE Communications Limited ("i-CABLE") and the chairman of Harbour Centre Development Limited ("HCDL"), both being publicly-listed subsidiaries of the Company. Furthermore, Mr Ng is the chairman of Modern Terminals Limited (a subsidiary of the Company), the chairman and chief executive officer of Wharf T&T Limited (a wholly-owned subsidiary of the Company), and a director of certain other subsidiaries of the Company. Mr Ng is also the chairman of Joyce Boutique Holdings Limited ("Joyce") and a non-executive director of Greentown China Holdings Limited ("Greentown") (an associated company of the Company), both being publicly-listed companies in Hong Kong. Mr Ng attended Ripon College in Ripon, Wisconsin, U.S.A. and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is the vice chairman of The Hong Kong General Chamber of Commerce and a council member of the Employers' Federation of Hong Kong. He was also a member of the Hong Kong Port Development Council until 31 December 2012. Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2013, calculated on an annualised basis, would be approximately HK$6.03 million per annum (2012: HK$5.00 million).

Andrew On Kiu Chow, *Vice Chairman* (Age: 62)
Mr Chow has been Vice Chairman of the Company since July 2011. He is also the chairman of Wharf China Development Limited ("WCDL") (a wholly-owned subsidiary of the Company), and a director of certain other subsidiaries of the Company. Mr Chow joined the Group in 2006. He has extensive experience in the banking, finance, trading, investment as well as property sectors in Mainland China. He is responsible for overseeing all of the Group's property development and related businesses in Mainland China.

Mr Chow is also an independent non-executive director ("INED") of Hong Kong Economic Times Holdings Limited, a company publicly-listed in Hong Kong. He formerly held senior executive positions in Tian An China Investment Limited and Next Media Limited before he joined the Group. Mr Chow is a graduate of The University of Hong Kong where he obtained his bachelor's degree in Social Science. Under the existing service contract between the Group and Mr Chow, his basic salary and various allowances for the year 2013, calculated on an annualised basis, would be approximately HK$5.07 million per annum (2012: HK$5.06 million).

Doreen Yuk Fong Lee, *Executive Director* (Age: 56)
Ms Lee joined the Company in 1984. She has been a Director of the Company since 2003 and became an Executive Director in March 2007. She is the senior managing director of Harbour City Estates Limited ("HCEL"), Times Square Limited ("TSL") and Plaza Hollywood Limited, the vice chairman and senior managing director of Wharf China Estates Limited ("WCEL") and Wharf Estates Limited ("WEL") (all these five companies being wholly-owned subsidiaries of the Company), as well as a director of certain other subsidiaries of the Company. She was formerly a director of HCDL from 1 July 2010 to 30 June 2012. Ms Lee is responsible for overseeing the investment properties of the Group in Hong Kong and Mainland China, namely, Harbour City and Times Square in Hong Kong, the Group's Times Square in Shanghai, Chongqing, Wuhan and Dalian respectively, and also the Group's International Financial Square developments in Chengdu, Chongqing and Changsha respectively. Ms Lee is also a director of Joyce. She is a graduate of The University of Hong Kong where she obtained her bachelor's degree in Arts (Hon). Under the existing service contract between the Group and Ms Lee, her basic salary and various allowances for the year 2013, calculated on an annualised basis, would be approximately HK$4.58 million per annum (2012: HK$4.09 million).

Tze Yuen Ng, *Executive Director* (Age: 65)
Mr Ng, *ACPA, ACMA*, joined the Company in 1985 and has been a Director of the Company since 1998. He was re-designated as an Executive Director in June 2009. He is also the vice chairman and senior managing director of WCDL and the vice chairman of WCEL, both being wholly-owned subsidiaries of the Company, and a director of certain other subsidiaries of the Company. Furthermore, Mr Ng was formerly a director of HCDL until he resigned with effect from 11 April 2013 and of WPL from 1999 to 2010. Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2013, exclusive of the amounts which would be borne by Wheelock and/or its wholly-owned subsidiary(ies) and calculated on an annualised basis, would be approximately HK$4.4 million per annum (2012: HK$3.95 million).

Paul Yiu Cheung Tsui, *Executive Director and Group Chief Financial Officer* (Age: 66)
Mr Tsui, *FCCA, FCPA, FCMA, FCIS, CGA-Canada*, is an Executive Director & Group Chief Financial Officer of both Wheelock and the Company. He joined Wheelock/Wharf group in 1996 and became Wheelock's director in 1998. He is also a director of HCDL and i-CABLE, as well as the vice chairman and finance director of both WCDL and WCEL, and a director of certain other subsidiaries of the Company. Furthermore, Mr. Tsui is a director of WPSL and the vice chairman of WPL. He is also a director of Joyce and a non-executive director of Greentown. Under the existing service contract between the Group and Mr Tsui, his basic salary and various allowances for the year 2013, exclusive of the amounts which would be borne by Wheelock and/or its wholly-owned subsidiary(ies) and calculated on an annualised basis, would be approximately HK$2.9 million per annum (2012: HK$2.59 million).

Report of the Directors

Alexander Siu Kee Au, *OBE, Director* (Age: 66)
Mr Au, *ACA, FCCA, FCPA, AAIA, FCIB, FHKIB*, has been an INED of the Company since 22 October 2012. He also serves as a member of the Company's Audit Committee. 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. Currently, Mr Au is the chairman and non-executive director of Henderson Sunlight Asset Management Limited, being the manager of the publicly-listed Sunlight Real Estate Investment Trust. He is an INED of publicly-listed Henderson Land Development Company Limited, and also a non-executive director of two other companies publicly-listed in Hong Kong, namely, Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited. Mr Au was formerly an INED of Wheelock during the period from 5 September 2002 to 21 October 2012. 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.

Edward Kwan Yiu Chen, *GBS, CBE, JP, Director* (Age: 68)
Professor Chen has been an INED of the Company since 2002. He was the president of Lingnan University in Hong Kong from September 1995 to August 2007. He is an honorary professor of the Open University of Hong Kong and a distinguished fellow of the Centre of Asian Studies at The University of Hong Kong. He was a member of the Legislative Council of Hong Kong from 1991 to 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997. He is a director of two companies publicly-listed in Hong Kong, namely, Asia Satellite Telecommunications Holdings Limited and First Pacific Company Limited.

Professor Chen was educated at The University of Hong Kong (Bachelor of Arts and Master of Social Sciences) and Oxford University (Doctor of Philosophy). He was appointed a Justice of the Peace in 1993 and awarded a CBE in 1995. In 2003, he was awarded the Gold Bauhinia Star Medal by the Hong Kong SAR Government.

Raymond Kuo Fung Ch'ien, *GBS, CBE, JP, Director* (Age: 61)
Dr Ch'ien has been an INED of the Company since 2002. He is the chairman of MTR Corporation Limited and Hang Seng Bank Limited as well as an INED of China Resources Power Holdings Company Limited and Convenience Retail Asia Limited, all being companies publicly-listed in Hong Kong. He is also a non-executive director of UGL Limited, which is publicly-listed in Australia. Dr Ch'ien also serves on the boards of directors of The Hongkong and Shanghai Banking Corporation Limited and Swiss Re Ltd which is listed in Switzerland. Dr Ch'ien was formerly the chairman and a director of China.com Inc. (listed on Growth Enterprise Market) until his resignation from such positions with effect from 29 March 2013 and he was formerly also a director of Hong Kong Mercantile Exchange Limited until he resigned with effect from 31 March 2013. Dr Ch'ien formerly served on the boards of directors of two companies which formerly were listed public companies, namely, Swiss Reinsurance Company Limited and CDC Corporation.

In public service, Dr Ch'ien has been appointed a member of the Economic Development Commission of the HKSAR Government established in January 2013 and is a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference. Dr. Ch'ien is an honorary president and past chairman of the Federation of Hong Kong Industries. From 1992 to 1997, Dr Ch'ien was a member of the Executive Council of Hong Kong, then under British administration. He was appointed a member of the Executive Council of HKSAR on 1 July 1997 and served until June 2002.

Dr Ch'ien received a doctoral degree in Economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal by the Hong Kong SAR Government. In 2008, he was conferred the honour of Chevalier de l'Ordre du Merite Agricole of France.

Vincent Kang Fang, *SBS, JP, Director* (Age: 69)
Mr Fang has been an INED of the Company since 1993. He also serves as a member and chairman of the Company's Audit Committee. He is the chief executive officer of Toppy Company (Hong Kong) Limited and managing director of Fantastic Garments Limited.

Mr Fang currently serves as a member of Legislative Council representing Wholesale and Retail in Functional Constituency. He is the chairman of Hospital Governing Committee of Princess Margaret Hospital and Kwai Chung Hospital and the advisor of the Quality Tourism Services Association. He is an honorary president & international advisor of Hong Kong Retail Management Association and a director of The Federation of Hong Kong Garment Manufacturers. Mr Fang formerly served as a member of the Hospital Authority, Hong Kong Tourism Board, the Operations Review Committee of the Independent Commission Against Corruption and the Airport Authority.

Mr Fang is a graduate of North Carolina State University where he obtained both his bachelor's and master's degrees in Science of Textiles Engineering. Mr Fang was awarded the Silver Bauhinia Star by the Hong Kong SAR Government in 2008. He is also a Justice of the Peace.

Hans Michael Jebsen, *BBS, Director* (Age: 56)
Mr Jebsen has been an INED of the Company since 2001. He also serves as a member of the Company's Audit Committee, Nomination Committee and Remuneration Committee. He is the chairman of Jebsen and Company Limited and also a non-executive director of publicly-listed Hysan Development Company Limited as well as the vice chairman and a Board Member of Danfoss A/S, Denmark. He currently holds a number of public offices, namely, a trustee of the World Wide Fund for Nature Hong Kong, the vice chairman and a board member of the Asian Cultural Council Board of Trustees, affiliate of the Rockefeller Brothers Fund, New York; an honorary fellow, a council member, a member of the Corporate Advisory Board of the School of Business and Management and the chairman of the Institutional Advancement and Outreach Committee of the Hong Kong University of Science & Technology, as well as a member of the Advisory Council for the Environment, Hong Kong European Union Business Co-operation Committee of the Hong Kong Trade Development Council, Advisory Council as well as Board of Trustees of Asia Society Hong Kong Center and Advisory Board of the Hong Kong Red Cross.

After schooling in Germany and Denmark, he received a two-year banking education in Germany and the UK and studied Business Administration at the University of St. Gallen in Switzerland from 1978 to 1981.

Mr Jebsen was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2008 and received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011.

Yen Thean Leng, *Director* (Age: 41)
Ms Leng, *BSc(Hons), MRICS, MHKIS, RPS*, has been a Director of the Company since 11 April 2013. She joined the Group in 2004. She is an executive director of HCEL, Plaza Hollywood Limited, TSL and WEL, all being wholly-owned subsidiaries of the Company. She was formerly a director of HCDL, from 1 July 2012 to 10 April 2013. Ms Leng has extensive experience in the real estate industry and is responsible, *inter alia*, for managing the Group's core investment properties in Hong Kong, namely, Harbour City, Times Square and Plaza Hollywood. Ms Leng is a chartered surveyor and holds a Bachelor Degree in Land Management with first class honors.

Report of the Directors

Arthur Kwok Cheung Li, *GBS, JP, Director* (Age: 67)
Professor Li, *MA, MD, M.B.B.Chir (Cantab), DSc (Hon), DLitt (Hon), Hon DSc (Med), LLD (Hon), Hon Doc (Soka), FRCS (Eng & Edin), FRACS, Hon FACS, Hon FRCS (Glasg & I), Hon FRSM, Hon FPCS, Hon FCSHK, Hon FRCP (Lond), Hon FASA*, has been appointed as an INED of the Company since July 2012. He is currently the deputy chairman and a non-executive director of The Bank of East Asia, Limited, and also an INED of Shangri-La Asia Limited and China Flooring Holding Company Limited, all being companies publicly-listed in Hong Kong. He is also a non-executive director of AFFIN Holdings Berhad, a company publicly-listed in Malaysia, and BioDiem Limited, a company publicly-listed in Australia. Professor Li formerly was an INED of the Company from 2001 to 2002.

Professor Li is a member of the National Committee of the Chinese People's Political Consultative Conference, and also a member of the Executive Council of Hong Kong Special Administrative Region ("HKSAR") after having served in that capacity from 2002 to 2007. He was the Secretary for Education and Manpower of the Government of HKSAR from 2002 to 2007.

Professor Li obtained his medical degree from the University of Cambridge in 1969 and assumed various senior roles in the medical profession of the academia. He was the Vice Chancellor of The Chinese University of Hong Kong ("CUHK") from 1996 to 2002 and was the chairman of Department of Surgery from 1982 to 1995 and the Dean of Faculty of Medicine of CUHK from 1992 to 1996. He is currently Emeritus Professor of Surgery, CUHK.

He had held many important positions in various social service organisations, medical associations, and educational bodies, including the Education Commission, Committee on Science and Technology, the Hospital Authority, the Hong Kong Medical Council, the then University and Polytechnics Grants Committee, the College of Surgeons of Hong Kong, and the United Christian Medical Services Board. He was a member of the board of directors of the Hong Kong Science and Technology Parks Corporation and the Hong Kong Applied Science and Technology Research Institute, and the Vice President of the Association of University Presidents of China. He was a Hong Kong Affairs Adviser to China.

James Edward Thompson, *GBS, Director* (Age: 73)
Mr Thompson has been an INED of the Company since 2001. He also serves as a member and the chairman of the Company's Remuneration Committee as well as a member of the Company's Audit Committee and Nomination Committee. He established his company, Crown Worldwide, in Japan in 1965. He is a member of the American Chamber of Commerce in Hong Kong and was appointed as its chairman in 2003. He also serves on Hong Kong-United States Business Council and Hong Kong-EU Business Co-operation Committee. Mr Thompson has lived in Hong Kong for over 34 years and has served on the Trade Development Council, the ICAC Advisory Committee as well as other government and charitable committees. He was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2003.

Notes:

(1) Wheelock (of which Mr P K C Woo, Mr S T H Ng and Mr P Y C Tsui are directors) has interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(2) The Company confirms that it has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers them independent.

(ii) *Senior Management*
Various businesses of the Group are respectively under the direct responsibility of the Chairman, the Deputy Chairman & Managing Director, the Vice Chairman and the three Executive Directors as named under (A)(i) above. Only those six Directors are regarded as members of the Group's senior management.

(B) Directors' Interests in Shares

At 31 December 2012, Directors of the Company in office during the year had the following beneficial interests, all being long positions, in the share capitals of the Company, Wheelock (which is the Company's parent company), three subsidiaries of the Company, namely, i-CABLE and Modern Terminals and Wharf Finance (2014) Limited, and an associated corporation of the Company, namely, Greentown, and the percentages which the relevant shares represented to the issued share capitals of the four companies respectively are also set out below:

	Quantity held (percentage of issued capital, where applicable)	Nature of Interest
The Company		
Stephen T H Ng	804,445 (0.0266%)	Personal Interest
T Y Ng	220,294 (0.0073%)	Personal Interest
Wheelock		
Peter K C Woo	1,220,417,330 (60.06%)	Personal Interest in 8,847,510 shares, Corporate Interest in 216,348,142 shares and Other Interest in 995,221,678 shares
Stephen T H Ng	300,000 (0.0148%)	Personal Interest
T Y Ng	70,000 (0.0034%)	Personal Interest
i-CABLE		
Stephen T H Ng	1,265,005 (0.0629%)	Personal Interest
T Y Ng	17,801 (0.0009%)	Personal Interest
Modern Terminals		
Hans Michael Jebsen	3,787 (5.40%)	Corporate Interest
Wharf Finance (2014) Limited — Convertible Bonds due 2014		
Alexander S K Au *(Note (3))*	HK$2,000,000	Personal Interest
Greentown		
Andrew O K Chow	620,000 (0.03%)	Personal Interest

Notes: *(1)* *The 995,221,678 shares of Wheelock stated above as "Other Interest" against the name of Mr Peter K C Woo represented an interest comprised in certain trust properties in which Mr Woo was taken, under certain provisions in Part XV of the SFO which are applicable to a director or chief executive of a listed company, to be interested.*

(2) *The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.*

(3) *Regarding the HK$2,000,000 worth of convertible bonds held by Mr Alexander S K Au (as set out above), in the event of the conversion rights attached thereto being fully exercised, 22,222 shares (representing 0.0007%) of the issued share capital of the Company would be issued.*

Report of the Directors

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted/exercisable under the Share Option Scheme of the Company held by Directors of the Company in office during the financial year:

		No. of Shares under Option			
Name of Director	**Date granted** *(Day/Month/Year)*	**As at 1 January 2012**	**As at 31 December 2012**	**Subscription Price per Share** *(HK$)*	**Period during which rights exercisable** *(Day/Month/Year)*
Peter K C Woo	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016
Stephen T H Ng	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016
Andrew O K Chow	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016
Doreen Y F Lee	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016
T Y Ng	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016
Paul Y C Tsui	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016

Notes: (1) *The share options were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant options, i.e. exercisable to the extent of one-fifth of the relevant options and with the 1st, 2nd, 3rd, 4th and 5th tranche becoming exercisable from 5th of July in the years 2011, 2012, 2013, 2014 and 2015 respectively.*

(2) *No share option of the Company held by Directors lapsed or was exercised or cancelled during the financial year ended 31 December 2012, and no share option of the Company was granted to any Director during the financial year ended 31 December 2012.*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers, there were no interests, both long and short positions, held as at 31 December 2012 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held by any of them at any time as at 31 December 2012.

(C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 December 2012, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at the date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names		No. of Ordinary Shares (percentage of issued capital)	
(i)	Wheelock and Company Limited	**1,545,015,608**	**(51%)**
(ii)	HSBC Trustee (Guernsey) Limited	**1,545,015,608**	**(51%)**
(iii)	JPMorgan Chase & Co.	**154,481,700**	**(5.10%)**

Notes: (1) *For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) and (ii) represented the same block of shares.*

(2) *Wheelock and Company Limited's deemed shareholding interests stated above comprised interests held through its wholly-owned subsidiaries, namely, Lynchpin Limited ("LL"), WF Investment Partners Limited ("WIPL") and Wheelock Investments Limited ("WIL"), with 213,267,072 shares (7.04%) being the deemed interests held by LL, 1,302,017,536 shares (42.98%) being the deemed interests held by WIPL and 1,515,284,608 shares (50.02%) being the deemed interests held by WIL.*

All the interests stated above represented long positions. As at 31 December 2012, JPMorgan Chase & Co. had a short position in 3,517,815 shares (0.12%) and a lending pool of 80,674,047 shares (2.66%) with regard to the issued share capital of the Company according to the record in the Register.

(D) Share Option Scheme

(I) Summary of the Share Option Scheme (the "Scheme")

(a) Purpose of the Scheme:
To provide directors and/or employees with the opportunity of acquiring an equity interest in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Group's continued growth and success.

(b) Eligibility:
Eligible participants include any person(s) who is/are full-time and/or part-time employee(s) and/or director(s) of the Company, any of its subsidiary(ies), and/or any of its associate(s). "Associates" include jointly controlled entities and subsidiary(ies) of associates and of jointly-controlled entity(ies).

(c) (i) Total number of ordinary shares of HK$1.00 each in the capital of the Company (the "Shares") available for issue under the Scheme as at the date of this annual report:
290,824,732

(ii) Percentage of the issued share capital that it represents as at the date of this annual report:
9.6%

(d) Maximum entitlement of each eligible participant under the Scheme:
Not to exceed 1% of the Shares in issue in any 12-month period unless approved by Shareholders of the Company

(e) Period within which the Shares must be taken up under an option:
Within 10 years from the date on which the option is offered or such shorter period as the Directors may determine

Report of the Directors

(f) Minimum period for which an option must be held before it can be exercised:
No minimum period unless otherwise determined by the Board

(g) (i) Price payable on application or acceptance of the option:
HK$10.00

(ii) The period within which payments or calls must or may be made:
28 days after the offer date of an option or such shorter period as the Directors may determine

(iii) The period within which loans for the purposes of the payments or calls must be repaid:
Not applicable

(h) Basis of determining the subscription price:
The subscription price shall be determined by the Directors at the time of offer but shall not be less than whichever is the highest of:

(i) the indicative price per share for subscription of Shares under the option as specified in the written offer containing the offer of the grant of the option to an eligible participant;

(ii) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of an option, which must be a Stock Exchange trading day;

(iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Stock Exchange trading days immediately preceding the date of grant of an option; and

(iv) the nominal value of a Share.

