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

2011 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of your Board, I am pleased to present my report on the operations of the Group for the financial year ended 31 December 2011.

Profit and Net Assets Attributable to Shareholders

The Group's underlying profit attributable to equity shareholders (before the fair value change of investment properties and investment properties under development) for the year ended 31 December 2011 amounted to HK$5,560 million, representing an increase of HK$518 million or 10% over HK$5,042 million for the year ended 31 December 2010. Based on the underlying profit, the earnings per share were HK$2.41 (HK$2.33 for the year ended 31 December 2010).

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties and investment properties under development, the Group profit attributable to equity shareholders for the year ended 31 December 2011 was HK$17,184 million. Compared with the Group's profit attributable to equity shareholders of HK$15,820 million for the year ended 31 December 2010, this represented an increase of HK$1,364 million or 9%. Earnings per share were HK$7.44 (HK$7.32 for the year ended 31 December 2010).

At 31 December 2011, the net asset value attributable to equity shareholders amounted to HK$185,336 million (or HK$78.23 per share), 17% higher than the amount of HK$159,038 million (or HK$73.09 per share) at 31 December 2010. Net debt (including the amount of HK$8,583 million due to a wholly owned subsidiary of Henderson Development Limited which is controlled by the private family trusts of Dr. Lee Shau Kee) amounted to HK$36,890 million (2010: HK$44,818 million) with the gearing ratio at 19.9% (2010: 28.2%).

Dividends

Your Board recommends the payment of a final dividend of HK$0.70 per share to Shareholders whose names appear on the Register of Members of the Company on Monday, 18 June 2012, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK$0.30 per share already paid, the total dividend for the year ended 31 December 2011 will amount to HK$1.00 per share (2010: HK$1.00 per share).

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

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

Final dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent to Shareholders on Thursday, 19 July 2012.

Business Review - Hong Kong

Property Sales

During the first half of the year under review, with the local property market remaining robust, the Group capitalized on the positive market sentiment and successfully re-launched an array of popular developments for sale. However, starting from mid-2011, stabilizing measures introduced by the Hong Kong SAR Government, the lingering European debt crisis and the growing concerns over economic deterioration in both mainland China and the United States led to a stagnant property market in the latter half of the year.

Luxury developments put up for sale during the year included Hill Paramount in Shatin, Headland Road in Island South, Casa Marina (Phases 1 and 2), as well as The Beverly Hills (Phase 1) and Légende Royale - The Beverly Hills (Phase 3) in Tai Po. They all received encouraging responses. For the year ended 31 December 2011, the Group sold 325 residential units in Hong Kong, generating attributable sales revenue of HK$8,308 million, a marked increase when compared with HK$4,842 million for the previous financial year (before taking into account the effect of cancelled sales). Meanwhile, 67 deluxe villas in Casa Marina (Phases 1 and 2) and The Beverly Hills (Phase 1), which were previously held for rental purposes, together with approximately 100,000 square feet of industrial/office/commercial premises (including some rental properties such as the office at 9 Queen’s Road Central), were also disposed of during the year. Including the Group’s share of sales proceeds of HK$2,538 million arising from these disposals, the Group sold an attributable HK$10,846 million worth of properties in Hong Kong for the year ended 31 December 2011.

Furthermore, The Gloucester, an 114,000-square-foot signature residential project situated on Hong Kong waterfront with full sea views, was launched for pre-sale in April 2011 with over 90% of its total 177 residential units snapped up by the end of the year. E-Trade Plaza, a 170,000-square-foot Grade A office tower at Island East, also achieved encouraging results with about 30% of its saleable area successfully sold within a few months since its pre-sale in the fourth quarter of 2011. AZURA, the Group’s joint venture development at Mid-Levels of Hong Kong Island, went on sale in November 2010 and cumulatively, 98 of its total 126 residential units had been pre-sold by the end of 2011. Their attributable sales revenue totalling HK$3,373 million, as well as the corresponding profit contribution, will be reflected in the results for the next financial year, when they are due for completion.

La Verte in Fanling has sold well since it was released for sale in February 2012.