(i) The remaining life of the Scheme:
Approximately 8 years (expiring on 8 June 2021)

(II) Details of Share Options Granted
Details of share options granted to Directors of the Company and the relevant movement(s) during the financial year are set out in the section headed "(B) Directors' Interests in Shares".

Set out below are particulars and movement(s) during the financial year of all of the Company's outstanding share options which were granted to certain employees (six of them being Directors of the Company in office during the year), all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

	No. of shares under option			
Date granted *(Day/Month/Year)*	**As at 1 January 2012**	**As at 31 December 2012**	**Vesting/Exercise Period** *(Day/Month/Year)*	**Price per share to be paid on exercise of options** *(HK$)*
04/07/2011	2,420,000	2,420,000	05/07/2011 — 04/07/2016	55.15
	2,420,000	2,420,000	05/07/2012 — 04/07/2016	
	2,420,000	2,420,000	05/07/2013 — 04/07/2016	
	2,420,000	2,420,000	05/07/2014 — 04/07/2016	
	2,420,000	2,420,000	05/07/2015 — 04/07/2016	
	12,100,000	12,100,000		

Note: No share option of the Company lapsed or was granted, exercised or cancelled during the financial year ended 31 December 2012.

(E) Retirement Benefits Schemes

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contribution forfeited for those employees who have left the schemes prior to full vesting of the related contribution.

The employees of the Group's subsidiaries in PRC are members of the state-managed social insurance and housing funds operated by the Government of PRC. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of PRC employees is to make the specified contributions.

(F) Directors' Interests in Competing Business

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Six Directors of the Company, namely, Mr P K C Woo, who is also the chairman and a substantial shareholder of Wheelock, and Messrs S T H Ng, A O K Chow, T Y Ng, P Y C Tsui and Ms D Y F Lee, being also directors of Wheelock and/or certain wholly-owned subsidiaries of Wheelock, are considered as having an interest in Wheelock under Rule 8.10 of the Listing Rules.

The ownership of commercial premises for rental purposes and the development of properties for sale and/or investment purposes by Wheelock and its wholly-owned subsidiaries (the "Wheelock Group") are considered as competing businesses for the Group. However, the Group itself has adequate experience in property leasing and property development and is therefore capable of carrying on its property leasing and property development business independently of the Wheelock Group.

Report of the Directors

For safeguarding the interests of the Group, the Independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's development of properties for sale and/or investment and property leasing businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of the Wheelock Group.

(G) Major Customers and Suppliers

For the financial year ended 31 December 2012:

(i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

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

(H) Bank Loans, Overdrafts and other Borrowings

Particulars of any and all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2012 which are repayable on demand or within a period not exceeding one year are set out in Note 23 to the Financial Statements on pages 183 to 186. Those which would fall due for repayment after a period of one year are particularised in Note 23 to the Financial Statements on pages 183 to 186. Certain information regarding the convertible bonds issued in June 2011 (the "Convertible Bonds") are set out in Note 23(g) to the Financial Statements on pages 185 and 186.

(I) Convertible Bonds — Adjustment to Conversion Price

The conversion price of the Convertible Bonds was initially fixed at HK$90.00 per Share, subject to adjustment for certain events as stipulated under the terms and conditions of the Convertible Bonds (the "CB Terms & Conditions"), which include, *inter alia*, any Capital Distribution (as defined in the CB Terms & Conditions).

Cumulatively, the total dividends of HK$1.06 and HK$1.65 per Share in respect of the financial years ended 31 December 2011 and 2012 respectively have triggered an adjustment to the conversion price in accordance with the CB Terms and Conditions. Accordingly, the conversion price of the Convertible Bonds will be adjusted from HK$90 per Share to HK$88.97 per Share, and such an adjustment will become effective on 29 May 2013. The maximum number of Shares into which the Convertible Bonds are convertible will increase from 69,111,111 Shares (before the adjustment) to 69,911,206 Shares (after the adjustment), respectively representing about 2.28% and 2.31% of the existing issued share capital of the Company.

(J) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2012.

(K) Disclosure of Connected Transactions

Set out below is information in relation to certain connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in announcements of the Company dated 30 December 2011, 15 February 2012 and 7 June 2012 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company.

(i) *Master Tenancy Agreements*

During the financial year under review, there existed various tenancy agreements entered into between certain subsidiaries of the Company as landlords and certain subsidiaries, associates and/or affiliates of Wisdom Gateway Limited ("WGL") as tenants (the "Eligible Tenants") for the purpose of the letting by the landlords to the tenants certain retail/commercial premises owned by the Group for operating various retail businesses, including Lane Crawford stores and City Super stores.

On 30 December 2011, the Company entered into a master tenancy agreement (the "MTA") with WGL for a term of three years from 1 January 2012 to 31 December 2014. The MTA is for the purpose of providing, *inter alia*, for the aggregate annual cap amount of rentals in respect of the leasing of premises owned by members of the Group to the Eligible Tenants during the said three-year term.

As WGL is indirectly wholly-owned by a trust, the settlor of which is the Chairman of the Company, namely, Mr P K C Woo, the MTA and various transactions contemplated and/or governed thereunder constitute continuing connected transactions for the Company under the Listing Rules.

The aggregate amount of rental receivable by the Group under the MTA is subject to an annual cap amount previously disclosed in the abovementioned announcement dated 30 December 2011 and the aggregate amount of rent received by the Group for the financial year ended 31 December 2012 was HK$741 million.

(ii) *Beijing Land Joint Venture*

On 14 February 2012, the Group together with China Merchants Property Development Co., Ltd. ("CMP") group succeeded in bidding for two pieces of land in Beijing with total site area of about 72,702 sq. m. and total maximum developable residential gross floor area of about 181,756 sq. m. (the "Beijing Land") at an aggregate price of RMB2,370 million (equal to about HK$2,920 million). A framework agreement was entered into between the Group and CMP on 14 February 2012 for the purpose of joint bidding and development of the Beijing Land, with the share of ownership initially being 50:50 as stipulated in that framework agreement. The purpose of the relevant transaction is for broadening the asset and earnings base of the Group.

As CMP is a 54.1%-owned subsidiary of China Merchants Group Co., Ltd. which in turn is an indirect substantial shareholder of a non wholly-owned subsidiary of the Company, CMP is regarded as a connected person of the Company. Therefore, the entering into of the relevant joint venture constituted a connected transaction for the Company under the Listing Rules.

Report of the Directors

(iii) *Acquisition of equity interests in Greentown*
On 7 June 2012, Target Smart Investments Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, acquired 34,888,500 shares of Greentown (representing approximately 2.13% of the issued share capital of Greentown as at 7 June 2012) from Denarie Enterprises Limited and Margingle International Limited (the "Vendors") at a purchase price of HK$5.2 per share (the "Greentown Transaction"). The total purchase price amounted to HK$181 million. The purpose of the Greentown Transaction is for streamlining and consolidating the Company's interest in Greentown, having regard to another investment transaction of the Group as per the note set out hereinafter. *(Note: Subsequent to the Greentown Transaction, on 8 June 2012, the Company entered into conditional agreements with Greentown to invest a total amount of approximately HK$5.1 billion to subscribe for shares of Greentown (at the same price of HK$5.2 per share) and Hong Kong dollar denominated perpetual subordinated convertible securities to be issued by a wholly-owned subsidiary of Greentown which are guaranteed by Greentown and convertible into shares of Greentown.)*

As the Vendors are effectively owned and controlled by Mr P K C Woo, the Chairman of the Company, the Vendors are regarded as connected persons of the Company. Therefore, the entering into of the Greentown Transaction constituted a connected transaction for the Company under the Listing Rules.

(iv) *Confirmation from the Directors etc.*

(a) The Directors, including the Independent Non-executive Directors, of the Company have reviewed the MTA transactions mentioned under Section (K)(i) above and confirmed that the MTA transactions were entered into:

(1) by the Group in the ordinary and usual course of its business;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing the MTA transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the Company' s auditors to perform procedures 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 auditors of the Company have advised the following:

(1) the MTA transactions had been approved by the Company's Board of Directors;

(2) nothing came to the attention of the auditors of the Company that caused them to believe that the MTA transactions were not entered into in accordance with the terms of the related agreements governing the MTA transactions;

(3) the relevant cap amounts, where applicable, have not been exceeded during the financial year ended 31 December 2012; and

(4) for transactions involving the provision of goods and services by the Group, nothing came to the attention of the auditors of the Company that caused them to believe the transactions were not, in any material respects, in accordance with the pricing policies of the Group.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE WHARF (HOLDINGS) LIMITED
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of The Wharf (Holdings) Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 150 to 223, which comprise the consolidated and company statements of financial position 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 statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements 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 financial statements 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 financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 financial statements 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 financial statements.

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

OPINION

In our opinion, the consolidated financial statements 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
26 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 HK$ Million	2011 HK$ Million
Revenue	1	**30,856**	24,004
Direct costs and operating expenses		**(12,604)**	(9,095)
Selling and marketing expenses		**(1,170)**	(900)
Administrative and corporate expenses		**(1,482)**	(1,226)
Operating profit before depreciation, amortisation, interest and tax		**15,600**	12,783
Depreciation and amortisation	2	**(1,430)**	(1,395)
Operating profit	2	**14,170**	11,388
Increase in fair value of investment properties		**34,751**	24,968
Other net income	3	**2,483**	457
		51,404	36,813
Finance costs	4	**(939)**	(2,567)
Share of results after tax of:			
Associates	12(f)	**1,473**	361
Jointly controlled entities	13	**641**	34
Profit before taxation		**52,579**	34,641
Income tax	5	**(4,215)**	(3,304)
Profit for the year		**48,364**	31,337
Profit attributable to:			
Equity shareholders	6	**47,263**	30,568
Non-controlling interests		**1,101**	769
		48,364	31,337
Earnings per share	8		
Basic		**HK$15.60**	HK$10.22
Diluted		**HK$15.30**	HK$10.13

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 7.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$ Million	2011 HK$ Million
Profit for the year	**48,364**	31,337
Other comprehensive income		
Exchange gain on translation of foreign operations	**14**	3,014
Net revaluation of available-for-sale investments:	**1,483**	(1,005)
Surplus/(deficit) on revaluation	**1,393**	(1,007)
Transferred to consolidated income statement on disposal	**90**	2
Share of other comprehensive income of associates/jointly controlled entities	**62**	555
Others	**(1)**	(12)
Other comprehensive income for the year	**1,558**	2,552
Total comprehensive income for the year	**49,922**	33,889
Total comprehensive income attributable to:		
Equity shareholders	**48,667**	33,037
Non-controlling interests	**1,255**	852
	49,922	33,889

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements.

Consolidated Statement of Financial Position At 31 December 2012

	Note	**2012** **HK$ Million**	2011 HK$ Million
Non-current assets			
Investment properties	9	**231,522**	184,057
Fixed assets	10	**19,870**	18,984
Interest in associates	12	**16,673**	10,198
Interest in jointly controlled entities	13	**19,530**	16,934
Available-for-sale investments	14	**3,868**	2,703
Perpetual subordinated convertible securities	15	**2,709**	–
Goodwill and other intangible assets	16	**297**	297
Programming library		**109**	107
Deferred tax assets	25	**739**	683
Derivative financial assets	19	**311**	181
Other non-current assets		**380**	15
		296,008	234,159
Current assets			
Properties for sale	17	**48,915**	47,511
Inventories		**45**	130
Trade and other receivables	18	**4,796**	3,420
Derivative financial assets	19	**439**	225
Bank deposits and cash	20	**18,795**	32,528
		72,990	83,814
Current liabilities			
Trade and other payables	21	**(14,801)**	(10,316)
Deposits from sale of properties	22	**(10,654)**	(9,704)
Derivative financial liabilities	19	**(215)**	(232)
Taxation payable	5(d)	**(1,980)**	(1,601)
Bank loans and other borrowings	23	**(5,330)**	(8,903)
		(32,980)	(30,756)
Net current assets		**40,010**	53,058
Total assets less current liabilities		**336,018**	287,217

	Note	2012 HK$ Million	2011 HK$ Million
Non-current liabilities			
Derivative financial liabilities	19	**(1,912)**	(2,470)
Deferred tax liabilities	25	**(7,827)**	(6,508)
Other deferred liabilities		**(283)**	(275)
Bank loans and other borrowings	23	**(69,090)**	(67,090)
		(79,112)	(76,343)
NET ASSETS		**256,906**	210,874
Capital and reserves			
Share capital	27	**3,029**	3,029
Reserves		**245,472**	200,228
Shareholders' equity		**248,501**	203,257
Non-controlling interests		**8,405**	7,617
TOTAL EQUITY		**256,906**	210,874

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Company Statement of Financial Position At 31 December 2012

	Note	2012 HK$ Million	2011 HK$ Million
Non-current assets			
Interest in subsidiaries	11	**78,083**	68,806
Amount due from an associate	12	**379**	417
		78,462	69,223
Current assets			
Receivables		**8**	2
Taxation recoverable	5(d)	**1**	1
Bank deposits and cash	20	**–**	2
		9	5
Current liabilities			
Payables		**(36)**	(34)
Amounts due to subsidiaries	11	**(23,459)**	(21,203)
Amount due to an associate	12	**(533)**	(533)
		(24,028)	(21,770)
Net current liabilities		**(24,019)**	(21,765)
NET ASSETS		**54,443**	47,458
Capital and reserves			
Share capital	27	**3,029**	3,029
Reserves		**51,414**	44,429
TOTAL EQUITY	28(a)	**54,443**	47,458

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Shareholders' equity								
	Share capital *HK$ Million*	**Share premium** *HK$ Million*	**Capital redemption reserves** *HK$ Million*	**Investments revaluation and other reserves** *HK$ Million*	**Exchange reserves** *HK$ Million*	**Revenue reserves** *HK$ Million*	**Total shareholders' equity** *HK$ Million*	**Non-controlling interests** *HK$ Million*	**Total equity** *HK$ Million*
At 1 January 2011	2,754	16,566	7	688	2,876	140,198	163,089	7,560	170,649
Changes in equity for 2011:									
Profit	–	–	–	–	–	30,568	30,568	769	31,337
Other comprehensive income	–	–	–	(841)	3,318	(8)	2,469	83	2,552
Total comprehensive income	–	–	–	(841)	3,318	30,560	33,037	852	33,889
Rights Issue	275	9,712	–	–	–	–	9,987	–	9,987
Shares issued by subsidiaries	–	–	–	–	–	–	–	12	12
Issuance of convertible bonds	–	–	–	99	–	–	99	–	99
Equity settled share-based payment	–	–	–	75	–	–	75	–	75
2010 final dividend paid	–	–	–	–	–	(1,939)	(1,939)	–	(1,939)
2011 first interim dividend paid	–	–	–	–	–	(1,091)	(1,091)	–	(1,091)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(807)	(807)
At 31 December 2011 and 1 January 2012	**3,029**	**26,278**	**7**	**21**	**6,194**	**167,728**	**203,257**	**7,617**	**210,874**
Changes in equity for 2012:									
Profit	**–**	**–**	**–**	**–**	**–**	**47,263**	**47,263**	**1,101**	**48,364**
Other comprehensive income	**–**	**–**	**–**	**1,389**	**15**	**–**	**1,404**	**154**	**1,558**
Total comprehensive income	**–**	**–**	**–**	**1,389**	**15**	**47,263**	**48,667**	**1,255**	**49,922**
Shares issued by subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**167**	**167**
Equity settled share-based payment	**–**	**–**	**–**	**60**	**–**	**–**	**60**	**–**	**60**
2011 second interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(2,120)**	**(2,120)**	**–**	**(2,120)**
2012 first interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(1,363)**	**(1,363)**	**–**	**(1,363)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(634)**	**(634)**
At 31 December 2012	**3,029**	**26,278**	**7**	**1,470**	**6,209**	**211,508**	**248,501**	**8,405**	**256,906**

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2012

	Note	2012 HK$ Million	2011 HK$ Million
Operating cash inflow	(a)	**15,067**	12,461
Changes in working capital	(a)	**1,867**	(9,623)
Cash generated from operations	(a)	**16,934**	2,838
Net interest paid		**(1,550)**	(1,285)
Interest paid		**(1,917)**	(1,587)
Interest received		**367**	302
Dividends received from associates/jointly controlled entities		**422**	456
Dividends received from investments		**121**	83
Hong Kong profits tax paid		**(1,326)**	(1,299)
Overseas tax paid		**(1,262)**	(833)
Net cash generated from/(used in) operating activities		**13,339**	(40)
Investing activities			
Purchase of fixed assets		**(14,709)**	(11,950)
Additions to programming library		**(100)**	(80)
Net increase in interest in associates		**(3,148)**	(3,049)
Net increase in interest in jointly controlled entities		**(1,977)**	(1,888)
Net proceeds from disposal of fixed assets		**13**	6
Purchase of available-for-sale investments		**(442)**	(398)
Purchase of perpetual subordinated convertible securities		**(2,550)**	–
Proceeds from disposal of investment properties		**1,287**	–
Proceeds from disposal of available-for-sale investments		**749**	50
(Addition)/repayment of long term receivables		**(362)**	1
Net placement of bank deposits with maturity greater than three months		**(437)**	(1,123)
Net cash used in investing activities		**(21,676)**	(18,431)
Financing activities			
Net proceeds from the Rights Issue of shares		**–**	9,987
Drawdown of bank loans and other borrowings		**18,755**	34,377
Repayment of bank loans and other borrowings		**(20,638)**	(8,194)
Issue of shares by subsidiaries to non-controlling interests		**167**	12
Dividends paid to equity shareholders		**(3,483)**	(3,030)
Dividends paid to non-controlling interests		**(634)**	(807)
Net cash (used in)/generated from financing activities		**(5,833)**	32,345
(Decrease)/increase in cash and cash equivalents		**(14,170)**	13,874
Cash and cash equivalents at 1 January		**31,405**	16,900
Effect of exchange rate changes		**–**	631
Cash and cash equivalents at 31 December		**17,235**	31,405
Analysis of the balance of cash and cash equivalents			
Bank deposits and cash	(b)	**17,235**	31,405

The notes and principal accounting policies on pages 158 to 223 form part of these financial statements.

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of operating profit to cash generated from operations

	2012 HK$ Million	2011 HK$ Million
Operating profit	14,170	11,388
Adjustments for:		
Interest income	(474)	(307)
Dividends receivable from listed investments	(115)	(90)
Depreciation and amortisation	1,430	1,395
Profit on disposal of fixed assets	(4)	–
Equity settled share-based payment expenses	60	75
Operating cash inflow	15,067	12,461
Increase in properties under development for sale	(6,840)	(18,442)
Decrease in completed properties for sale	6,950	3,800
Decrease/(increase) in inventories	85	(17)
(Increase)/decrease in trade and other receivables	(1,327)	211
Increase in trade and other payables	2,037	2,059
Increase in deposits from sale of properties	950	2,849
Increase/(decrease) in derivative financial instruments	5	(70)
Other non-cash items	7	(13)
Changes in working capital	1,867	(9,623)
Cash generated from operations	16,934	2,838

b. Cash and cash equivalents

	2012 HK$ Million	2011 HK$ Million
Bank deposits and cash in the consolidated statement of financial position (Note 20)	18,795	32,528
Less: Bank deposits with maturity greater than three months	(1,560)	(1,123)
Cash and cash equivalents in the consolidated statement of cash flows	17,235	31,405

Notes to the Financial Statements

1. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are property investment, property development, logistics and communications, media and entertainment ("CME"). No operating segments have been aggregated to form the following reportable segments.

Property investment segment primarily includes property leasing and hotel operations. Currently, the Group's properties portfolio, which mainly consists of retail, office, serviced apartments and hotels, is primarily located in Hong Kong and Mainland China.

Property development segment encompasses activities relating to the acquisition, development, design, construction, sale and marketing of the Group's trading properties primarily in Hong Kong and Mainland China.

Logistics segment mainly includes the container terminal operations in Hong Kong and Mainland China undertaken by Modern Terminals Limited ("Modern Terminals"), Hong Kong Air Cargo Terminals Limited ("Hactl") and other public transport operations.

CME segment comprises pay television, internet and multimedia and other businesses operated by i-CABLE Communications Limited ("i-CABLE") and the telecommunication businesses operated by Wharf T&T Limited.

Management evaluates performance primarily based on operating profit as well as the equity share of results of associates and jointly controlled entities of each segment. Inter-segment pricing is generally determined on an arm's length basis.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, financial investments, deferred tax assets and other derivative financial assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

a. Analysis of segment revenue and results

For the year ended 2012	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of investment properties HK$ Million	Other net income HK$ Million	Finance costs HK$ Million	Associates HK$ Million	Jointly controlled entities HK$ Million	Profit before taxation HK$ Million
Property investment	11,271	8,578	34,751	73	(1,115)	–	–	42,287
Hong Kong	8,875	7,553	33,074	73	(971)	–	–	39,729
Mainland China	1,005	634	1,677	–	(136)	–	–	2,175
Hotels	1,391	391	–	–	(8)	–	–	383
Property development	12,207	4,869	–	2,273	(110)	1,081	585	8,698
Hong Kong	2,634	1,307	–	22	–	70	–	1,399
Mainland China	9,573	3,562	–	2,251	(110)	1,011	585	7,299
Logistics	3,070	1,161	–	(39)	(255)	392	56	1,315
Terminals	2,969	1,142	–	2	(255)	205	56	1,150
Others	101	19	–	(41)	–	187	–	165
CME	3,953	(22)	–	2	(41)	–	–	(61)
i-CABLE	2,127	(271)	–	2	(4)	–	–	(273)
Telecommunications	1,826	250	–	–	(37)	–	–	213
Others	–	(1)	–	–	–	–	–	(1)
Inter-segment revenue	(382)	–	–	–	–	–	–	–
Segment total	30,119	14,586	34,751	2,309	(1,521)	1,473	641	52,239
Investment and others	737	134	–	174	582	–	–	890
Corporate expenses	–	(550)	–	–	–	–	–	(550)
Group total	30,856	14,170	34,751	2,483	(939)	1,473	641	52,579
For the year ended 2011								
Property investment	10,085	7,694	24,968	127	(709)	–	–	32,080
Hong Kong	8,012	6,827	23,342	–	(506)	–	–	29,663
Mainland China	796	493	1,626	127	(196)	–	–	2,050
Hotels	1,277	374	–	–	(7)	–	–	367
Property development	6,343	2,274	–	172	(102)	(49)	(37)	2,258
Hong Kong	–	–	–	30	–	10	–	40
Mainland China	6,343	2,274	–	142	(102)	(59)	(37)	2,218
Logistics	3,520	1,563	–	210	(266)	410	71	1,988
Terminals	3,416	1,546	–	231	(266)	201	71	1,783
Others	104	17	–	(21)	–	209	–	205
CME	3,863	45	–	3	–	–	–	48
i-CABLE	2,110	(186)	–	3	–	–	–	(183)
Telecommunications	1,753	230	–	–	–	–	–	230
Others	–	1	–	–	–	–	–	1
Inter-segment revenue	(327)	–	–	–	–	–	–	–
Segment total	23,484	11,576	24,968	512	(1,077)	361	34	36,374
Investment and others	520	288	–	(55)	(1,490)	–	–	(1,257)
Corporate expenses	–	(476)	–	–	–	–	–	(476)
Group total	24,004	11,388	24,968	457	(2,567)	361	34	34,641

Notes to the Financial Statements

b. Analysis of inter-segment revenue

	2012 Total Revenue HK$ Million	2012 Inter-segment revenue HK$ Million	2012 Group Revenue HK$ Million	2011 Total Revenue HK$ Million	2011 Inter-segment revenue HK$ Million	2011 Group Revenue HK$ Million
Property investment	**11,271**	**(145)**	**11,126**	10,085	(144)	9,941
Property development	**12,207**	**–**	**12,207**	6,343	–	6,343
Logistics	**3,070**	**–**	**3,070**	3,520	–	3,520
CME	**3,953**	**(104)**	**3,849**	3,863	(151)	3,712
Investment and others	**737**	**(133)**	**604**	520	(32)	488
	31,238	**(382)**	**30,856**	24,331	(327)	24,004

c. Analysis of segment business assets

	2012 HK$ Million	2011 HK$ Million
Property investment	**234,460**	186,076
Hong Kong	**194,399**	154,015
Mainland China	**38,108**	31,028
Hotels	**1,953**	1,033
Property development	**85,067**	70,428
Hong Kong	**4,538**	4,754
Mainland China	**80,529**	65,674
Logistics	**20,223**	20,155
Terminals	**19,045**	18,966
Others	**1,178**	1,189
CME	**4,151**	4,178
i-CABLE	**1,336**	1,482
Telecommunications	**2,815**	2,696
Total segment business assets	**343,901**	280,837
Unallocated corporate assets	**25,097**	37,136
Total assets	**368,998**	317,973

Unallocated corporate assets mainly comprise certain financial investments, deferred tax assets, bank deposits and cash and other derivative financial assets.

Segment assets held through jointly controlled entities and associates included in above are:

	2012 HK$ Million	2011 HK$ Million
Property development	**30,852**	21,787
Logistics	**5,351**	5,345
Group total	**36,203**	27,132

d. Other information

	Capital expenditure		Increase in interests in associates and jointly controlled entities		Depreciation and amortisation	
	2012 HK$ Million	2011 HK$ Million	**2012 HK$ Million**	2011 HK$ Million	**2012 HK$ Million**	2011 HK$ Million
Property investment	**14,744**	10,930	**–**	–	**190**	168
Hong Kong	**8,522**	770	**–**	–	**20**	18
Mainland China	**5,520**	10,040	**–**	–	**41**	40
Hotels	**702**	120	**–**	–	**129**	110
Property development	**–**	–	**6,905**	6,284	**–**	–
Hong Kong	**–**	–	**67**	60	**–**	–
Mainland China	**–**	–	**6,838**	6,224	**–**	–
Logistics	**616**	350	**33**	68	**492**	481
Terminals	**611**	350	**33**	68	**488**	476
Others	**5**	–	**–**	–	**4**	5
CME	**715**	654	**–**	–	**748**	746
i-CABLE	**209**	187	**–**	–	**350**	346
Telecommunications	**506**	467	**–**	–	**398**	400
Group total	**16,075**	11,934	**6,938**	6,352	**1,430**	1,395

In addition, the CME segment incurred HK$100 million (2011: HK$80 million) for its programming library. The Group has no significant non-cash expenses other than depreciation and amortisation.

e. Geographical information

	Revenue		Operating Profit	
	2012 HK$ Million	2011 HK$ Million	**2012 HK$ Million**	2011 HK$ Million
Hong Kong	**19,392**	15,972	**10,121**	8,843
Mainland China	**11,434**	8,000	**4,019**	2,512
Singapore	**30**	32	**30**	33
Group total	**30,856**	24,004	**14,170**	11,388

	Specified non-current assets		Total business assets	
	2012 HK$ Million	2011 HK$ Million	**2012 HK$ Million**	2011 HK$ Million
Hong Kong	**207,810**	166,759	**210,937**	170,232
Mainland China	**83,265**	63,821	**132,964**	110,605
Group total	**291,075**	230,580	**343,901**	280,837

Specified non-current assets excluded deferred tax assets, available-for-sale investments, derivative financial assets and certain non-current assets.

The geographical location of revenue and operating profit are analysed based on the location at which services are provided and in the case of equity instruments, where they are listed. The geographical location of specified non-current assets and total business assets are based on the physical location of operations.

Notes to the Financial Statements

2. OPERATING PROFIT

a. Operating profit is arrived at:

	2012 HK$ Million	2011 HK$ Million
After charging/(crediting):		
Depreciation and amortisation on		
— assets held for use under operating leases	**141**	132
— other fixed assets	**1,096**	1,082
— leasehold land	**95**	94
— programming library	**98**	87
Total depreciation and amortisation	**1,430**	1,395
Impairment loss on trade receivables	**11**	22
Staff costs (Note (i))	**3,003**	2,867
Auditors' remuneration		
— audit services	**20**	18
— other services	**3**	3
Cost of trading properties for recognised sales	**6,916**	3,822
Rental charges under operating leases in respect of telecommunications equipment and services	**53**	81
Rental income less direct outgoings (Note (ii))	**(8,198)**	(7,314)
Rental income under operating leases in respect of owned plant and machinery	**(13)**	(15)
Interest income (Note (iii))	**(474)**	(307)
Dividend income from listed investments	**(115)**	(90)
Profit on disposal of fixed assets	**(4)**	–

Notes:

i. *Staff costs included contributions to defined contribution pension schemes of HK$184 million (2011: HK$125 million), which included MPF schemes after a forfeiture of HK$3 million (2011: HK$3 million), and equity-settled share-based payment expenses of HK$60 million (2011: HK$75 million).*

ii. *Rental income included contingent rentals of HK$1,952 million (2011: HK$1,699 million).*

iii. *Included in the interest income are amounts totalling HK$378 million (2011: HK$307 million) in respect of financial assets (mainly bank deposits) that are stated at amortised cost.*

b. Directors' emoluments

Directors' emoluments are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contributions to pension schemes HK$'000	2012 Total emoluments HK$'000	2011 Total emoluments HK$'000
Board of Directors						
Peter K C Woo	100	11,911	11,000	–	23,011	22,537
Stephen T H Ng	70	5,011	10,000	192	15,273	15,123
Andrew O K Chow	70	5,069	5,000	14	10,153	2,571
Doreen Y F Lee	70	4,092	6,500	467	11,129	10,393
T Y Ng	70	3,953	5,000	13	9,036	8,835
Paul Y C Tsui	70	3,234	4,500	–	7,804	7,648
Independent Non-executive Directors						
Alexander S K Au (Notes ii and v)	20	–	–	–	20	–
Edward K Y Chen	70	–	–	–	70	60
Raymond K F Ch'ien	70	–	–	–	70	60
Vincent K Fang (Note ii)	100	–	–	–	100	80
Hans Michael Jebsen (Note ii)	100	–	–	–	100	80
Arthur K C Li (Note iii)	35	–	–	–	35	–
James E Thompson (Note ii)	100	–	–	–	100	80
Paul M P Chan (Notes ii and iv)	57	–	–	–	57	80
	1,002	33,270	42,000	686	76,958	67,547
Total for 2011	810	29,470	36,500	767		67,547

i. There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Directors of the Company in respect of the years ended 31 December 2012 and 2011.

ii. Includes Audit Committee Member's fee for the year ended 31 December 2012 of HK$30,000 (2011: HK$20,000) received/receivable by each of relevant Directors.

iii. Prof. the Hon. Arthur K C Li was appointed as a Director of the Company with effect from 1 July 2012.

iv. Mr. Paul M P Chan resigned and ceased to be a Director of the Company with effect from 28 July 2012.

v. Mr. Alexander S K Au was appointed as a Director of the Company with effect from 22 October 2012.

vi. In addition to the above emoluments, certain directors and employees of the Company or its subsidiaries were granted share options under the share option schemes adopted by the Company. Details of the share options granted by the Company to the individuals are disclosed in note 24(d).

Notes to the Financial Statements

c. Emoluments of the highest paid employees

For the year ended 31 December 2012, information regarding emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) of one employee (2011: two) of the Group who, being person(s) who is/are not Director(s) of the Company or who did not hold office of Director(s) of the Company throughout the financial year, were among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group is set out below.

Aggregate emoluments	**2012 *HK$ Million***	2011 *HK$ Million*
Salaries, allowances and benefits in kind	**8**	16
Contributions to pension schemes	**–**	–
Discretionary bonuses	**2**	9
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
Total	**10**	25

Bands (in HK$)	**2012 Number**	2011 Number
$10,000,001 — $10,500,000	**1**	–
$12,000,001 — $12,500,000	**–**	1
$12,500,001 — $13,000,000	**–**	1

3. OTHER NET INCOME

Other net income for the year which amounted to HK$2,483 million (2011: HK$457 million) mainly includes:

a. A book accounting gain representing negative goodwill of HK$2,233 million recognised in respect of the Group's acquisition of 24.6% equity interests in Greentown China Holdings Limited ("Greentown"), an associate, in June 2012. This amount was calculated based on the Group's internal assessment of the net fair value of Greentown's identifiable assets and liabilities as at the date of acquisition.

b. Net foreign exchange gain of HK$144 million (2011: HK$449 million) which included the impact of forward foreign exchange contracts.

c. Profit on disposal of investment property of HK$73 million (2011: $Nil).

d. Net loss on disposal of available-for-sale investment of HK$11 million (2011: HK$1 million) which included a revaluation deficit of HK$90 million (2011: HK$2 million) transferred from the investments revaluation reserves of the Group.

e. Write-back of provision for properties of HK$22 million (2011: HK$30 million).

4. FINANCE COSTS

	2012 **HK$ Million**	2011 HK$ Million
Interest charged on:		
Bank loans and overdrafts		
— repayable within five years	**797**	721
— repayable after five years	**141**	222
Other borrowings		
— repayable within five years	**684**	99
— repayable after five years	**308**	241
Total interest charge	**1,930**	1,283
Other finance costs	**178**	344
Less: Amount capitalised	**(596)**	(447)
	1,512	1,180
Fair value (gain)/loss:		
Cross currency interest rate swaps	**(875)**	382
Interest rate swaps	**302**	1,005
	(573)	1,387
Total	**939**	2,567

a. Interest was capitalised at an average annual rate of approximately 1.6% (2011: 1.2%).

b. Included in the total interest charge are amounts totalling HK$1,650 million (2011: HK$1,185 million) in respect of interest bearing borrowings that are stated at amortised cost.

c. The above interest charge has taken into account the interest paid/received in respect of interest rate swaps and cross currency interest rate swaps.

Notes to the Financial Statements

5. INCOME TAX

Taxation charged to the consolidated income statement represents:

	2012 HK$ Million	2011 HK$ Million
Current income tax		
Hong Kong		
— provision for the year	**1,531**	1,298
— overprovision in respect of prior years	**(38)**	(28)
Outside Hong Kong		
— provision for the year	**892**	660
— overprovision in respect of prior years	**(5)**	(5)
	2,380	1,925
Land appreciation tax ("LAT") (Note 5(c))	**584**	509
Deferred tax		
Change in fair value of investment properties	**1,087**	901
Origination and reversal of temporary differences	**190**	23
Benefit of previously unrecognised tax losses now recognised	**(26)**	(54)
	1,251	870
Total	**4,215**	3,304

a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2011: 16.5%).

b. Income tax on profits assessable outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2011: 25%).

c. Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights, borrowings costs and all property development expenditure.

d. Taxation payable in the statement of financial position is expected to be recovered/settled within one year.

e. Tax attributable to associates and jointly controlled entities for the year ended 31 December 2012 of HK$1,331 million (2011: HK$101 million) is included in the share of results of associates and jointly controlled entities.

f. The China tax law also imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated since 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. For the year ended 31 December 2012, the Group has provided HK$144 million (2011: HK$61 million) for withholding taxes on accumulated earnings generated by its Mainland China subsidiaries which will be distributed to its immediate holding company outside Mainland China in the foreseeable future.

g. Reconciliation between the actual total tax charge and profit before taxation at applicable tax rates:

	2012 **HK$ Million**	2011 HK$ Million
Profit before taxation	**52,579**	34,641
Notional tax on profit before taxation calculated at applicable tax rates	**9,056**	6,012
Tax effect of non-deductible expenses	**366**	222
Tax effect of non-taxable income	**(1,055)**	(271)
Tax effect of non-taxable fair value gain on investment properties	**(5,376)**	(3,851)
Net overprovision in respect of prior years	**(43)**	(33)
Tax effect of tax losses not recognised	**106**	282
Tax effect of previously unrecognised tax losses utilised	**(211)**	(75)
Tax effect of previously unrecognised tax losses now recognised as deferred tax assets	**(26)**	(54)
Effect of temporary differences not recognised	**2**	8
LAT on trading properties	**584**	509
Deferred LAT on change in fair value of investment properties	**668**	494
Withholding tax on distributed/undistributed earnings	**144**	61
Actual total tax charge	**4,215**	3,304

6. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

Profit attributable to equity shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$10,408 million (2011: HK$15,000 million).

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2012 **HK$ Million**	2011 HK$ Million
First interim dividend declared and paid of 45 cents (2011: 36 cents) per share	**1,363**	1,091
Second interim dividend of 120 cents (2011: 70 cents) per share declared after the end of the reporting period	**3,635**	2,120
	4,998	3,211

a. The declared second interim dividend based on 3,029 million issued ordinary shares (2011: 3,029 million shares) after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

b. The second interim dividend of HK$2,120 million for 2011 was approved and paid in 2012.

Notes to the Financial Statements

8. EARNINGS PER SHARE

a. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$47,263 million (2011: HK$30,568 million) and the weighted average of 3,029 million ordinary shares in issue during the year (2011: 2,991 million ordinary shares).

b. Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$47,410 million (2011: HK$30,651 million) and the weighted average of 3,098 million ordinary shares in issue during the year (2011: 3,026 million ordinary shares), calculated as follows:

i. Profit attributable to ordinary equity shareholders (diluted)

	2012 *HK$ Million*	2011 *HK$ Million*
Profit attributable to ordinary equity shareholders	**47,263**	30,568
After tax effect of effective interest on the liability component of convertible bonds	**147**	83
	47,410	30,651

ii. Weighted average number of ordinary shares (diluted)

	2012 No. of shares *Million*	2011 No. of shares *Million*
Weighted average number of ordinary shares at 31 December	**3,029**	2,991
Effect of conversion of convertible bonds	**69**	35
	3,098	3,026

9. INVESTMENT PROPERTIES

	Completed HK$ Million	Under development HK$ Million	Total HK$ Million
a. Cost or valuation			
At 1 January 2011	142,213	6,028	148,241
Exchange adjustment	614	293	907
Additions	806	9,789	10,595
Transfer	(654)	–	(654)
Revaluation surpluses	24,968	–	24,968
At 31 December 2011 and 1 January 2012	**167,947**	**16,110**	**184,057**
Exchange adjustment	**6**	**–**	**6**
Additions	**8,544**	**5,396**	**13,940**
Disposals	**(1,220)**	**–**	**(1,220)**
Transfer	**(7,579)**	**7,567**	**(12)**
Revaluation surpluses	**33,881**	**870**	**34,751**
At 31 December 2012	**201,579**	**29,943**	**231,522**
b. The analysis of cost or valuation of the above assets is as follows:			
2012 valuation	**201,579**	**8,485**	**210,064**
At cost	**–**	**21,458**	**21,458**
	201,579	**29,943**	**231,522**
2011 valuation	167,947	–	167,947
At cost	–	16,110	16,110
	167,947	16,110	184,057

During the year, additions to investment properties under development which are stated at cost amounted to HK$5,348 million (2011: HK$9,789 million).