At 31 December 2011, the Group had about 880,000 square feet in attributable gross floor area available for sale from the following projects:

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

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	at 31 December 2011 No. of residential units remaining unsold	at 31 December 2011 Gross area remaining unsold (sq. ft.)
1.	Casa Marina I 28 Lo Fai Road, Tai Po	283,200	226,561	Residential	100.00	8	25,656
2.	Casa Marina II 1 Lo Ping Road, Tai Po	228,154	182,545	Residential	100.00	14	49,459
3.	The Beverly Hills – Phase 1 23 Sam Mun Tsai Road Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	18 (Note 2)	68,744 (Note 2)
4.	Légende Royale The Beverly Hills – Phase 3 23 Sam Mun Tsai Road Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	25	126,910
5.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	42 (Note 3)	139,685 (Note 3)
6.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	39	104,588
7.	Green Lodge Tong Yan San Tsuen Yuen Long	78,781	78,781	Residential	100.00	14	29,303
8.	The Gloucester 212 Gloucester Road Wanchai	11,545	113,977	Residential	100.00	14	23,892
9.	AZURA 2A Seymour Road Mid-Levels	22,957	206,306	Residential	12.50	28	54,446
10.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	128,694
					Sub-total:	**202**	**751,377**
						Gross area attributable to the Group:	**628,493**

(2) Projects pending sale:

Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	No. of residential units	Gross area (sq. ft.)
1. 30-38 Po Tuck Street and 36 Clarence Terrace Western District, Hong Kong	7,310	58,400	Residential	100.00	133	58,400
2. 68 Boundary Street Kowloon	6,750	60,749	Commercial/ Residential	100.00	41	50,624
3. 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North Kowloon	5,880	52,919	Commercial/ Residential	100.00	59	44,099
4. 186-188 Tai Po Road Sham Shui Po Kowloon	8,324	70,298	Commercial/ Residential	100.00	138	62,321
5. La Verte 283 Jockey Club Road Fanling	42,884	34,308	Residential	100.00	16	34,308
				Sub-total:	**387**	**249,752**
				Gross area attributable to the Group:		**249,752**
				Total saleable area from the major development projects:	**589**	**1,001,129**
				Total gross area attributable to the Group:		**878,245**

Note 1: The total site area and the total gross floor area for the whole project of The Beverly Hills are 982,376 square feet and 1,165,240 square feet, respectively.
Note 2: There are 8 houses in this phase of The Beverly Hills held for investment purpose.
Note 3: There are 17 residential units held for investment purpose.

In addition, the Group is planning to launch the following residential projects for sale in 2012 upon receipt of the relevant sales consents:

Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	No. of residential units	Gross floor area (sq. ft.)
1. Shatin Town Lot 502 at Lok Wo Sha Ma On Shan – Phase 1	479,804	783,178	Commercial/ Residential	59.00	928	684,580
2. Yuen Long Town Lot 526, Tai Tong, Yuen Long	371,358	1,299,753	Residential	79.03	2,580	1,299,753
				Sub-total:	**3,508**	**1,984,333**
				Gross area attributable to the Group:		**1,431,097**

Together with the above-mentioned unsold stocks and projects pending sale or pre-sale of more than 500 residential units, a total of over 4,000 residential units with an aggregate attributable gross floor area of about 2.3 million square feet will be available for sale and pre-sale in 2012.

Land Bank

At 31 December 2011, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 21.1 million square feet, made up as follows:

	Attributable gross floor area (million sq. ft.)
Properties held for or under development	10.2
Stock of unsold property	0.7
Completed investment properties (Note)	9.2
Hotel properties	1.0
Total :	**21.1**

Note: The Group held additional rentable car parking spaces with a total area of around 2.8 million square feet.

(I) Redevelopment of old buildings in the urban areas

Existing redevelopment projects

The Group had a total of 8 existing projects under planning for redevelopment or conversion into other purposes, which would provide about 1.43 million square feet in attributable gross floor area for commercial and residential use in the urban areas as shown in the table below:

	Project name and location	**Site area (sq. ft.)**	**Expected gross floor area in future development (sq. ft.)**	**Group's interest (%)**	**Expected attributable gross floor area in future development (sq. ft.)**
1.	68 Boundary Street, Kowloon	6,750	60,749	100.00	60,749
2.	19-21 Wong Chuk Hang Road Hong Kong	14,298	214,467	50.00	107,233
3.	45-47 Pottinger Street and Ezra's Lane, Central Hong Kong	9,067	94,190	19.10	17,986
4.	25 La Salle Road Kowloon Tong, Kowloon (Note 1)	13,467	24,175	100.00	24,175
5.	29 Lugard Road The Peak, Hong Kong	23,653	11,824	100.00	11,824
6.	8 Wang Kwong Road Kowloon Bay, Kowloon (Note 2)	21,528	174,789	100.00	174,789
7.	14-30 King Wah Road North Point, Hong Kong	37,566	224,828	100.00	224,828
8.	Yau Tong Bay Kowloon	878,962	4,394,808	18.44	810,214
	Total:	**1,005,291**	**5,199,830**		**1,431,798**

Note 1: The site was previously held by the Group as a serviced apartment building.