Notes to the Financial Statements

		Completed HK$ Million	Under development HK$ Million	Total HK$ Million
c.	**Tenure of title to properties:**			
	At 31 December 2012			
	Held in Hong Kong			
	Long term leases	**159,556**	**–**	**159,556**
	Medium term leases	**25,710**	**8,507**	**34,217**
		185,266	**8,507**	**193,773**
	Held outside Hong Kong			
	Medium term leases	**16,313**	**21,436**	**37,749**
		201,579	**29,943**	**231,522**
	At 31 December 2011			
	Held in Hong Kong			
	Long term leases	130,715	–	130,715
	Medium term leases	22,382	22	22,404
	Short term leases	300	–	300
		153,397	22	153,419
	Held outside Hong Kong			
	Medium term leases	14,550	16,088	30,638
		167,947	16,110	184,057

d. **Investment properties revaluation**

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Those investment properties stated at fair value as at 31 December 2012 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The surplus or deficit arising on revaluation is recognised directly in the consolidated income statement.

Gross rental revenue from investment properties amounted to HK$9,880 million (2011: HK$8,808 million).

e. The Group leases out properties under operating leases, which generally run for a period of two to six years. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

f. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	Group	
	2012	2011
	HK$ Million	*HK$ Million*
Within 1 year	**6,434**	5,669
After 1 year but within 5 years	**7,273**	6,891
After 5 years	**240**	259
	13,947	12,819

10. FIXED ASSETS

	Leasehold land *HK$ Million*	Hotel and club properties *HK$ Million*	Group Properties under redevelopment *HK$ Million*	Other properties and fixed assets *HK$ Million*	CME equipment *HK$ Million*	Total *HK$ Million*
a. Cost						
At 1 January 2011	4,331	1,206	1,757	15,515	10,557	33,366
Exchange adjustment	137	27	83	241	–	488
Additions	–	31	163	602	543	1,339
Disposals	–	–	–	(113)	(45)	(158)
Reclassification	–	–	83	62	(27)	118
At 31 December 2011 and 1 January 2012	**4,468**	**1,264**	**2,086**	**16,307**	**11,028**	**35,153**
Additions	**296**	**453**	**135**	**665**	**586**	**2,135**
Disposals	**–**	**–**	**–**	**(101)**	**(185)**	**(286)**
Reclassification	**39**	**280**	**(222)**	**2**	**(4)**	**95**
At 31 December 2012	**4,803**	**1,997**	**1,999**	**16,873**	**11,425**	**37,097**
Accumulated depreciation and impairment losses						
At 1 January 2011	613	642	–	6,063	7,651	14,969
Exchange adjustment	10	4	–	30	–	44
Charge for the year	94	38	–	623	553	1,308
Written back on disposals	–	–	–	(110)	(42)	(152)
Reclassification	–	–	–	17	(17)	–
At 31 December 2011 and 1 January 2012	**717**	**684**	**–**	**6,623**	**8,145**	**16,169**
Exchange adjustment	**–**	**–**	**–**	**1**	**–**	**1**
Charge for the year	**95**	**51**	**–**	**639**	**547**	**1,332**
Written back on disposals	**–**	**–**	**–**	**(92)**	**(184)**	**(276)**
Reclassification	**–**	**–**	**–**	**(1)**	**2**	**1**
At 31 December 2012	**812**	**735**	**–**	**7,170**	**8,510**	**17,227**
Net book value						
At 31 December 2012	**3,991**	**1,262**	**1,999**	**9,703**	**2,915**	**19,870**
At 31 December 2011	3,751	580	2,086	9,684	2,883	18,984

Notes to the Financial Statements

		Group					
		Leasehold Land HK$ Million	Hotel and club properties HK$ Million	Properties under redevelopment HK$ Million	Other properties and fixed assets HK$ Million	CME equipment HK$ Million	Total HK$ Million
b.	**Tenure of title to properties:**						
	At 31 December 2012						
	Held in Hong Kong						
	Long term leases	**82**	**187**	**–**	**7**	**–**	**276**
	Medium term leases	**974**	**1**	**–**	**2,766**	**–**	**3,741**
		1,056	**188**	**–**	**2,773**	**–**	**4,017**
	Held outside Hong Kong						
	Medium term leases	**2,935**	**1,074**	**1,999**	**2,748**	**–**	**8,756**
		3,991	**1,262**	**1,999**	**5,521**	**–**	**12,773**
	At 31 December 2011						
	Held in Hong Kong						
	Long term leases	82	97	–	2	–	181
	Medium term leases	1,007	1	–	2,822	–	3,830
		1,089	98	–	2,824	–	4,011
	Held outside Hong Kong						
	Medium term leases	2,662	482	2,086	2,787	–	8,017
		3,751	580	2,086	5,611	–	12,028

c. **Impairment of fixed assets**

The value of properties which are revalued annually, is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. No such provision was made or written back for the years ended 31 December 2012 and 2011.

11. INTEREST IN SUBSIDIARIES

	Company	
	2012 **HK$ Million**	2011 HK$ Million
Unlisted shares, at cost less provision	**66,347**	49,035
Amounts due from subsidiaries, less provision	**11,736**	19,771
	78,083	68,806
Amounts due to subsidiaries	**(23,459)**	(21,203)

Details of principal subsidiaries at 31 December 2012 are shown on pages 220 to 223.

Amounts due from subsidiaries are unsecured, non-interest bearing with no fixed terms of repayment and hence are classified as non-current as these are not expected to be recoverable within the next twelve months. Amounts due to subsidiaries are unsecured and non-interest bearing with no fixed terms of payment.

12. INTEREST IN ASSOCIATES

	Group		Company	
	2012 **HK$ Million**	2011 HK$ Million	**2012** **HK$ Million**	2011 HK$ Million
Listed in Hong Kong				
Share of net assets	**5,912**	–	**–**	–
Unlisted				
Share of net assets	**5,191**	5,470	**–**	–
Goodwill	**1,853**	1,853	**–**	–
	7,044	7,323	**–**	–
Amounts due from associates	**3,717**	2,875	**379**	417
	10,761	10,198	**379**	417
Total	**16,673**	10,198	**379**	417
Amounts due to unlisted associates (Note 21)	**(2,703)**	(2,133)	**(533)**	(533)
	13,970	8,065	**(154)**	(116)
Market value of listed associate	**7,453**	–	**–**	–

a. Details of principal associates at 31 December 2012 are shown on page 222.

b. The interest in the listed associate represents the Group's 24.6% equity interest in Greentown on completion of the transactions during the year as set out below:

i. acquisition of 34,888,500 Greentown shares from the companies effectively owned and controlled by the Group's Chairman at a purchase price of HK$5.2 per share for a consideration of HK$181 million in June 2012;

ii. subscription from Greentown for 327,849,579 Greentown shares at HK$5.2 per share for a consideration of HK$1,705 million, which was completed in June 2012;

iii. subscription from Greentown for 162,113,714 Greentown shares at HK$5.2 per share for a consideration of HK$843 million, which was completed in August 2012.

The Group recorded negative goodwill of HK$2,233 million in respect of the acquisition of the 24.6% equity interests in Greentown, representing the excess of the net fair value of the identifiable assets and liabilities acquired over the aggregate of the fair value of the consideration paid.

The acquired tangible assets primarily comprised land and buildings, investment properties, properties for sale and properties under development for sale and accounts receivable. The liabilities assumed primarily comprised of bank borrowings, accounts payable and other current liabilities.

The Group has equity accounted for the financial results of Greentown from 15 June 2012 when the Group considered it was able to exercise significant influence over the financial and operating decisions of Greentown. The Group' share of profits of Greentown for the period from 15 June 2012 to 31 December 2012 was HK$893 million. Had the transaction been completed on 1 January 2012, the Group's share of profits from Greentown would have been HK$1,437 million.

Notes to the Financial Statements

Costs of HK$2 million related to the above acquisition are included in the consolidated income statement for the year ended 31 December 2012.

The Group also completed in August 2012 subscription for perpetual subordinated convertible securities issued by a wholly-owned subsidiary of Greentown with principal amount of HK$2,550 million, details of which are set out in note 15 to the financial statements.

c. Included in amounts due from associates are advances totalling HK$371 million (2011: HK$371 million) which are interest bearing. Amounts due from associates are unsecured and have no fixed terms of repayment and not expected to be repayable within twelve months from the end of the reporting period. The amounts are neither past due nor impaired.

Amounts due to associates are unsecured, interest free and have no fixed terms of repayment.

d. In 2011, the Group entered into an agreement with Wheelock Properties Limited ("WPL"), a wholly-owned subsidiary of the ultimate holding company, in respect of the acquisition of the entire 50% equity interests in four Foshan property projects ("Foshan projects") held by WPL for a consideration of HK$3,388 million. Accordingly, the financial results of the Foshan projects have been accounted for as associates of the Group since that date.

e. Included in interest in unlisted associates is goodwill of HK$1,853 million (2011: HK$1,853 million) relating to the acquisition of Mega Shekou Container Terminals Limited by Modern Terminals Limited, a 67.6%-owned subsidiary of the Group, under an agreement for rationalisation of the interests in Shekou Container Terminals Phases I, II and III in 2007.

f. Summary financial information on associates

	2012		2011	
	Total *HK$ Million*	**Attributable interest** *HK$ Million*	Total *HK$ Million*	Attributable interest *HK$ Million*
Assets	**181,205**	**47,353**	44,105	12,302
Liabilities	**(133,624)**	**(36,250)**	(19,449)	(6,832)
Equity	**47,581**	**11,103**	24,656	5,470
Revenue	**38,263**	**9,819**	8,853	2,527
Profit before taxation	**10,330**	**2,514**	2,684	452
Income tax	**(4,046)**	**(1,041)**	(515)	(91)
Profit for the year	**6,284**	**1,473**	2,169	361

13. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2012 **HK$ Million**	2011 HK$ Million
Share of net assets	**8,227**	7,570
Goodwill	**54**	54
	8,281	7,624
Amounts due from jointly controlled entities	**11,249**	9,310
	19,530	16,934
Amounts due to jointly controlled entities (Note 21)	**(549)**	(210)
	18,981	16,724

Details of principal jointly controlled entities at 31 December 2012 are shown on page 222.

Included in amounts due from jointly controlled entities are advances totalling HK$2,776 million (2011: HK$2,708 million) which are interest bearing. The amounts due from jointly controlled entities are unsecured and have no fixed terms of repayment. They are not expected to be recovered within the next twelve months. The amounts are neither past due nor impaired.

Amounts due to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

The Group's effective interest in the results, assets and liabilities of its jointly controlled entities are summarised below:

	2012 **HK$ Million**	2011 HK$ Million
Non-current assets	**1,784**	2,588
Current assets	**25,241**	21,635
Current liabilities	**(7,591)**	(6,099)
Non-current liabilities	**(11,207)**	(10,554)
Net assets	**8,227**	7,570
Revenue	**4,252**	361
Profit for the year	**641**	34

Notes to the Financial Statements

14. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 *HK$ Million*	2011 *HK$ Million*
Listed investments stated at market value		
— in Hong Kong	**2,433**	1,740
— outside Hong Kong	**1,409**	937
Unlisted investment at cost	**26**	26
	3,868	2,703

Available-for-sale investments totalling HK$26 million (2011: HK$26 million) are stated at cost less impairment losses, if any.

As at 31 December 2012, the fair value of individually impaired available-for-sale investments amounted to HK$111 million (2011: HK$94 million).

15. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

In August 2012, the Group completed the subscription for perpetual subordinated convertible securities ("PSCS") issued at par by a wholly-owned subsidiary of Greentown, with an aggregate principal amount of HK$2,550 million, details of which are set out in the circular dated 24 July 2012 ("the Circular") to the Company's shareholders.

The PSCS are guaranteed by Greentown and convertible into shares of Greentown. The PSCS confer on the holders a right to receive a distribution at a rate of 9% per annum on principal till the fifth anniversary of the issue date and subsequently at other rates as detailed in the Circular.

The Group has the right to convert the PSCS into shares in Greentown at any time after the expiry of three years from the date of issue, at an initial conversion price of HK$7.40 subject to certain prescribed conditions and conversion price adjustments as set out in the Circular.

The issuer has the option, subject to certain conditions, at any time after the date of issue to redeem all or certain of the PSCS, together with all outstanding distributions and additional distributions accrued at the redemption date at certain prices and percentage of the principal amount.

In accordance with HKAS 39 "Financial instruments — Recognition and Measurement", the Group has accounted for the PSCS at fair value and the changes in the fair value are recognised in the profit or loss.

	HK$ Million
Face value at date of issue	2,550
Fair value gain	159
At 31 December 2012	2,709

The fair value of the PSCS was calculated using the Binomial Tree Pricing Model taking into account of the terms and conditions of the PSCS held by the Group. Assumptions were as follows:

	Date of issue	31 December 2012
Share price	HK$8.36	HK$14.20
Conversion price	HK$7.40	HK$7.40
Discount rate	10.9%	9.8%
Stock volatility	58.9%	57.9%

16. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill *HK$ Million*	Other intangible assets *HK$ Million*	Total *HK$ Million*
Cost			
At 1 January 2011, 31 December 2011 and 31 December 2012	**297**	**12**	**309**
Accumulated amortisation			
At 1 January 2011, 31 December 2011 and 31 December 2012	**–**	**12**	**12**
Net carrying value			
At 31 December 2012	**297**	**–**	**297**
At 31 December 2011	297	–	297

Goodwill is mainly related to the Group's terminals business. As at 31 December 2012, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the terminals business is based on fair value less costs to sell, which is estimated by reference to comparable market data. No impairment was recorded.

17. PROPERTIES FOR SALE

	Group	
	2012 *HK$ Million*	2011 *HK$ Million*
Properties under development for sale	**46,620**	45,445
Completed properties for sale	**2,295**	2,066
	48,915	47,511

a. At 31 December 2012, properties under development for sale of HK$36,805 million (2011: HK$37,854 million) are expected to be completed after more than one year.

b. Included in properties under development for sale are deposits of HK$6,495 million (2011: HK$5,942 million) paid for the acquisition of certain land sites/properties located in Mainland China.

c. Properties under development for sale and completed properties for sale are stated at cost less impairment, if any.

Notes to the Financial Statements

d. In 2012, net provisions totalling HK$22 million (2011: HK$30 million) charged to the consolidated income statement in prior years for properties under development for sale were written back as a result of the increase in net realisable value of certain properties.

e. At 31 December 2012, the carrying value of leasehold land and land deposits included in properties under development for sale and completed properties for sale is summarised as follows:

	Group	
	2012 HK$ Million	2011 HK$ Million
Held in Hong Kong		
Medium term leases	**941**	1,015
Held outside Hong Kong		
Long term leases	**33,655**	35,326
Medium term leases	**2,402**	2,585
	36,998	38,926

18. TRADE AND OTHER RECEIVABLES

a. Ageing analysis

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 31 December 2012 as follows:

	Group	
	2012 HK$ Million	2011 HK$ Million
Trade receivables		
0–30 days	**656**	656
31–60 days	**114**	116
61–90 days	**57**	73
Over 90 days	**78**	63
	905	908
Accrued sales receivable	**194**	–
Other receivables and prepayments	**3,697**	2,512
	4,796	3,420

Accrued sales receivable mainly represent consideration for property sales to be billed or received after the end of the reporting period. In accordance with the Group's accounting policy, upon receipt of the Temporary Occupation Permit or architect's completion certificate, the balance of the sales consideration to be billed is included as accrued sales receivables.

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be recoverable within one year.

b. Impairment of trade receivables

Impairment losses in respect of trade receivables 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 receivable directly.

The movement in the allowance account for the bad and doubtful debts during the year, including both specific and collective loss components, is as follows:

	Group	
	2012	2011
	HK$ Million	*HK$ Million*
At 1 January	**96**	88
Impairment loss recognised	**11**	22
Uncollectible amounts written off	**(8)**	(14)
At 31 December	**99**	96

c. Trade receivables that are not impaired

As at 31 December 2012, 91% (2011: 91%) of the Group's trade receivables was not impaired, of which 89% (2011: 85%) was either not past due or less than two months past due.

Based on past experience of the Group, it is determined that no impairment allowance is necessary in respect of past due balances as there has not been a significant change in credit quality of the customers and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets ***HK$ Million***	**Liabilities** ***HK$ Million***	Assets *HK$ Million*	Liabilities *HK$ Million*
At fair value through profit or loss				
Fixed-to-floating interest rate swaps	**439**	**18**	319	15
Floating-to-fixed interest rate swaps	**–**	**963**	–	641
Cross currency interest rate swaps	**136**	**1,146**	87	2,016
Forward foreign exchange contracts	**175**	**–**	–	30
Total	**750**	**2,127**	406	2,702
Analysis				
Current	**439**	**215**	225	232
Non-current	**311**	**1,912**	181	2,470
Total	**750**	**2,127**	406	2,702

Notes to the Financial Statements

An analysis of the remaining maturities at the end of the reporting period of the above derivative financial instruments is as follows:

	2012		2011	
	Assets **HK$ Million**	**Liabilities** **HK$ Million**	Assets *HK$ Million*	Liabilities *HK$ Million*
Fixed-to-floating interest rate swaps				
Expiring within 1 year	**1**	**–**	8	–
Expiring after more than 1 year but not exceeding 5 years	**180**	**8**	122	9
Expiring after 5 years	**258**	**10**	189	6
	439	**18**	319	15
Floating-to-fixed interest rate swaps				
Expiring after 5 years	**–**	**963**	–	641
	–	**963**	–	641
Cross currency interest rate swaps				
Expiring within 1 year	**–**	**19**	2	2
Expiring after more than 1 year but not exceeding 5 years	**103**	**1,004**	28	84
Expiring after 5 years	**33**	**123**	57	1,930
	136	**1,146**	87	2,016
Forward foreign exchange contracts				
Expiring within 1 year	**175**	**–**	–	30
Total	**750**	**2,127**	406	2,702

a. The notional principal amounts of derivative financial instruments outstanding at the end of the reporting period were as follows:

	2012 **HK$ Million**	2011 *HK$ Million*
Fixed-to-floating interest rate swaps	**19,679**	16,017
Floating-to-fixed interest rate swaps	**8,230**	8,230
Cross currency interest rate swaps	**14,118**	12,558
Forward foreign exchange contracts	**3,295**	1,217

The notional amount of cross currency interest rate swaps included USD400 million swaps against JPY which have the effect of converting the USD400 million ten-year fixed-rate notes issued in 2007 into JPY borrowings.

b. Derivative financial assets represented the amounts the Group would receive whilst derivative financial liabilities represented the amounts the Group would pay if the positions were closed at the end of the reporting period. Derivative financial instruments do not qualify for hedge accounting and their corresponding changes in fair values have been recognised in the consolidated income statement.

c. During the year, a gain of HK$210 million (2011: a loss of HK$57 million) in respect of forward foreign exchange contracts was recognised in the consolidated income statement.

d. During the year, fair value gains on cross currency interest rate swaps and losses on interest rate swaps in the amounts of HK$875 million (2011: loss of HK$382 million) and HK$302 million (2011: HK$1,005 million) respectively have been included within finance costs in the consolidated income statement.

20. BANK DEPOSITS AND CASH

	Group		Company	
	2012	2011	**2012**	2011
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Bank deposits and cash	**18,795**	32,528	**–**	2

Bank deposits and cash as at 31 December 2012 include HK$15,026 million equivalent (2011: HK$18,633 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2012, bank deposits and cash included bank deposits of RMB1,753 million equivalent to HK$2,162 million (2011: RMB2,171 million equivalent to HK$2,678 million) which are solely for certain designated property development projects in Mainland China.

The effective interest rate on bank deposits was 2.1% (2011: 1.2%).