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

Newly-acquired redevelopment projects of old buildings

In light of the market development, during the year the Group continued to maintain its prudent practice of acquiring old tenement buildings in urban areas for redevelopment in the belief that it would be a win-win move for all parties over the long term. Firstly, it is in line with the Government's policy initiatives on promoting urban renewal and creating a vibrant urban environment. Secondly, it enables the owners of units in old buildings to realize their dilapidated homes at a price higher than the prevailing market price for the old buildings and to acquire newer and safer homes. Lastly, it provides the Group with a source of urban land supply that requires lower cost and hence yields higher margin. To date, entire or majority ownership of 37 urban projects has been secured and they are expected to provide a total attributable gross floor area of approximately 2.88 million square feet, or about 3,000 housing units. The total land costs for these 37 urban projects are estimated at about HK$11,800 million, translating into an average land cost of approximately HK$4,100 per square foot of gross floor area. Such favourable land costs will ensure a significant contribution to the Group's earnings. A summary of the projects which have been acquired is as follows:

	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area in future development (sq. ft.)**	**Expected year of sales launch (Note 1)**
A. Projects with ownership fully consolidated:				
1.	30-38 Po Tuck Street and 36 Clarence Terrace Western District, Hong Kong (Note 2)	7,310	58,400	2012
2.	45-49 Boundary Street and 189-195 Sai Yeung Choi Street North Kowloon (Note 2)	5,880	52,919	2012
3.	186-188 Tai Po Road Sham Shui Po, Kowloon (Note 2)	8,324	70,298	2012
4.	1-7A Gordon Road North Point, Hong Kong (Note 2)	7,423	64,437	2013
5.	75-81 Sa Po Road Kowloon City, Kowloon (Note 2)	3,582	32,219	2013
6.	186-198 Fuk Wing Street Sham Shui Po, Kowloon (Note 2)	7,500	63,281	2013
7.	59-63 Wing Hong Street and 88-92 King Lam Street Cheung Sha Wan, Kowloon (Notes 2 and 3)	28,004	336,048	Not applicable
8.	25 Robinson Road Mid-Levels, Hong Kong (Notes 2 and 4)	15,734	39,292	2013

9.	565-577 Fuk Wah Street Cheung Sha Wan, Kowloon	7,560	63,788	2013
10.	23-33 Shing On Street Sai Wan Ho, Hong Kong (Note 2)	4,605	38,081	2014
11.	208-210 Johnston Road, Wanchai, Hong Kong (Note 3)	1,939	29,085	2014
12.	352-354 Un Chau Street Cheung Sha Wan, Kowloon	2,289	19,457	2014
13.	2-12 Observatory Road Tsim Sha Tsui, Kowloon (Notes 2, 3 and 4)	13,537	81,224	Not applicable
	Sub-total:	**113,687**	**948,529**	

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area in future development (sq. ft.)	Expected year of sales launch (Note 1)
B.	**Projects with the percentage of ownership reaching the compulsory sale application threshold for redevelopment:**			
14.	62-72 Main Street Ap Lei Chau, Hong Kong	5,973	50,771	2013
15.	89-95 Shek Pai Wan Road Aberdeen, Hong Kong	3,300	28,050	2013
16.	11-33 Li Tak Street Tai Kok Tsui, Kowloon (Note 2)	19,600	165,339	2013
17.	50-56 and 58-64 Ma Tau Kok Road and 162-168 Pau Chung Street To Kwa Wan, Kowloon (Note 2)	11,404	102,088	2013
18.	450-456G Queen’s Road West Western District, Hong Kong (Note 2)	28,371	275,999	2014
19.	4-6 Tin Wan Street Aberdeen, Hong Kong	1,740	14,790	2014
20.	12-14 Tin Wan Street Aberdeen, Hong Kong	2,030	18,270	2014
21.	9-13 Sun Chun Street Tai Hang, Hong Kong	2,019	18,171	2014

22.	21-39 Mansion Street and 852-858 King's Road North Point, Hong Kong	17,720	168,640	2014
23.	19-21 Shing On Street and 15 Tai Shek Street Sai Wan Ho, Hong Kong	1,998	17,982	2014
24.	57-69 Ma Tau Wai Road 2-20 Bailey Street and 18A-30 Sung Chi Street To Kwa Wan, Kowloon (Note 2)	23,031	207,272	2014
25.	38-40A Hillwood Road Tsim Sha Tsui, Kowloon (Note 3)	4,586	55,032	2014
26.	456-462A Sai Yeung Choi Street North Sham Shui Po, Kowloon	12,298	103,531	2014
27.	1-19 Nam Cheong Street Sham Shui Po, Kowloon (Note 2)	8,625	77,626	2014
28.	342-348 Un Chau Street Cheung Sha Wan, Kowloon	4,579	38,922	2014
29.	11-19 Wing Lung Street Cheung Sha Wan, Kowloon	6,510	58,590	2014
30.	196-202 Ma Tau Wai Road To Kwa Wan, Kowloon	4,905	41,328	2014
31.	79-83 Fuk Lo Tsun Road Kowloon City, Kowloon	3,630	30,855	2014
32.	8-30A Ka Shin Street Tai Kok Tsui, Kowloon (Note 2)	19,738	176,211	2014
33.	1-15 Berwick Street Shek Kip Mei, Kowloon	9,788	78,304	2014
34.	21-27 Berwick Street and 212-220 Nam Cheong Street Shek Kip Mei, Kowloon	10,538	84,304	2014
35.	3-4 Yiu Tung Street Shek Kip Mei, Kowloon	2,275	18,200	2014
36.	7-8 Yiu Tung Street Shek Kip Mei, Kowloon	2,275	18,200	2014

37.	7-7G Victory Avenue Homantin, Kowloon	9,865	83,853	2014
	Sub-total:	**216,798**	**1,932,328**	
	Total for 37 projects with entire or majority ownership:	**330,485**	**2,880,857**	

Note 1: Completion of a redevelopment is expected to occur in the second year after the year in which the redevelopment is to be launched for pre-sale.
Note 2: Building plan already approved.
Note 3: With the exception of project numbers 7, 11, 13 and 25 above, which are intended to be redeveloped into office or industrial/office buildings, all of the above projects are designated for commercial and residential uses. Project numbers 7 and 13 will be held as investment properties.
Note 4: The Group holds a 50% stake in such redevelopment project.

Further acquisition, involving another 47 projects spanning various highly accessible urban districts, are in progress and they are expected to provide a total attributable gross floor area of approximately 5.16 million square feet upon successful completion of their acquisition and redevelopment and below is the geographical distribution:

			Land area (sq. ft.)	**Expected attributable gross floor area upon successful completion of acquisition and redevelopment (sq. ft.)**
1.	Hong Kong			
	Central & Western		135,127	1,019,429
	Island East		62,283	593,874
	Causeway Bay		30,368	296,265
	Aberdeen		19,247	172,339
	Wanchai		8,084	72,756
		Sub-total:	**255,109**	**2,154,663**
2.	Kowloon			
	Hung Hom		121,750	1,095,750
	Tai Kok Tsui		97,136	837,526
	Homantin		64,650	517,383
	Tsim Sha Tsui		39,483	373,289
	Sham Shui Po		20,363	183,267
		Sub-total:	**343,382**	**3,007,215**
		Total:	**598,491**	**5,161,878**

(II) New Territories land

At the end of December 2011, the Group held New Territories land reserves amounting to approximately 41.9 million square feet, which is the largest holding among all property developers in Hong Kong.

For "North East New Territories Future New Development Towns" and "Hung Shui Kiu Future New Development Town", in which the Group holds land lots of approximately 9.1 million square feet in total land area, the Group will continue to closely coordinate its approach with the Government's development plans, which are still subject to finalization. It is expected that these two future new development towns will become highly strategic locations, benefitting from the improved transport infrastructure and easier accessibility between Hong Kong and mainland China and details are shown in the following table:

		Total land area (sq.ft.)
1. North East New Territories Future New Development Towns		
- Wu Nga Lok Yeung		2,700,000
- Ping Che		2,000,000
- Kwu Tung North		400,000
	Sub-total:	**5,100,000**
2. Hung Shui Kiu Future New Development Town		4,000,000
	Total:	**9,100,000**

For the land lots of about 9.1 million square feet in the above two future new development towns, the total developable gross floor area will be 18.2 million square feet if the allowed plot ratio for development is 2 times, whilst the total developable gross floor area will increase to 27.3 million square feet if the allowed plot ratio is 3 times. Based on an average unit size of 600 square feet, the potential housing units will be in number of about 30,000 to 45,000.

Regarding the Group's residential development at Tai Tong Road, Yuen Long, land-use conversion for an additional 123,000 square feet of residential space was finalized with the Government, with the land premium fully settled in mid-November 2011, thereby increasing the total gross floor area of this project to approximately 1.3 million square feet, of which approximately 1.0 million square feet is attributable to the Group.