Bank deposits and cash are denominated in the following currencies:

	Group	
	2012	2011
	HK$ Million	*HK$ Million*
RMB	**14,217**	18,693
HKD	**2,083**	11,905
USD	**2,488**	442
SGD	**4**	1,486
Other currencies	**3**	2
	18,795	32,528

Notes to the Financial Statements

21. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 31 December 2012 as follows:

	Group	
	2012 **HK$ Million**	2011 HK$ Million
Trade payables		
0–30 days	**507**	314
31–60 days	**189**	172
61–90 days	**50**	54
Over 90 days	**95**	90
	841	630
Rental and customer deposits	**2,503**	2,124
Construction costs payable	**4,395**	2,644
Amounts due to associates	**2,703**	2,133
Amounts due to jointly controlled entities	**549**	210
Other payables	**3,810**	2,575
	14,801	10,316

The amount of trade and other payables that is expected to be settled after more than one year is HK$1,750 million (2011: HK$1,136 million), which is mainly for rental and customer deposits. The Group considers the effect of discounting these items would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are payable on demand.

22. DEPOSITS FROM SALE OF PROPERTIES

Deposits from sale of properties in the amount of HK$3,838 million (2011: HK$1,395 million) are expected to be recognised as income in the consolidated income statement after more than one year.

23. BANK LOANS AND OTHER BORROWINGS

	Group	
	2012	2011
	HK$ Million	*HK$ Million*
Bonds and notes (unsecured)		
Due within 1 year	**300**	–
Due after more than 1 year but not exceeding 2 years	**200**	300
Due after more than 2 years but not exceeding 5 years	**12,836**	2,689
Due after more than 5 years	**10,887**	9,745
	24,223	12,734
Convertible bonds (unsecured)		
Due after more than 1 year but not exceeding 2 years	**6,240**	–
Due after more than 2 years but not exceeding 5 years	**–**	6,205
	6,240	6,205
Bank loans (secured)		
Due within 1 year	**1,790**	888
Due after more than 1 year but not exceeding 2 years	**2,434**	3,183
Due after more than 2 years but not exceeding 5 years	**13,087**	15,544
Due after more than 5 years	**265**	441
	17,576	20,056
Bank loans (unsecured)		
Due within 1 year	**3,240**	8,015
Due after more than 1 year but not exceeding 2 years	**7,032**	5,966
Due after more than 2 years but not exceeding 5 years	**15,609**	21,217
Due after more than 5 years	**500**	1,800
	26,381	36,998
Total bank loans and other borrowings	**74,420**	75,993
Analysis of maturities of the above borrowings:		
Current borrowings		
Due within 1 year	**5,330**	8,903
Non-current borrowings		
Due after more than 1 year but not exceeding 5 years	**57,438**	55,104
Due after more than 5 years	**11,652**	11,986
	69,090	67,090
Total bank loans and other borrowings	**74,420**	75,993

Notes to the Financial Statements

a. The Group's borrowings are considered by the management to be effectively denominated in the following currencies (after the effects of cross currency interest rate swaps arrangements as detailed in Note 26(b)):

	2012 HK$ Million	2011 HK$ Million
HKD	**58,975**	63,868
RMB	**4,308**	6,426
USD	**7,385**	382
SGD	**–**	1,495
JPY	**3,752**	3,822
	74,420	75,993

b. The interest rate profile of the Group's borrowings (after the effects of interest rate swaps and cross currency interest rate swaps as detailed in Notes 26(a) and (b)) were as follows:

	2012		2011	
	Effective interest rate %	**HK$ Million**	Effective interest rate %	HK$ Million
Fixed rate borrowings				
Bonds and notes	**4.0**	**5,891**	3.4	5,068
Bank loans	**2.6**	**7,980**	2.7	3,630
		13,871		8,698
Floating rate borrowings				
Bonds and notes	**3.1**	**18,332**	3.0	7,666
Convertible bonds	**1.6**	**6,240**	1.4	6,205
Bank loans	**1.7**	**35,977**	1.9	53,424
		60,549		67,295
Total borrowings		**74,420**		75,993

c. All the interest bearing borrowings are carried at amortised cost except for loans in an amount of HK$14,411 million (2011: HK$11,238 million) which are carried at their fair values. None of the non-current interest bearing borrowings are expected to be settled within one year.

d. Included in the Group's total loans are bank loans totalling HK$16,851 million (2011: HK$16,932 million) borrowed by certain subsidiaries in Mainland China, Modern Terminals and HCDL. The loans are without recourse to the Company and its other subsidiaries.

e. As at 31 December 2012, certain banking facilities of the Group are secured by mortgages over certain properties under development, fixed assets and shares with an aggregate carrying value of HK$28,161 million (2011: HK$27,348 million).

f. Certain of the above borrowings are attached with financial covenants which require that at any time, the consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels of the relevant groups. During the year under review, all these covenants have been complied with by the Group.

g. On 7 June 2011, Wharf Finance (2014) Limited, a wholly-owned subsidiary of the Company, issued an aggregate principal amount of HK$6,220 million 2.3% guaranteed convertible bonds which are due on 7 June 2014 ("Convertible Bonds"). The Convertible Bonds are guaranteed by the Company, and are convertible into ordinary shares of HK$1 per share in the Company at an initial conversion price of HK$90.00 per share.

The rights of the bondholders to convert the Convertible Bonds into ordinary shares are as follows:

- Conversion rights are exercisable at any time on or after 17 July 2011 up to the close of business on the seventh day prior to maturity at the bondholders' option or, if such convertible bonds shall have been called for redemption by the Company before the maturity, then up to the close of business on a date no later than seven days prior to the date fixed for redemption thereof.

- If a bondholder exercises its conversion rights, the Company is required to deliver ordinary shares at a rate of HK$90.00 per share converted.

The Convertible Bonds, in respect of which conversion rights have not been exercised, will be redeemed at face value on 7 June 2014.

During the years ended 31 December 2011 and 31 December 2012, there was no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the Convertible Bonds by Wharf Finance (2014) Limited.

On the basis that the conversion option of the Convertible Bonds will be settled by exchange of a fixed amount or fixed number of equity instruments, the Convertible Bonds are accounted for as compound instruments under HKAS 32 "Financial Instruments — Presentation" and the proceeds have been split into between a liability component and an equity component as set out below.

The fair value of the liability component was calculated using a market interest rate for a bond with the same tenure but with no conversion features. The residual amount, representing the value of the equity component, is credited to a Convertible Bonds reserve under equity attributable to the Company's shareholders.

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The Convertible Bonds recognised in the consolidated statement of financial position are calculated as follows:

	HK$ Million
Face value of convertible bonds at issue date	6,220
Including:	
Equity component on initial recognition	99
Liability component on initial recognition	6,121
	6,220

	2012 **HK$ Million**	2011 *HK$ Million*
Movement of liability component at amortised cost:		
Liability component at 1 January/initial recognition	**6,139**	6,121
Add: imputed finance cost	**32**	18
Liability component at 31 December	**6,171**	6,139

As at 31 December 2012, the liability component was remeasured to fair value of HK$6,240 million (2011: HK$6,205 million).

The imputed finance cost on the bonds is calculated using the effective interest method by applying an effective interest rate of 2.86% per annum.

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted in June 2011 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants to take up options at a consideration of HK$10 to subscribe for shares of the Company ("Shares"). The exercise price of the options must be not less than whichever is the highest of (i) the indicative price per share for subscription of Shares under the option as specified in the written offer containing the offer of the grant of the option to an eligible participants; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (iii) the average closing price of the Shares as stated in the Stock Exchange daily quotations sheets for the five business days immediately preceding the date of grant; and (iv) the nominal value of a Share. The granted option is divided into five tranches, of which the first tranche vests immediately on the date of grant and the remaining four tranches vest between one year and four years from the date of grant.

a. The terms and conditions of the grants are as follows:

	Number of options	**Contractual life of options**
Options granted to directors:		
— on 4 July 2011	9,000,000	5 years from the date of grant
Options granted to employees:		
— on 4 July 2011	3,100,000	5 years from the date of grant
Total share options granted	12,100,000	

b. No share options were exercised, cancelled or lapsed throughout the years ended 31 December 2011 and 31 December 2012.

The options outstanding at 31 December 2012 had an exercise price of HK$55.15 and a weighted average remaining contractual life of 3.5 years.

c. Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Option Pricing Model taking into account the terms and conditions of the option granted. Fair value of share options and assumptions were as follows:

Fair value at grant date	HK$16.12
Share price at grant date	HK$55.15
Exercise price	HK$55.15
Expected volatility	37.2%
Option life	5 years
Expected dividends	1.80%
Risk-free interest rate	1.64%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historic dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

d. In respect of share options of the Company granted to the directors of the Company, the related charge recognised for the year ended 31 December 2012, estimated in accordance with the Group's accounting policy in note (z)(i) was as follows:

	2012 *HK$'000*	2011 *HK$'000*
Peter K C Woo	**7,375**	9,370
Stephen T H Ng	**7,375**	9,370
Andrew O K Chow	**7,375**	9,370
Doreen Y F Lee	**7,375**	9,370
T Y Ng	**7,375**	9,370
Paul Y C Tsui	**7,375**	9,370
	44,250	56,220

Notes to the Financial Statements

25. DEFERRED TAXATION

a. Net deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	Group	
	2012	2011
	HK$ Million	*HK$ Million*
Deferred tax liabilities	**7,827**	6,508
Deferred tax assets	**(739)**	(683)
Net deferred tax liabilities	**7,088**	5,825

The components of deferred tax (assets)/liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation *HK$ Million*	Surplus on investment properties *HK$ Million*	Others *HK$ Million*	Future benefit of tax losses *HK$ Million*	Total *HK$ Million*
At 1 January 2011	2,230	3,160	(32)	(584)	4,774
Charged/(credited) to the consolidated income statement	106	901	(120)	(17)	870
Exchange adjustment	11	177	(6)	(1)	181
At 31 December 2011 and 1 January 2012	**2,347**	**4,238**	**(158)**	**(602)**	**5,825**
Charged/(credited) to the consolidated income statement	**118**	**1,087**	**62**	**(16)**	**1,251**
Disposal of an investment property	**(17)**	**–**	**–**	**27**	**10**
Exchange adjustment	**3**	**5**	**(6)**	**–**	**2**
At 31 December 2012	**2,451**	**5,330**	**(102)**	**(591)**	**7,088**

b. Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	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	**46**	**9**	168	42
Future benefit of tax losses				
— Hong Kong	**5,339**	**881**	5,430	896
— Outside Hong Kong	**621**	**155**	382	95
	5,960	**1,036**	5,812	991
	6,006	**1,045**	5,980	1,033

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2012. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from operations outside Hong Kong (mainly from Mainland China) can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward currency contracts and interest rate and cross currency interest rate swaps, as deemed appropriate, for financing and hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

a. Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rate expose the Group to fair value interest rate risk. The Group manages its interest rate risk exposure in accordance with defined policies and regular review with a focus on reducing the Group's overall cost of funding as well as maintaining to the floating/fixed rate mix appropriate to its current business portfolio.

In line with the Group's prevailing strategy, the Group has entered into a number of interest rate swaps ("IRS") and cross currency interest rate swaps ("CCS") which have the economic effect of converting certain fixed rate interest bearing notes with notional amounts totalling HK$14,084 million (2011: HK$11,085 million) into floating rate borrowings. For each of the IRS and CCS entered into by the Group, the tenor and timing of the IRS and CCS cash flows matches with those of the notes.

To ensure the certainty of a proportion of funding costs in the forthcoming years, the Group has entered into various floating-to-fixed IRS with notional amounts totalling HK$8,230 million with maturities of 10 to 15 years together with another HK$8,230 million fixed-to-floating IRS with a maturity of 2 years. Effectively, this arrangement has locked in fixed interest rates ranging from 2.1% to 3.6% per annum for a certain portion of the Group's floating rate loan portfolio for a period of eight to thirteen years from 2011 to 2012 onwards.

As at 31 December 2012, after taking into account of IRS and CCS, approximately 81% (2011: 89%) of the Group's borrowings were at floating rates and the remaining 19% (2011: 11%) were at fixed rates (see Note 23(b)).

Based on the sensitivity analysis performed as at 31 December 2012, it was estimated that a general increase/decrease of 1% (2011: 1%) in interest rates, with all other variables held constant, would have decreased/increased the Group's post-tax profit and total equity by approximately HK$300 million (2011: HK$152 million). This takes into account the effect of interest bearing bank deposits.

Notes to the Financial Statements

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would have arisen assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's post-tax profit and total equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as for 2011.

b. Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and secondarily in Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development and port-related operations and investments in Mainland China.

The Group is also exposed to foreign currency risk in respect of its borrowings denominated in USD, JPY and SGD. Anticipated foreign exchange payments relate primarily to interest expense payments, repayment of principal and capital expenditure. Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange and swap contracts to manage its foreign currency risk arising from above anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are HKD, their borrowings will be mostly denominated in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China, the Group has adopted a diversified funding approach and entered into certain cross currency interest rate swaps and forward foreign exchange contracts. Some of the cross currency interest rate swaps have the financial effect of converting certain USD borrowings into JPY borrowings, taking advantage of lower interest rates for the JPY borrowings but exposing the Group to exchange rate risk with respect to JPY. The swaps entered into under this arrangement have effectively converted the USD400 million ten-year fixed-rate notes issued in 2007 into JPY borrowings, which has and is anticipated going forward to save the Group interest of approximately 3% per annum for and over the tenure of the notes. Concurrently, the swaps expose the Group to fluctuations in the JPY exchange rate. Based on the prevailing accounting standards, such swaps are marked to market with the valuation movement recognised to the consolidated income statement.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

	2012					2011				
	USD *Million*	**RMB** *Million*	**JPY** *Million*	**SGD** *Million*	**EURO** *Million*	USD *Million*	RMB *Million*	JPY *Million*	SGD *Million*	EURO *Million*
The Group										
Bank deposits and cash	**212**	**33**	**–**	**–**	**–**	24	498	–	248	–
Available-for-sale investments	**184**	**–**	**–**	**–**	**–**	120	–	–	–	–
Trade and other receivables	**108**	**–**	**–**	**–**	**1**	127	1	–	–	3
Trade and other payables	**(24)**	**(1)**	**–**	**–**	**–**	(12)	(3)	–	–	–
Bank loans and other borrowings	**(1,661)**	**(1,650)**	**(9,944)**	**(420)**	**–**	(1,125)	(650)	(9,941)	(420)	–
Inter-company balances	**55**	**302**	**–**	**(250)**	**–**	61	302	–	(250)	–
Gross exposure arising from recognised assets and liabilities	**(1,126)**	**(1,316)**	**(9,944)**	**(670)**	**1**	(805)	148	(9,941)	(422)	3
Notional amount of forward foreign exchange contracts										
— at fair value through profit or loss	**320**	**–**	**(34,442)**	**–**	**–**	156	–	(12,381)	–	3
Notional amount of cross currency IRS	**1,147**	**1,650**	**(42,764)**	**670**	**–**	1,125	650	(42,764)	420	–
Highly probable forecast purchase	**(89)**	**–**	**–**	**–**	**(12)**	(127)	–	–	–	(2)
Overall net exposure	**252**	**334**	**(87,150)**	**–**	**(11)**	349	798	(65,086)	(2)	4

At 31 December 2012, the PRC subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash, trade and other payables, bank loans and inter-company borrowings in the amount of HK$844 million, HK$102 million, HK$5,021 million and HK$931 million respectively (2011: HK$589 million, HK$92 million, HK$5,415 million and HK$1,269 million respectively).

As at 31 December 2012, the Company with HKD as its functional currency is not exposed to any foreign currency risk.

The following indicates the instantaneous change in the Group's post-tax profit and total equity that would have arisen if foreign exchange rates to which the Group had significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and the USD would be materially unaffected by any changes movement in value of the USD against other currencies.

— a 5% (2011: 5%) increase/decrease in the exchange rate of JPY against USD and HKD would have decrease/increase the Group's post-tax profit and total equity by approximately HK$374 million (2011: HK$336 million).

— the impact on the Group's post-tax profit and total equity is not expected to be material in response to possible changes in the foreign exchange rates of other currencies to which the Group is exposed.

Notes to the Financial Statements

The sensitivity analysis performed in the above represents an aggregation of the instantaneous effects on each of the Group entities' post-tax profit and total equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including balances between Group companies which are denominated in a currency other than the functional currencies of the Group's entities to which they relate. The analysis excludes the differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed at the same basis as for 2011.

c. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments.

Listed investments held in the available-for-sale portfolio have been chosen for their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

Based on a sensitivity analysis performed as at 31 December 2012, it is estimated that an increase/decrease of 10% in the market value of the Group's listed available-for-sale investments, with all other variables held constant, would not have affected the Group's post-tax profit unless there were impairments but would have increased/decreased the Group's total equity by HK$384 million (2011: HK$268 million). The analysis has been performed on the same basis as for 2011.

d. Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's cash management is substantially centralised within the Group Treasury department, which regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

Certain non-wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence of the Company.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of the reporting period and carried at the exchange rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

		Contractual undiscounted cash flow				
	Carrying amount *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*
At 31 December 2012						
Bank loans and other borrowings	**(74,420)**	**(83,043)**	**(7,195)**	**(15,738)**	**(36,958)**	**(23,152)**
Trade and other payables	**(14,801)**	**(14,801)**	**(13,051)**	**(948)**	**(709)**	**(93)**
Other deferred liabilities (Club debentures issued)	**(227)**	**(227)**	**–**	**–**	**–**	**(227)**
Forward foreign exchange contracts	**175**	**175**	**175**	**–**	**–**	**–**
Cross currency interest rate swaps	**(1,010)**	**(619)**	**100**	**78**	**224**	**(1,021)**
Interest rate swaps	**(542)**	**(713)**	**(24)**	**(48)**	**(231)**	**(410)**
	(90,825)	**(99,228)**	**(19,995)**	**(16,656)**	**(37,674)**	**(24,903)**
At 31 December 2011						
Bank loans and other borrowings	(75,993)	(83,797)	(10,348)	(10,779)	(46,954)	(15,716)
Trade and other payables	(10,316)	(10,316)	(9,180)	(493)	(557)	(86)
Other deferred liabilities (Club debentures issued)	(215)	(215)	–	–	–	(215)
Forward foreign exchange contracts	(30)	(30)	(30)	–	–	–
Cross currency interest rate swaps	(1,929)	(1,169)	85	53	169	(1,476)
Interest rate swaps	(337)	(972)	(48)	(53)	(299)	(572)
	(88,820)	(96,499)	(19,521)	(11,272)	(47,641)	(18,065)

The Company is exposed to liquidity risk that arises from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligations and the maximum amount callable as at 31 December 2012 was HK$61.3 billion (2011: HK$62.5 billion).

Notes to the Financial Statements

e. Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents, held-to-maturity investments and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of the Group's core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

Cash at bank, deposits placed with financial institutions, and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in Note 30, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

f. Fair value

i. Fair value estimation

The fair values of financial instruments are determined as follows:

Listed investments are stated at quoted market prices. Unlisted investments for which fair values cannot be reliably measured are stated at cost less impairment losses.

The fair values of held-to-maturity investments, receivables, bank balances and other current assets, payables and accruals, current borrowings and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of forward foreign exchange contracts is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates. The fair value of interest rate swaps and cross currency interest rate swaps is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties. The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011. Amounts due (to)/from subsidiaries are unsecured, interest free and have no fixed repayment terms. Given these terms is not meaningful to disclose fair values.

ii. *Financial instruments carried at fair value*

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period 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.

	Group					
	At 31 December 2012			At 31 December 2011		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	HK$ Million	***HK$ Million***	***HK$ Million***	*HK$ Million*	*HK$ Million*	*HK$ Million*
Assets						
Available-for-sale investments:						
— Listed	**3,842**	**–**	**3,842**	2,677	–	2,677
— Perpetual convertible securities	**–**	**2,709**	**2,709**	–	–	–
Derivative financial instruments:						
— Interest rate swaps	**–**	**439**	**439**	–	319	319
— Cross currency interest rate swaps	**–**	**136**	**136**	–	87	87
— Forward foreign exchange contracts	**–**	**175**	**175**	–	–	–
	3,842	**3,459**	**7,301**	2,677	406	3,083
Liabilities						
Derivative financial instruments:						
— Interest rate swaps	**–**	**981**	**981**	–	656	656
— Cross currency interest rate swaps	**–**	**1,146**	**1,146**	–	2,016	2,016
— Forward foreign exchange contracts	**–**	**–**	**–**	–	30	30
	–	**2,127**	**2,127**	–	2,702	2,702

During the year there were no significant transfers between instruments in Level 1 and Level 2.

Notes to the Financial Statements

g. Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratios and cash flow requirements, taking into account of its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratios as at 31 December 2012 and 2011 were as follows:

	Group	
	2012 **HK$ Million**	2011 HK$ Million
Bank loans and other borrowings (Note 23)	**74,420**	75,993
Less: Bank deposits and cash (Note 20)	**(18,795)**	(32,528)
Net debt	**55,625**	43,465
Shareholders' equity	**248,501**	203,257
Total equity	**256,906**	210,874
Net debt-to-shareholders' equity ratio	**22.4%**	21.4%
Net debt-to-total equity ratio	**21.7%**	20.6%

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

27. SHARE CAPITAL

	2012 No. of shares *Million*	2011 No. of shares *Million*	**2012 *HK$ Million***	2011 *HK$ Million*
Authorised				
Ordinary shares of HK$1 each	**10,000**	10,000	**10,000**	10,000
Issued and fully paid				
Ordinary shares of HK$1 each				
At 1 January	**3,029**	2,754	**3,029**	2,754
Rights Issue	**–**	275	**–**	275
At 31 December	**3,029**	3,029	**3,029**	3,029

In March 2011, the Company completed its rights issue for 275 million new ordinary shares at the face value of HK$1 each for HK$36.50 which were allotted and were fully paid. Of the total consideration of HK$9,987 million received, HK$275 million has been credited to share capital and the balance of HK$9,712 million has been credited to the share premium account.

28. CAPITAL AND RESERVES

a. The Group's equity, apart from share capital, share premium and capital redemption reserve, includes investments revaluation reserves for dealing with the movements on revaluation of available-for-sale investments, other capital reserves for dealing with the unexercised equity component of convertible bonds issued and the grant date fair value of the granted unexercised share options in accordance with accounting policy note (o) and (z)(i) respectively, and the exchange reserves mainly for dealing with the exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy note (s).

The revenue reserves for the Group at 31 December 2012 included HK$459 million (2011: HK$279 million) in respect of statutory reserves of the subsidiaries in Mainland China.

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.

Notes to the Financial Statements

The Company's equity and the details of the changes in the individual components between the beginning and the end of the year are set out below:

	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserve HK$ Million	Other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
The Company						
At 1 January 2011	2,754	16,566	7	–	6,000	25,327
Profit	–	–	–	–	15,000	15,000
Rights Issue	275	9,712	–	–	–	9,987
Issuance of convertible bonds	–	–	–	99	–	99
Equity settled share-based payment	–	–	–	75	–	75
2010 final dividend paid	–	–	–	–	(1,939)	(1,939)
2011 first interim dividend paid	–	–	–	–	(1,091)	(1,091)
At 31 December 2011 and 1 January 2012	**3,029**	**26,278**	**7**	**174**	**17,970**	**47,458**
Profit	**–**	**–**	**–**	**–**	**10,408**	**10,408**
Equity settled share-based payment	**–**	**–**	**–**	**60**	**–**	**60**
2011 second interim dividend paid	**–**	**–**	**–**	**–**	**(2,120)**	**(2,120)**
2012 first interim dividend paid	**–**	**–**	**–**	**–**	**(1,363)**	**(1,363)**
At 31 December 2012	**3,029**	**26,278**	**7**	**234**	**24,895**	**54,443**

b. Reserves of the Company available for distribution to equity shareholders of the Company as at 31 December 2012 amounted to HK$24,895 million (2011: HK$17,970 million).

c. The application of the share premium account and capital redemption reserve are governed by Section 48B and Section 49H of the Hong Kong Companies Ordinance respectively.

d. After the end of the reporting period, the Directors declared a second interim dividend of 120 cents per share (2011: second interim dividend of 70 cents per share) amounting to HK$3,635 million based on 3,029 million issued ordinary shares (2011: HK$2,120 million based on 3,029 million issued ordinary shares). This dividend has not been recognised as a liability at the end of the reporting period.

29. MATERIAL RELATED PARTIES TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Material transactions between the Group and other related parties during the year ended 31 December 2012 are as follows:

a. In respect of the year ended 31 December 2012, the Group earned rental income totalling HK$741 million (2011: HK$644 million) from various tenants which are wholly-owned by, or are non-wholly-owned subsidiaries of, companies which in turn are wholly-owned by the family interests of, or by a trust the settlor of which is, the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

b. In June 2012, the Group acquired 34,888,500 Greentown shares from companies, effectively owned and controlled by the Chairman of the Company at a total consideration of HK$181 million. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

c. During the year, the Group and Greentown entered into a framework agreement, pursuant to which the Group and Greentown subscribed for new shares of an investment company to jointly develop land in Dalian on a 60:40 ownership basis, into residential properties. As Greentown is an associate of the Group, this transaction is considered to be a related party transaction.

d. During the year, the Group together with China Merchants Property Development Co., Ltd. ("CMP") jointly succeeded in bidding for two pieces of land in Beijing at an aggregate price of HK$2,920 million for development into residential properties. A framework agreement was entered into between the Group and CMP for the purpose of joint bidding and development of the land. CMP is a non wholly-owned subsidiary of China Merchants Group Co., Ltd. which in turn is an indirect substantial shareholder of a non wholly-owned subsidiary of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

e. Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employees are disclosed in Notes 2(b) and 2(c).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in notes 12 and 13.

30. CONTINGENT LIABILITIES

As at 31 December 2012, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK$72,032 million (2011: HK$74,485 million). There were also contingent liabilities in respect of guarantees given by the Company on behalf of jointly controlled entities and an associate of HK$4,935 million (2011: HK$4,871 million) of which HK$3,731 million (2011: HK$3,519 million) had been drawn. The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries, jointly controlled entities and an associate as their fair value cannot be reliably measured and their transaction price was HK$Nil.

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

Notes to the Financial Statements

31. COMMITMENTS

The Group's outstanding commitments as at 31 December 2012 are detailed as below:

a. Planned expenditure

	2012 Authorised and contracted for HK$ Million	2012 Authorised but not contracted for HK$ Million	2012 Total HK$ Million	2011 Authorised and contracted for HK$ Million	2011 Authorised but not contracted for HK$ Million	2011 Total HK$ Million
(I) Properties						
Property investment						
Hong Kong	**1,132**	**824**	**1,956**	976	5	981
Mainland China	**7,197**	**20,031**	**27,228**	9,377	22,497	31,874
	8,329	**20,855**	**29,184**	10,353	22,502	32,855
Development properties						
Hong Kong	**164**	**638**	**802**	328	655	983
Mainland China	**15,383**	**41,133**	**56,516**	9,807	55,320	65,127
	15,547	**41,771**	**57,318**	10,135	55,975	66,110
Properties total						
Hong Kong	**1,296**	**1,462**	**2,758**	1,304	660	1,964
Mainland China	**22,580**	**61,164**	**83,744**	19,184	77,817	97,001
	23,876	**62,626**	**86,502**	20,488	78,477	98,965
(II) Non-properties						
Modern Terminals	**30**	**420**	**450**	820	720	1,540
Wharf T&T	**119**	**289**	**408**	245	165	410
i-CABLE	**23**	**128**	**151**	31	175	206
	172	**837**	**1,009**	1,096	1,060	2,156
Group total	**24,048**	**63,463**	**87,511**	21,584	79,537	101,121

i. Properties commitments are mainly for construction costs to be incurred in the forthcoming years and HK$6.1 billion (2011: HK$5.3 billion) attributable land cost payable by end of 2013.

ii. The expenditure for development properties included attributable amounts for developments undertaken by jointly controlled entities and associates of HK$705 million (2011: HK$854 million) in Hong Kong and of HK$19,884 million (2011: HK$18,285 million) in Mainland China.

b. In addition to the above, the CME segment is committed to programming and other expenditure totalling HK$934 million (2011: HK$1,157 million) with HK$834 million (2011: HK$1,077 million) being authorised and contracted for.

c. The Group leases a number of properties and telecommunication network facilities under operating leases. The leases typically run for an initial period of two to fifteen years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. Total operating leases commitments are detailed as below:

	2012 *HK$ Million*	2011 *HK$ Million*
Expenditure for operating leases		
Within one year	**34**	34
After one year but within five years	**76**	87
Over five years	**46**	53
	156	174

32. 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. Of these, amendements to HKFRS 7, Financial instruments: Disclosures — Transfers of financial assets is relevant to the Group's financial statements.

The Group has not applied any new standard, amendments or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 7, Financial instruments: Disclosures — Transfers of financial assets

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The "Principal accounting policies" set out on pages 203 to 219 summarise the accounting policies of the Group and the Company after the adoption of these policies to the extent that they are relevant to the Group and the Company.

Notes to the Financial Statements

33. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, 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 financial statements. 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
HKAS 19 (Revised), Employee benefits	1 January 2013
Annual Improvements to HKFRS s 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, Financial instruments: 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 is expected to be in the period of initial application. So far it has concluded that the adoption of the new standards is unlikely to have a significant impact on the Group's consolidated financial statements.

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34. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 7.

35. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2012 to be Wheelock and Company Limited, which is incorporated and listed in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 26 March 2013.

Principal Accounting Policies

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 32 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b. Basis of preparation of the financial statements

The consolidated financial statements made up to 31 December comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements 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 financial statements and major sources of estimation uncertainty are discussed in note (aa).

c. Basis of consolidation

i. 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 presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements 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 financial statements. 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.

Principal Accounting Policies

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 statement of financial position 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. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes (p) or (q) depending on the nature of the liability.

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 (f)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note (c)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

ii. *Associates and jointly controlled entities*

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or 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 financial statements 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 notes (c)(iii) and (k)). Any acquisition-date excess 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 investees' other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and jointly controlled entities where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group's share of losses exceeds its interest in an associate or 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 in the associate or jointly controlled entity 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 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 the consolidated income statement.

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 (f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the individual Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less impairment losses.

iii. *Goodwill*
Goodwill represents the excess of

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

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

When (b) is greater than (a), 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 (k)).

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.

Principal Accounting Policies

d. Fixed assets

i. *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest 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 in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period 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 the consolidated income statement. Rental income from investment properties is accounted for as described in note (t)(i).

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, 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 (i).

ii. *Hotel and club properties*

Hotel and club properties are stated at cost less accumulated depreciation and impairment losses. Hotel properties under development are stated at cost less impairment losses.

iii. *Broadcasting and communications equipment*

Broadcasting and communications equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes materials, direct labour and an appropriate proportion of overheads and borrowing costs directly attributable to the acquisition, construction or production of such equipment which necessarily takes a substantial period of time to get ready for its intended use.

iv. *Other properties and fixed assets held for own use*

Other properties and fixed assets held for own use are stated at cost less accumulated depreciation and impairment losses.

v. Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

e. Depreciation of fixed assets

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

i. *Investment properties*

No depreciation is provided on investment properties.

ii. *Hotel and club properties*

Depreciation is provided on the cost of the leasehold land of hotel and club properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

Depreciation on hotel properties under development commences when they are available for use.

iii. *Broadcasting and communications equipment*
Depreciation is provided on a straight line basis on the cost of the equipment at rates determined by the estimated useful lives of the assets of 2 to 20 years.

iv. *Other properties and fixed assets held for own use*
Depreciation is provided on the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Costs of the buildings thereon are depreciated on a straight line basis over their unexpired period of leases or estimated useful live whichever is shorter.

Depreciation is provided on a straight line basis on the cost of other fixed assets held for own use at rates determined by the estimated useful lives of these assets of 3 to 25 years.

Where parts of an item of fixed assets have different useful lives, the cost or valuation 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.

f. Investments in debt and equity securities
Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities) 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. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement does not include any dividends or interest earned as these are recognised in accordance with the policies set out in notes (t)(iv) and (v).

Dated debt securities that the Group and/or the Company has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the statement of financial position at amortised cost less impairment losses.

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 statement of financial position at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investments revaluation reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in the consolidated profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in consolidated profit or loss. When these investments are derecognised or impaired, 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.

Principal Accounting Policies

g. Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, the fair value is remeasured at each reporting date. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

h. Hedging

i. Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated income statement. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated income statement.

ii. Cash flow hedge

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 remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in equity. The ineffective portion of any gain or loss is recognised immediately in the consolidated income statement.

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 the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (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 the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

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 the consolidated income statement immediately.

iii. Hedge of net investment in a foreign operation

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to the consolidated income statement. The ineffective portion is recognised immediately in the consolidated income statement.

i. 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 leased assets

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 an investment property, is accounted for as if held under a finance lease (see note (d)(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.

ii. Assets held under operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement 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 the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

iii. Assets held under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note (e). Impairment losses are accounted for in accordance with the accounting policy as set out in note (k). Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

j. Programming library

Programming library consists of presentation rights for commissioned programmes and acquired programmes for showing on the Group's television channel, and commissioned programmes and films for licensing purposes.

Presentation rights are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and any impairment losses. Amortisation is charged to profit or loss on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred. Costs of in-house programmes are written-off in the period in which they are incurred.

Principal Accounting Policies

Commissioned programmes and films for licensing purposes comprise direct production costs and production overheads and are stated at the lower of amortised cost or net realisable value. Costs are amortised on an individual programme/film basis in the ratio of the current year's gross revenues to management's forecast of the total ultimate gross revenues from all sources.

Both the period and method of amortisation are reviewed annually.

k. Impairment of assets

i. *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each of the end of the reporting period to determine whether there is objective evidence of impairment. 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 (c)(ii))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note (k)(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 (k)(ii).

— For unquoted equity securities and other financial assets 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 arising on equity securities carried at cost are not reversed (including those provided during the interim financial reporting).

— 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.

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 the consolidated income statement. 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.

— For available-for-sale investments, the cumulative loss that has been recognised directly in investments revaluation reserve is reclassified to the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity investments are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade 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 receivables 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 the consolidated income statement.

ii. *Impairment of other assets*
The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— 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).

— Recognition of impairment losses
An impairment loss is recognised as an expense in the consolidated income statement whenever the carrying amount exceeds the 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 (including those provided during the interim financial reporting).

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 the consolidated income statement in the year in which the reversals are recognised.

— Interim financial reporting and impairment
Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Principal Accounting Policies

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 has the impairment been assessed only at the end of the financial year to which the 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 in the consolidated income statement.

l. Properties for sale

i. Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties for sale comprises all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

ii. Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is estimated by the management, based on the expected selling price in the ordinary course of business less the anticipated costs of completion and the estimated costs necessary to make the sale.

n. Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts, 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 bad and doubtful debts.

o. Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

A liability component with a hedging relationship with a derivative financial instrument that does not qualify for hedge accounting is remeasured at fair value at the end of each reporting period and any change in fair value is recognised in the consolidated income statement.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to revenue reserves.

p. Interest-bearing borrowings

Interest-bearing borrowings for which there is a hedging relationship with a derivative financial instrument, which does not qualify for hedge accounting are initially recognised at fair value less transaction costs. At the end of each reporting period the fair value is remeasured and any change in fair value is recognised in the consolidated income statement.

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

q. Trade and other payables

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

r. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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 statement of cash flows.

Principal Accounting Policies

s. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. The income statements of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated income statement. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal. 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.

t. Recognition of revenue

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 the consolidated income statement as follows:

i. Rental income under operating leases is recognised 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 as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised in the accounting period in which they are earned.

ii. Income arising from the sale of properties held for sale is recognised upon the later of the execution of the formal sale and purchase agreement and the issue of occupation permit/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 statement of financial position.

iii. Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.

iv. 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.

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

vi. *Deferred revenue*

Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

u. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production 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 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.

v. Income tax

i. 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 the consolidated income statement 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.

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

iii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. 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 be capable to 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note (d)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting period 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each of reporting period 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 will probably arise from the distribution of dividends are recognised when the related dividends are likely to be payable in the foreseeable future.

Principal Accounting Policies

iv. 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, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

w. Related parties

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

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

(b) has significant influence over the Group; or

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

ii. An entity is related to the Group if any of the following conditions applies:

(a) 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).

(b) 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).

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

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

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

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) 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).

x. 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.

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 nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

y. Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top 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.

Principal Accounting Policies

z. Employee benefits

i. *Shared based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserves).

ii. *Employee benefits and contributions to defined contribution retirement plans*

Short-term employee benefits, including salaries, annual bonuses, paid annual leave, leave passage, 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 of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

aa. Significant accounting estimates and judgements

Note 26 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

— Valuation of investment properties

Investment properties are included in the statement of financial position at their market value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

— Assessment of useful economic lives for depreciation of fixed assets

In assessing the estimated useful lives of fixed assets, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of fixed assets annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

— Assessment of impairment of non-current assets
Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

— Assessment of provision for properties for sale
Management determines the net realisable value of properties for sale by using (i) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (ii) internal estimates of costs based on quotes by suppliers.

Management's assessment of net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate, and estimates may need to be adjusted in later periods.

— Recognition of deferred tax assets
The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

Principal Subsidiaries, Associates and Jointly Controlled Entities At 31 December 2012

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/ registered and paid up capital	Percentage of equity attributable to Shareholders	Principal activities
Properties				
[#] **Wharf Estates Limited**	Hong Kong	2 HK$1 shares	100	Holding company
Harbour City Estates Limited	Hong Kong	20,000 HK$10 shares	100	Property
Wharf Realty Limited	Hong Kong	2 HK$1 shares	100	Property
Times Square Limited	Hong Kong	2 HK$10 shares	100	Property
Plaza Hollywood Limited	Hong Kong	10,000,000 HK$1 shares	100	Property
[#] **Wharf Development Limited**	Hong Kong	7,000,000,000 HK$1 shares	100	Holding company
Wharf Peak Properties Limited	Hong Kong	3,000,000 HK$10 shares	100	Property
Hong Tai Yuen Limited	Hong Kong	500,000 HK$1 shares	100	Property
Olinda Limited	Hong Kong	2 HK$10 shares	100	Property
New Tech Centre Limited	Hong Kong	10,000 HK$1 shares	100	Property
[#] **Wharf China Holdings Limited**	British Virgin Islands	5,129,000,000 US$1 shares	100	Holding company
Wharf China Estates Limited	British Virgin Islands	1,000,000 US$1 shares	100	Holding company
[iii] Shanghai Long Xing Property Development Company Limited	The People's Republic of China	US$45,000,000	100	Property
[ii] Dalian Times Square Development Company Limited	The People's Republic of China	RMB420,000,000	100	Property
[ii] Long Qing Property Development (Chongqing) Company Limited	The People's Republic of China	RMB194,000,000	100	Property
[i] Shanghai Wheelock Square Development Limited	The People's Republic of China	US$240,000,000	98	Property
[ii] 龍昌綜合開發(成都)有限公司	The People's Republic of China	HK$330,000,000	100	Property
[ii] 龍錦綜合開發(成都)有限公司	The People's Republic of China	US$1,310,000,000	100	Property
[ii] 成都時代奧特萊斯商業有限公司	The People's Republic of China	HK$170,000,000	100	Property
[ii] 九龍倉(長沙)置業有限公司	The People's Republic of China	US$917,000,000	100	Property
Wharf China Development Limited	British Virgin Islands	1,000,000 US$1 shares	100	Holding company
[ii] 漢龍實業綜合開發(武漢)有限公司	The People's Republic of China	US$33,100,000	100	Property
[ii] 九龍倉(武漢)置業有限公司	The People's Republic of China	US$165,000,000	100	Property
[iii] 上海九洲物業發展有限公司	The People's Republic of China	US$30,000,000	85	Property
[i] 上海龍申房地產發展有限公司	The People's Republic of China	US$22,330,000	55	Property
[ii] 上海莉源房地產開發有限公司	The People's Republic of China	US$745,000,000	100	Property
[ii] 上海萊源房地產開發有限公司	The People's Republic of China	US$155,000,000	100	Property
[ii] 九龍倉(無錫)置業有限公司	The People's Republic of China	US$307,580,000	100	Property
[ii] 龍茂房地產開發(成都)有限公司	The People's Republic of China	HK$1,233,000,000	100	Property
[ii] 龍潤房地產開發(成都)有限公司	The People's Republic of China	HK$820,000,000	100	Property
[ii] 龍悦房地產開發(成都)有限公司	The People's Republic of China	US$240,000,000	100	Property
[ii] 蘇州蘇龍地產發展有限公司	The People's Republic of China	US$166,800,000	100	Property
[ii] 蘇州瑞龍地產發展有限公司	The People's Republic of China	US$187,000,000	100	Property
[ii] 蘇州銀龍地產發展有限公司	The People's Republic of China	US$274,000,000	100	Property
[ii] 無錫港龍置業有限公司	The People's Republic of China	US$140,900,000	100	Property
[ii] 無錫河畔置業有限公司	The People's Republic of China	US$111,400,000	100	Property
[ii] 無錫都會置業有限公司	The People's Republic of China	US$144,600,000	100	Property
[ii] 港盈房地產(杭州)有限公司	The People's Republic of China	US$146,990,000	100	Property
[ii] 九龍倉(杭州)置業有限公司	The People's Republic of China	US$310,000,000	100	Property
[ii] 堡盈房地產(杭州)有限公司	The People's Republic of China	US$320,000,000	100	Property
[ii] 錦興房地產開發(杭州)有限公司	The People's Republic of China	US$126,000,000	100	Property
[ii] 富景房地產開發(富陽)有限公司	The People's Republic of China	US$106,000,000	100	Property
[ii] 常州湖畔置業有限公司	The People's Republic of China	US$180,000,000	100	Property
[ii] 常州河畔置業有限公司	The People's Republic of China	US$24,360,000	100	Property
* Harbour Centre Development Limited	Hong Kong	708,750,000 HK$0.5 shares	71	Holding company
[i] 蘇州高龍房產發展有限公司	The People's Republic of China	RMB3,317,041,045	57	Property
[ii] 九龍倉(常州)置業有限公司	The People's Republic of China	US$229,800,000	71	Property
[ii] 上海綠源房地產開發有限公司	The People's Republic of China	RMB770,000,000	71	Property

	Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/ registered and paid up capital	Percentage of equity attributable to Shareholders	Principal activities
	Logistics				
	Wharf Transport Investments Limited	Hong Kong	2 HK$1 shares	100	Holding company
	The "Star" Ferry Company, Limited	Hong Kong	1,440,000 HK$5 shares	100	Public transport
	Modern Terminals Limited	Hong Kong	70,116 HK$1,000 shares	68	Container terminal
i	Shenzhen Dachan Bay Modern Port Development Company, Limited	The People's Republic of China	RMB2,475,550,000	44	Container terminal
i	Suzhou Modern Terminals Limited	The People's Republic of China	RMB822,500,000	48	Container terminal
	Hotels				
#	**Marco Polo Hotels Limited**	Cayman Islands	500,000,000 US$1 shares	100	Holding company
	Marco Polo Hotels Management Limited	Hong Kong	2 HK$10 shares	100	Hotel
	The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	71	Hotel and property
	The Marco Polo Hotel (Hong Kong) Limited	Hong Kong	1,000 HK$1 shares	100	Hotel
	The Prince Hotel Limited	Hong Kong	2 HK$1 shares	100	Hotel
ii	武漢馬哥孛羅酒店有限公司	The People's Republic of China	US$3,850,000	100	Hotel
ii	常州馬哥孛羅酒店有限公司	The People's Republic of China	US$1,050,000	71	Hotel
	CME				
#	**Wharf Communications Limited**	Hong Kong	1,000,000 HK$10 shares	100	Holding company
*	i-CABLE Communications Limited	Hong Kong	2,011,512,400 HK$1 shares	74	Holding company
	Hong Kong Cable Enterprises Limited	Hong Kong	2 HK$1 shares	74	Advertising sale
	Hong Kong Cable Television Limited	Hong Kong	750,000,000 HK$1 shares	74	Pay TV, Internet and multimedia
	i-CABLE Entertainment Limited	Hong Kong	10,000,000 HK$1 shares	74	Programme production and channel operation
	i-CABLE News Limited	Hong Kong	10,000,000 HK$1 shares	74	Programme production and channel operation
	i-CABLE Sports Limited	Hong Kong	10,000,000 HK$1 shares	74	Programme production and channel operation
	i-CABLE Network Limited	Hong Kong	100 HK$1 shares 2 HK$1 non-voting deferred shares	74	Network operation
	Sundream Motion Pictures Limited	Hong Kong	300,000,000 HK$1 shares	74	Film production
	Wharf T&T Limited	Hong Kong	740,000,000 HK$1 shares	100	Telecommunication
	Wharf T&T eBusiness Limited	Hong Kong	1 HK$1 share	100	Telecommunication
	Wharf T&T Outsourcing Services Limited	Hong Kong	1 HK$1 share	100	Telecommunication
	EC Telecom Limited	Hong Kong	2 HK$1 shares	100	Telecommunication
	COL Limited	Hong Kong	40,000 HK$500 shares	100	IT services
	Investment and others				
	Wharf Limited	Hong Kong	2 HK$10 shares	100	Management services
iv	Wharf Finance Limited	Hong Kong	2 HK$1 shares	100	Finance
iv	Wharf Finance (BVI) Limited	British Virgin Islands/Hong Kong	500 US$1 shares	100	Finance
#	Wharf Hong Kong Limited	Cayman Islands	500,000,000 US$1 shares	100	Holding company
	Wharf China Finance Limited	Hong Kong	5,000,000 HK$1 shares	100	Finance
iv	Wharf Finance (No.1) Limited	Hong Kong	2 HK$1 shares	100	Finance
	Wharf Finance (BVI) No. 1 Limited	British Virgin Islands/Hong Kong	500 US$1 shares	100	Finance
iv	Wharf Finance (2014) Limited	British Virgin Islands/Hong Kong	10 US$1 shares	100	Finance
iv	Wharf MTN (Singapore) Pte. Ltd	Singapore	2 S$1 shares	100	Finance

Principal Subsidiaries, Associates and Jointly Controlled Entities At 31 December 2012

Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to Shareholders	Principal activities
Properties				
* Greentown China Holdings Limited	Cayman Islands/ The People's Republic of China	Ordinary	25	Property
Start Treasure Limited	Hong Kong	Ordinary	15	Property
蘇州雙湖房地產有限公司	The People's Republic of China	Registered	50	Property
天津港威房地產開發有限公司	The People's Republic of China	Registered	50	Property
佛山招商九龍倉房地產有限公司	The People's Republic of China	Registered	50	Property
佛山依雲房地產有限公司	The People's Republic of China	Registered	50	Property
佛山鑫城房地產有限公司	The People's Republic of China	Registered	50	Property
佛山信捷房地產有限公司	The People's Republic of China	Registered	50	Property
廣州市萬尚房地產有限公司	The People's Republic of China	Registered	33	Property
北京廣盈房地產開發有限公司	The People's Republic of China	Registered	33	Property
Logistics				
Hong Kong Air Cargo Terminals Limited	Hong Kong	Ordinary	21	Air cargo terminal
Mega Shekou Container Terminals Limited	British Virgin Islands	Ordinary	14	Holding company

Jointly controlled entities	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to Shareholders	Principal activities
Properties				
Market Prospect Limited	Hong Kong	Ordinary	50	Property
重慶嘉江房地產開發有限公司	The People's Republic of China	Registered	40	Property
重慶嘉益房地產開發有限公司	The People's Republic of China	Registered	50	Property
重慶豐盈房地產開發有限公司	The People's Republic of China	Registered	39	Property
浙江金盈置業有限公司	The People's Republic of China	Registered	50	Property
祥寶投資(成都)有限公司	The People's Republic of China	Registered	30	Property
天津贏超房地產開發有限公司	The People's Republic of China	Registered	50	Property
寧波姚景房地產開發有限公司	The People's Republic of China	Registered	50	Property
寧波瑞峰置業有限公司	The People's Republic of China	Registered	50	Property
Logistics				
Taicang International Container Terminals Company Limited	The People's Republic of China	Registered	34	Container terminal

Subsidiaries held directly
* *Listed companies*
i *This entity is registered as a sino-foreign joint venture company under PRC law*
ii *This entity is registered as a wholly foreign owned enterprise under PRC law*
iii *This entity is registered as a foreign owned enterprise under PRC law*

Notes:
a) *All the subsidiaries listed above were, as at 31 December 2012, indirect subsidiaries of the Company except where marked #.*
b) *The above list gives the principal subsidiaries, associates and jointly controlled entities of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.*

c) *Set out below is details of debt securities issued by wholly-owned subsidiaries of and guaranteed by the Company:*

Name of subsidiary/Borrower	Description of debt securities	Outstanding principal amount
Wharf Finance (BVI) Limited	HK$ Guaranteed Floating Rate Notes due 2013	HK$300 Million
	HK$ Guaranteed Fixed Rate Notes due 2016	HK$250 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$200 Million
Wharf Finance Limited	HK$ Guaranteed Floating Rate Notes due 2014	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2016	HK$430 Million
	US$ Guaranteed Fixed Rate Notes due 2017	US$400 Million
	US$ Guaranteed Fixed Rate Notes due 2017	US$300 Million
	US$ Guaranteed Fixed Rate Notes due 2017	US$600 Million
	HK$ Guaranteed Fixed Rate Notes due 2018	HK$160 Million
	HK$ Zero Coupon Callable Notes due 2019	HK$369 Million
	HK$ Zero Coupon Callable Notes due 2019	HK$184 Million
	HK$ Guaranteed Fixed Rate Notes due 2021	HK$345 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$424 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$60 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$312 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$382 Million
	HK$ Guaranteed Fixed Rate Notes due 2022	HK$326 Million
	US$ Guaranteed Fixed Rate Notes due 2022	US$60 Million
	HK$ Guaranteed Fixed Rate Notes due 2027	HK$230 Million
	HK$ Guaranteed Fixed Rate Notes due 2040	HK$250 Million
Wharf Finance (No.1) Limited	HK$ Guaranteed Fixed Rate Notes due 2016	HK$167 Million
	SG$ Guaranteed Fixed Rate Notes due 2016	SG$160 Million
	RMB Guaranteed Fixed Rate Notes due 2016	RMB150 Million
	US$ Guaranteed Floating Rate Notes due 2016	US$58 Million
	HK$ Guaranteed Fixed Rate Notes due 2017	HK$113 Million
	RMB Guaranteed Fixed Rate Notes due 2018	RMB800 Million
	HK$ Guaranteed Fixed Rate Notes due 2018	HK$300 Million
	RMB Guaranteed Fixed Rate Notes due 2019	RMB200 Million
	HK$ Guaranteed Fixed Rate Notes due 2019	HK$240 Million
	HK$ Guaranteed Fixed Rate Notes due 2020	HK$550 Million
	HK$ Guaranteed Fixed Rate Notes due 2020	HK$180 Million
	HK$ Guaranteed Fixed Rate Notes due 2020	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2020	HK$100 Million
	SG$ Guaranteed Fixed Rate Notes due 2021	SG$260 Million
	JPY Guaranteed Fixed Rate Notes due 2026	JPY10,000 Million
Wharf Finance (2014) Limited	HK$ Guaranteed Fixed Rate Convertible Bonds due 2014	HK$6,220 Million
Wharf MTN (Singapore) Pte. Limited	SG$ Guaranteed Fixed Rate Notes due 2018	SG$250 Million

Schedule of Principal Properties

At 31 December 2012

Address	Total	Office	Retail	Residential	Others	(Remarks)
	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
HONG KONG						
Property — Investment						
Harbour City, Tsimshatsui						
Ocean Terminal	511,000	–	511,000	–	–	
Ocean Centre	987,000	613,000	374,000	–	–	
Wharf T & T Centre	223,000	223,000	–	–	–	
World Commerce Centre	223,000	223,000	–	–	–	
World Finance Centre	512,000	512,000	–	–	–	
Ocean Galleries	460,000	–	460,000	–	–	
Gateway I	1,241,000	1,127,000	114,000	–	–	
Gateway II	2,636,000	1,551,000	415,000	670,000	–	
Marco Polo Hongkong Hotel	760,000	14,000	175,000	–	571,000	(A 665-room hotel)
Gateway	308,000	–	–	–	308,000	(A 399-room hotel)
Prince	350,000	–	–	–	350,000	(A 393-room hotel)
Pacific Club Kowloon	139,000	–	–	–	139,000	(Club House)
	8,350,000	4,263,000	2,049,000	670,000	1,368,000	
Times Square						
Sharp Street East, Causeway Bay	1,969,000	1,033,000	936,000	–	–	
Plaza Hollywood						
3 Lung Poon Street, Diamond Hill	562,000	–	562,000	–	–	
Others						
Wharf T&T Square, Hoi Bun Road, Kwun Tong	513,000	513,000	–	–	–	
Units at Cable TV Tower, Hoi Shing Road, Tsuen Wan	566,000	–	–	–	566,000	(Industrial)
Units at Strawberry Hill, 8 Plunkett's Road, The Peak	13,000	–	–	13,000	–	
Chelsea Court, 63 Mount Kellett Road, The Peak	43,000	–	–	43,000	–	
Mountain Court, 11-13 Plantation Road, The Peak	46,000	–	–	46,000	–	
1 Plantation Road, The Peak	91,000	–	–	91,000	–	
77 Peak Road, The Peak	42,200	–	–	42,200	–	
Kowloon Godown, 1-5 Kai Hing Road, Kowloon Bay	829,000	–	6,000	823,000	–	
Units at Star House, 3 Salisbury Road, Kowloon	50,800	–	50,800	–	–	
	4,725,000	1,546,000	1,554,800	1,058,200	566,000	
Total Hong Kong Property — Investment	13,075,000	5,809,000	3,603,800	1,728,200	1,934,000	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
346,719	KPP 83	2033	1966	N/A	100%
126,488	KML 11 S.A.	2880	1977	N/A	100%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.D.	2880	1983	N/A	100%
(a)	KML 11 S.B. & D.	2880	1981/83	N/A	100%
(a)	KML 11 R.P.	2880	1994	N/A	100%
(a)	KML 11 S.B. & D.	2880	1998/99	N/A	100%
58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	71%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.D.	2880	1983	N/A	100%
48,309	KIL 11179	2021	1990	N/A	100%
112,441	IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A.	2850/60/80	1993	N/A	100%
280,510	NKIL 6160	2047	1997	N/A	100%
48,438	KTIL 713	2047	1991	Planning for redevelopment	100%
N/A	TWTL 218	2047	1992	N/A	100%
N/A	RBL 512 & 1004	2027/28	1974/77	N/A	100%
29,640	RBL 556 S.A.R.P. & S.B.	2035	2001	N/A	100%
32,145	RBL 522, 639, 661	2027	2017	Foundation in progress	100%
97,670	RBL 534 S.E., S.F. & R.P.	2028	2018	Foundation in progress	100%
76,725	RBL 836	2029	2016	Foundation in progress	100%
165,809	NKIL 5805, 5806 & 5982	2047	1984	Planning for redevelopment	100%
N/A	KML 10 S.A.	2863	1966	N/A	71%

Schedule of Principal Properties

At 31 December 2012

Address	Total	Office	Retail	Residential	Others	(Remarks)
	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Property — Development						
One Midtown, 11 Hoi Shing Road, Tsuen Wan	4,600	–	–	–	4,600	
Yau Tong Godown, 5 Tung Yuen Street, Yau Tong	256,000	–	43,000	213,000	–	
	260,600	–	43,000	213,000	4,600	
Associates/jointly controlled entities (Attributable — Note e)						
Various Lots at Yau Tong Bay, Yau Tong	596,000	–	11,000	585,000	–	
8 Mount Nicholson Road, The Peak	162,000	–	–	162,000	–	
	758,000	–	11,000	747,000	–	
Total Hong Kong Property — Development	1,018,600	–	54,000	960,000	4,600	
HONG KONG TOTAL	**14,093,600**	**5,809,000**	**3,657,800**	**2,688,200**	**1,938,600**	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
66,000	TWIL 36	2047	2012	N/A	100%
42,625	YTIL 4SA	2062	2016	Foundation in progress	100%
806,807	R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay	2047	N/A	Planning stage	14.9%
250,930	IL9007	2060	2015	Foundation in progress	50%

Schedule of Principal Properties

At 31 December 2012

	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Address	**Total**	**Office**	**Retail**	**Residential**	**Others**	**(Remarks)**
MAINLAND CHINA						
Property — Investment						
Completed Investment Properties						
Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai	1,039,000	331,000	513,000	195,000	–	
Chongqing Times Square 100 Zou Rong Road, Yuzhong District, Chongqing	728,800	13,800	715,000	–	–	
Wuhan Times Square 160 Yan Jiang Da Dao, Jiangan District, Wuhan	8,000	–	8,000	–	–	
Dalian Times Square 50 Ren Min Road, Zhongshan District, Dalian	188,000	–	188,000	–	–	
Chengdu Times Outlets No. 633 Shuangnan Avenue (Middle Section) Shuangliu County, Chengdu	680,000	–	680,000	–	–	
Shanghai Wheelock Square 1717 Nan Jing Xi Road, Jingan District, Shanghai	1,199,000	1,149,000	50,000	–	–	
	3,842,800	1,493,800	2,154,000	195,000	–	
Investment Properties Under Development						
Chengdu International Finance Square Junction of Hongxing Road and Da Ci Si Road, Jinjiang District, Chengdu	6,461,000	2,932,000	2,315,000	774,000	440,000	(A 238-room hotel)
Wuxi International Finance Square Taihu Plaza, Nanchang District, Wuxi	2,916,000	2,477,000	–	–	439,000	(A 208-room hotel)
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	2,992,000	1,898,000	–	783,000	311,000	(A 96-room hotel)
Changsha International Finance Square Furong District, Changsha	7,804,000	4,726,000	2,470,000	–	608,000	(A 250-room hotel)
Chongqing International Finance Square Zones A of Jiangbei City, Jiang Bei District, Chongqing (Attributable — Note e)	2,524,000	1,786,000	547,000	–	191,000	(A 219-room hotel)
	22,697,000	13,819,000	5,332,000	1,557,000	1,989,000	
Marco Polo Wuhan 160 Yan Jiang Da Dao, Jiangan District, Wuhan	405,000	–	–	–	405,000	(A 370-room hotel)
Total Mainland China Property — Investment	26,944,800	15,312,800	7,486,000	1,752,000	2,394,000	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
148,703	N/A	2043	1999	N/A	100%
95,799	N/A	2050	2004	N/A	100%
(b)	N/A	2053	2008	N/A	100%
(c)	N/A	2039	2008	N/A	100%
(d)	N/A	2047	2009	N/A	100%
136,432	N/A	2049	2010	N/A	98%
590,481	N/A	2047	2014	Superstructure in progress	100%
313,867	N/A	2047/57	2014	Superstructure in progress	100%
229,069	N/A	2047/77	2016	Foundation in progress	57%
800,452	N/A	2051	2016	Excavation work in progress	100%
516,021	N/A	2050/60	2015	Superstructure in progress	50%
(b)	N/A	2053	2008	N/A	100%

Schedule of Principal Properties

At 31 December 2012

Address	Total	Office	Retail	Residential	Others	(Remarks)
	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Property — Development						
Changzhou Times Palace China Dinosaur Park, Xinbei District, Jiangsu Province, Changzhou	7,590,000	–	–	7,073,000	517,000	(A 272-room hotel and a State Guest House) (2,340,000 sq.ft. pre-sold)
Changzhou Feng Huang Hu Xin Bei District and abutting Han Jiang Lu and Yu Long Lu. Changzhou	3,283,000	–	–	3,283,000	–	
Changzhou Feng Huang Hu Site 03 Xin Bei District and abutting Huang He Lu and Feng Xiang Lu, Changzhou	2,638,000	–	–	2,638,000	–	
Palazzo Pitti Hangzhou Hangyimian Lot C/D Gongshu District Gongchen Bridge West, Hangzhou	2,422,000	–	–	2,422,000	–	(80,000 sq.ft. pre-sold)
Hangzhou Wenhui Road Lot#FG05 of Wenhui Road, Hangzhou	883,000	–	–	883,000	–	
Shi Ji Hua Fu Yingbin North Road/Fenshou Road, Fuchun District, Fuyang, Hangzhou	1,384,000	–	78,000	1,306,000	–	
Junting Hangzhou Qianjiang Economic Development Area 09 Provincial Road/Kangxin Road, Yuhang District, Hangzhou	2,368,000	–	–	2,368,000	–	(156,000 sq.ft. pre-sold)
No.1 Xin Hua Road 176 Huai Hai Xi Road, Changning District, Shanghai	60,000	–	–	60,000	–	(13,000 sq.ft. pre-sold)
Shanghai Xi Yuan D1 of Xinjiangwancheng of Yangpu District, Shanghai	172,000	–	–	172,000	–	(66,000 sq.ft. pre-sold)
Shanghai Songjiang Xianhe Road Site #2 of Songjiang Xianhe Road, Shanghai	878,000	–	–	878,000	–	
Shanghai Pudong Huangpujiang Site #E18 of Pudong Huangpujiang Riverside, Shanghai	1,464,000	–	–	1,464,000	–	
Jingan Garden 398 Wanhangdu Road, Jingan District, Shanghai	763,000	–	–	763,000	–	
Suzhou Ambassador Villa Lot No. 68210 Suzhou Industrial Park, Suzhou	1,646,000	–	–	1,646,000	–	(105,000 sq.ft. pre-sold)
Bellagio Wang Wu Lu, Guo Sin Lu, Wu Chong New District, Suzhou	4,140,000	–	–	4,140,000	–	
Suzhou Times City Xiandai Da Dao, Suzhou Industrial Park, Suzhou	9,766,000	–	–	9,766,000	–	(3,018,000 sq.ft. pre-sold)

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
4,427,804	N/A	2047/77	2014	Superstructure in progress	71%
2,563,134	N/A	2050/80	2014	Superstructure in progress	100%
1,180,262	N/A	2083	2016	Planning stage	100%
914,000	N/A	2080	2014	Superstructure in progress	100%
258,358	N/A	2080	2015	Superstructure in progress	100%
553,442	N/A	2051/81	2015	Superstructure in progress	100%
1,315,296	N/A	2081	2015	Superstructure in progress	100%
118,220	N/A	2070	2010	N/A	85%
638,000	N/A	2077	2012	N/A	71%
877,772	N/A	2081	2014	Superstructure in progress	100%
585,723	N/A	2081	2015	Planning stage	100%
170,825	N/A	2043/63	2016	Planning stage	55%
3,654,152	N/A	2076	2015	Superstructure in progress	100%
2,501,747	N/A	2081	2015	Foundation in progress	100%
5,425,454	N/A	2077	2018	Superstructure in progress	57%

Schedule of Principal Properties

At 31 December 2012

Address	Total	Office	Retail	Residential	Others	(Remarks)
	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Wuxi Glory of Time Nanchang District and abutting on Jinhang Canal, Wuxi	2,085,000	646,000	–	1,439,000	–	(176,000 sq.ft. pre-sold)
Wuxi Times City Taihu Plaza, Nanchang District, Wuxi	6,534,000	–	–	6,534,000	–	(1,567,000 sq.ft. pre-sold)
Wuxi Xiyuan Nanchang District and abutting on Jinhang Canal, Wuxi	2,491,000	–	–	2,491,000	–	(584,000 sq.ft. pre-sold)
Wuxi Old Canal Lot#73 Nanchang District and abutting on Jinhang Canal, Wuxi	3,946,000	–	–	3,946,000	–	
The Orion Bounded by Dongdajie south, Jinhua Nan Lu east and Datiankan Jie north, Jinjiang District, Chengdu	633,000	–	–	633,000	–	(24,000 sq.ft. pre-sold)
Tian Fu Times Square Junction of Dong Da Jie & Fu He, Jinjiang District, Chengdu	1,506,000	1,026,000	51,000	429,000	–	(712,000 sq.ft. pre-sold)
Crystal Park, No.10 Gaoxin District Junction of Zhan Hua Road and Fu Cheng Avenue, Chengdu	1,068,000	443,000	5,000	620,000	–	(1,055,000 sq.ft. pre-sold)
Times Town, Shuangliu Development Zone Junction of Shuang Nan Avenue and Guang Hua Avenue, Shuangliu County, Chengdu	9,127,000	3,922,800	1,281,400	3,922,800	–	(112,000 sq.ft. pre-sold)
Chengdu Times City Shuangliu Huayang Street, Qinghe Community Group 8 and Gongxing Street Outang Village Group 5	2,390,000	–	88,000	2,302,000	–	
Le Palais Lot No. 8 along Section 3 of the 2nd Ring Road East, Chenghua District, Chengdu	3,424,000	–	70,000	3,354,000	–	(670,000 sq.ft. pre-sold)
Wuhan Times Square 160 Yan Jiang Da Dao, Jiangan District, Wuhan	9,000	–	–	9,000	–	
Wuhan Lake Moon Site B Hanyang District, Qintai Road, Wuhan	1,362,000	–	–	1,362,000	–	
Dalian Times Square 50 Ren Min Road, Zhongshan District, Dalian	116,000	–	–	116,000	–	
	74,148,000	6,037,800	1,573,400	66,019,800	517,000	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
1,276,142	N/A	2078	2015	Superstructure in progress	100%
3,314,418	N/A	2078	2015	Superstructure in progress	100%
1,416,822	N/A	2078	2015	Superstructure in progress	100%
2,121,662	N/A	2048/78	2015	Foundation in progress	100%
160,000	N/A	2079	2013	Superstructure in progress	100%
761,520	N/A	2045/75	2013	Superstructure in progress	100%
884,459	N/A	2046/76	2014	Superstructure in progress	100%
(d)	N/A	2047/77	2016	Superstructure in progress	100%
800,882	N/A	2053/83	2015	Planning stage	100%
1,130,000	N/A	2050/80	2015	Superstructure in progress	100%
(b)	N/A	2053/73	2007/08	N/A	100%
454,000	N/A	2080	2015	Foundation in progress	100%
(c)	N/A	2069	2009	N/A	100%

Schedule of Principal Properties

At 31 December 2012

	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Address	**Total**	**Office**	**Retail**	**Residential**	**Others**	**(Remarks)**
Associates/jointly controlled entities (Attributable — Note e)						
Suzhou Kingsville South of Lin Hu Road, East & West sides of Ying Hu Road Suzhou	829,000	–	–	829,000	–	(223,000 sq.ft. pre-sold)
Evian Town South of Tian Hong Lu and North of Yu He Lu Xincheng District, Foshan	1,013,000	–	56,000	957,000	–	(871,000 sq.ft. pre-sold)
Evian Uptown North side of Kin Jin Lu, Chancheng District, Foshan	1,024,700	–	86,200	938,500	–	(644,000 sq.ft. pre-sold)
Evian Buena Vista Foshan Nanhai District Shishan County Project	1,653,500	–	163,800	1,489,700	–	(313,000 sq.ft. pre-sold)
Evian Riviera Foshan Nanhai District Guicheng A18 and A21 Project	1,197,500	–	97,200	1,100,300	–	(369,000 sq.ft. pre-sold)
Donghui City Guangzhou Development Zone KXCD-D1-2 Project	954,700	–	34,700	920,000	–	(190,000 sq.ft. pre sold)
Unique Garden Laiguangying Central Street, Chaoyang District, Beijing	646,000	–	11,000	635,000	–	
The Magnificent Junction of Weiguo Road & Jingjiang Road, Hedong District Tianjin	179,000	–	38,000	141,000	–	(137,000 sq.ft. pre sold)
Shanghai Tangzhen Tangzhen 5 Jiefang 180/1 Qiu, Pudong District, Shanghai	389,000	–	–	389,000	–	
Shanghai South Station Caohejing Area Lot 278a-05/278b-02/278b-04 South Station Business Zone, Xuhui District, Shanghai	1,437,000	1,321,000	116,000	–	–	
Golf Landmark Zhuantang Town, Zhijiang National Tourist Holiday Resort, Xihi District, Hangzhou	1,930,000	–	83,000	1,847,000	–	(324,000 sq.ft. pre-sold)
Petrus Bay Site 3#-2 of Baoqingsi, Ningbo	419,000	–	–	419,000	–	
Ningbo Eastern New Town Site E-4#, 7#, 8#, 12# & 13#, Shuixianglinli Eastern New Town, Ningbo	529,000	–	–	529,000	–	
Dalian Buxiuxiang Taoyuan Area, Jiefang Road, Zhongshan District, Dalian	1,550,000	–	–	1,550,000	–	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
1,976,237	N/A	2077	2014	Superstructure in progress	50%
2,867,600	N/A	2047/77	2012	N/A	50%
1,155,000	N/A	2048/78	2014	Superstructure in progress	50%
1,526,900	N/A	2070	2015	Superstructure in progress	50%
603,900	N/A	2080	2015	Superstructure in progress	50%
1,181,300	N/A	2081	2015	Superstructure in progress	33%
258,300	N/A	2082	2015	Foundation in progress	33%
511,560	N/A	2079	2012	N/A	50%
648,056	N/A	2082	2016	Planning Stage	50%
1,156,979	N/A	2052/62	2017	Planning Stage	19%
2,046,685	N/A	2047/77	2016	Superstructure in progress	50%
524,250	N/A	2080	2014	Superstructure in progress	50%
708,142	N/A	2080	2014	Foundation in progress	50%
922,475	N/A	2083	2017	Planning stage	60%

Schedule of Principal Properties
At 31 December 2012

	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)					
Address	**Total**	**Office**	**Retail**	**Residential**	**Others**	**(Remarks)**
Chengdu ICC South of Shuanggui Road, North of Niusha Road East of Erhuan Road, West of Shahe, Jinjiang District, Chengdu	3,710,000	1,242,000	550,000	1,794,000	124,000	(156,000 sq.ft. pre-sold)
U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	1,964,000	–	–	1,964,000	–	(205,000 sq.ft. pre-sold)
The Throne Zones C of Jiangbei City, Jiang Bei District, Chongqing	4,595,000	–	–	4,595,000	–	(495,000 sq.ft. pre-sold)
International Community Zone C of Danzishi, Nanan District, Chongqing	6,049,000	–	1,097,000	4,952,000	–	(665,000 sq.ft. pre-sold)
Peaceland Cove Tiedonglu, Hebei District, Tianjin	1,295,000	–	–	486,000	809,000	(Others for commercial use) (318,000 sq.ft. pre-sold)
	31,364,400	2,563,000	2,332,900	25,535,500	933,000	
Total Mainland China Property — Development	105,512,400	8,600,800	3,906,300	91,555,300	1,450,000	
MAINLAND CHINA TOTAL	**132,457,200**	**23,913,600**	**11,392,300**	**93,307,300**	**3,844,000**	
GROUP PROPERTY — INVESTMENT	**40,019,800**	**21,121,800**	**11,089,800**	**3,480,200**	**4,328,000**	
GROUP PROPERTY — DEVELOPMENT	**106,531,000**	**8,600,800**	**3,960,300**	**92,515,300**	**1,454,600**	
GROUP TOTAL (Note h)	**146,550,800**	**29,722,600**	**15,050,100**	**95,995,500**	**5,782,600**	

Notes:

(a) *These properties with total site area of 428,719 sq. ft. form part of Harbour City.*

(b) *This property forms part of Wuhan Times Square which has a total site area of 188,090 sq. ft.*

(c) *This property forms part of Dalian Times Square which has a total site area of 171,356 sq. ft.*

(d) *This property forms part of Chengdu Shuangliu Development Zone which has a total site area of 3,900,589 sq. ft.*

(e) *The floor areas of properties held through jointly controlled entities and associates are shown on an attributable basis.*

(f) *In March 2013, the Group acquired a wholly-owned site for development of a project in Shanghai Pudong District with attributable GFA of 1,054,000 sq. ft.*

(g) *Total Mainland development properties area included 15,588,000 sq. ft. pre-sold areas which have not yet been recognised in the financial statements.*

(h) *In addition to the above floor areas, the Group has total attributable carpark areas of approximately 40 million sq. ft. mainly in Mainland China.*

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
2,212,128	N/A	2048/78	2015 and beyond	Superstructure in progress	30%
1,002,408	N/A	2057	2015	Superstructure in progress	39%
2,335,535	N/A	2050/60	2016	Superstructure in progress	50%
6,080,656	N/A	2047/57	2017	Superstructure in progress	40%
1,619,360	N/A	2050/80	2014	Superstructure in progress	50%

Ten-Year Financial Summary

Year ended 31 December	**2012** **HK$ Million**	2011 HK$ Million	2010 HK$ Million	2009 HK$ Million	2008 HK$ Million
Consolidated Income Statement					
Revenue	**30,856**	24,004	19,380	17,553	15,940
Operating profit	**14,170**	11,388	9,372	8,554	7,406
Core profit (Note a)	**11,040**	8,083	7,088	6,420	4,796
Profit before property revaluation surplus	**13,927**	6,727	7,905	7,817	4,194
Profit attributable to equity shareholders	**47,263**	30,568	35,750	19,256	5,816
Dividends attributable to shareholders	**4,998**	3,211	2,930	2,754	2,203
Consolidated Statement of Financial Position					
Investment properties	**231,522**	184,057	148,241	115,492	98,410
Fixed assets	**19,870**	18,984	18,397	18,510	21,183
Interest in associates	**16,673**	10,198	5,510	4,238	4,009
Interest in jointly controlled entities	**19,530**	16,934	15,350	7,551	7,989
Available-for-sale investments	**3,868**	2,703	3,362	1,331	706
Properties for sale	**48,915**	47,511	29,732	17,797	17,272
Bank deposits and cash	**18,795**	32,528	16,900	18,412	15,886
Other assets	**9,825**	5,058	5,276	7,130	3,099
Total assets	**368,998**	317,973	242,768	190,461	168,554
Bank and other borrowings	**(74,420)**	(75,993)	(49,589)	(39,844)	(38,009)
Other liabilities	**(37,672)**	(31,106)	(22,530)	(15,029)	(13,030)
Net assets	**256,906**	210,874	170,649	135,588	117,515
Share capital	**3,029**	3,029	2,754	2,754	2,754
Reserves	**245,472**	200,228	160,335	125,792	108,321
Shareholders' equity	**248,501**	203,257	163,089	128,546	111,075
Non-controlling interests	**8,405**	7,617	7,560	7,042	6,440
Total equity	**256,906**	210,874	170,649	135,588	117,515
Net debt	**55,625**	43,465	32,689	21,432	22,123
Financial Data					
Per share data					
Earnings per share (HK$)					
— Core profit	**3.64**	2.70	2.51	2.33	1.75
— Before property revaluation surplus	**4.60**	2.25	2.79	2.84	1.53
— Attributable to equity shareholders	**15.60**	10.22	12.64	6.99	2.12
Net asset value per share (HK$)	**82.04**	67.10	59.22	46.68	40.33
Dividends per share (HK$ cents)	**165.00**	106.00	100.00	100.00	80.00
Financial ratios					
Net debt to shareholders' equity (%)	**22.4%**	21.4%	20.0%	16.7%	19.9%
Net debt to total equity (%)	**21.7%**	20.6%	19.2%	15.8%	18.8%
Return on shareholders' equity (%) (Note b)	**20.9%**	16.7%	24.5%	16.1%	5.9%
Dividend payout (%)					
— Core profit	**45.3%**	39.7%	41.3%	42.9%	45.9%
— Before property revaluation surplus	**35.9%**	47.7%	37.1%	35.2%	52.5%
— Attributable to equity shareholders	**10.6%**	10.5%	8.2%	14.3%	37.9%
Interest cover (Times) (Note c)	**7.4**	7.9	12.9	16.5	8.1

Year ended 31 December	2007 HK$ Million	2006 *HK$ Million*	2005 *HK$ Million*	2004 *HK$ Million*	2003 *HK$ Million*
Consolidated Income Statement					
Revenue	16,208	13,364	12,543	11,953	11,253
Operating profit	7,832	6,056	5,929	5,242	5,017
Core profit (Note a)	6,043	4,285	4,499	3,740	2,731
Profit before property revaluation surplus	5,947	4,285	4,499	3,740	3,043
Profit attributable to equity shareholders	13,143	10,757	13,888	12,677	3,043
Dividends attributable to shareholders	2,093	1,958	1,958	1,683	1,487
Consolidated Statement of Financial Position					
Investment properties	95,782	86,684	78,224	66,288	54,580
Fixed assets	18,831	15,514	12,434	12,628	16,540
Interest in associates	4,182	781	1,638	1,583	2,075
Interest in jointly controlled entities	4,555	788	896	348	–
Available-for-sale investments	2,858	2,921	1,677	1,654	1,392
Properties for sale	9,235	5,784	4,370	2,915	2,589
Bank deposits and cash	7,717	3,769	2,508	2,209	1,512
Other assets	3,011	3,036	2,745	2,513	2,474
Total assets	146,171	119,277	104,492	90,138	81,162
Bank and other borrowings	(31,282)	(20,670)	(18,558)	(16,442)	(18,674)
Other liabilities	(22,887)	(18,689)	(17,408)	(15,072)	(6,839)
Net assets	92,002	79,918	68,526	58,624	55,649
Share capital	2,448	2,448	2,448	2,447	2,447
Reserves	83,916	72,714	62,926	52,502	49,181
Shareholders' equity	86,364	75,162	65,374	54,949	51,628
Non-controlling interests	5,638	4,756	3,152	3,675	4,021
Total equity	92,002	79,918	68,526	58,624	55,649
Net debt	23,565	16,901	16,050	14,233	17,162
Financial Data					
Per share data					
Earnings per share (HK$)					
— Core profit	2.38	1.75	1.84	1.53	1.12
— Before property revaluation surplus	2.34	1.75	1.84	1.53	1.24
— Attributable to equity shareholders	5.17	4.39	5.67	5.18	1.24
Net asset value per share (HK$)	35.28	30.70	26.71	22.46	21.09
Dividends per share (HK$ cents)	80.00	80.00	80.00	68.80	60.80
Financial ratios					
Net debt to shareholders' equity (%)	27.3%	22.5%	24.6%	25.9%	33.2%
Net debt to total equity (%)	25.6%	21.1%	23.4%	24.3%	30.8%
Return on shareholders' equity (%) (Note b)	16.3%	15.3%	23.1%	23.8%	6.1%
Dividend payout (%)					
— Core profit	34.6%	45.7%	43.5%	45.0%	54.4%
— Before property revaluation surplus	35.2%	45.7%	43.5%	45.0%	48.9%
— Attributable to equity shareholders	15.9%	18.2%	14.1%	13.3%	48.9%
Interest cover (Times) (Note c)	8.7	8.7	12.6	25.2	11.9

Notes:

(a) Core profit excludes net property revaluation surplus, mark-to-market changes on swaps, and other non-recurring items including book accounting gain from acquisition of interests in Greentown of HK$2,233 million in 2012, revaluation of Hactl interest/tax write-back of HK$1,246 million in 2010 and profit on disposal of Beijing Capital Times Square of HK$1,393 million in 2009.

(b) Return on Shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.

(c) Interest cover is based on EBITDA over finance costs (before capitalisation and fair value loss/gain).

(d) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.

A Chinese version of this Annual Report is available from the Company upon request.
如有需要，可向本公司索取本年報之中文版本。

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