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

Investment Properties

At 31 December 2011, the Group held a total attributable gross floor area of approximately 9.2 million square feet in completed investment properties in Hong Kong, comprising 4.5 million square feet of commercial or retail space, 3.4 million square feet of office space, 0.9 million square feet of industrial/office space and 0.4 million square feet of residential and apartment space. This leasing portfolio is geographically diverse, with 25% in Hong Kong Island, 34% in Kowloon and the remaining 41% in the new towns (with most of the latter being large-scale shopping malls).

Leasing performance was impressive during the year with gross rental income setting a new record. The Group's attributable gross rental income[Note] in Hong Kong for the year ended 31 December 2011 increased by 11% to HK$4,889 million, whilst pre-tax net rental income[Note] was HK$3,585 million, representing a growth of 15% over the previous year. At 31 December 2011, the leasing rate for the Group's core rental properties rose to 97%. (Note: this figure includes that derived from the investment properties owned by the Group's subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities)

Given continued growth in local consumption, as well as the ever-increasing number of mainland tourists purchasing international brands, Hong Kong's retail sales grew briskly in 2011. In response to market changes and to tap new opportunities, the Group staged innovative marketing activities, including organizing shopping tours for mainlanders and an increased adoption of multi-media promotional channels, to draw more shoppers to its shopping malls and boost tenants' business. These marketing efforts coupled with the advantageous locations near MTR stations make these shopping malls the preferred choice for many discerning retailers. For instance, Inditex, a global fashion group, has committed to a total gross floor area of 62,000 square feet at Metro City Phase II in Tseung Kwan O for its three well-known international brands, namely Zara which has opened already, Bershka and Pull & Bear, which are due to open consecutively in 2012, whilst H & M Hennes & Mauritz Limited, another global fashion group, has also committed to a total gross floor area of over 53,000 square feet at this mall for its well-known international brand, H & M which is due to open in mid 2012. The whole Skyline Plaza, a 4-level shopping mall in Tsuen Wan with a total gross floor area of over 150,000 square feet, was leased to a famous department store, which will open for business and provide one-stop shopping convenience in 2012. Consequently, most of the Group's shopping malls, ranging from ifc mall in Central to regional shopping centres in new towns, recorded nearly full occupancy by the end of the financial year.

On the back of persistent demand growth, driven by business expansion and new corporate set-ups particularly in the first half of the year, coupled with limited new office supply, the Group's premier office developments in the core areas, such as the ifc in Central, AIA Tower in North Point as well as ING Tower and Golden Centre in Sheung Wan, have all performed well with increased rents for both renewals and new lettings. In the up-and-coming commercial hub of Kowloon East, the Group's approximately 2,000,000-square-foot portfolio of premium office and industrial premises benefitted from the trend of office decentralization with the overall leasing rate surging from 87% at 31 December 2010 to 98% at 31 December 2011. Manulife Financial Centre in Kwun Tong, which set a new benchmark for green office buildings in decentralized areas by achieving the top "platinum" rating in the Hong Kong Building Environmental Assessment Method (HK-BEAM) in February 2011, was 98% let by the end of the financial year.

The Group's deluxe serviced suite hotel at Four Seasons Place continued to achieve high occupancy and increased rents, whilst luxury residences such as Eva Court and 39 Conduit Road at Mid-Levels also recorded satisfactory leasing performance.

The Group continuously improves accessibility and facilities at its investment properties so as to better serve the community and enhance their rental values. Metro City Phase II in Tseung Kwan O, which was heralded by the Hong Kong Federation of the Blind, Centre for Social Policy Studies of The Hong Kong Polytechnic University and few other charitable organizations for the disabled as the most accessible shopping mall in Barrier-Free Assessment Visit 2011, is undergoing a revamp and the first phase of renovation works will be completed in the first quarter of 2012. The second phase of renovation commenced in December 2011 and will be completed by the end of 2014. For the Trend Plaza in Tuen Mun, renovation to the external wall of its North Wing will also be completed in mid-2012 following the recent completion of a facelift at its South Wing. The first phase of refurbishment at Sunshine City Plaza in Ma On Shan is progressing well, whilst the planning of renovation works for City Landmark I in Tsuen Wan and AIA Tower in North Point is currently in the pipeline. For AIA Tower in North Point, acquisition of its remaining 5.44% interest was completed in September 2011, allowing the Group to benefit in full from its future major revamp.

Hotel and Retailing Operations

Hong Kong's hospitality industry posted a remarkable growth in 2011 with visitor arrivals reaching a record high of around 42 million. The Four Seasons Hotel, which was widely recognized as the market leader in town, continued to win numerous prestigious accolades such as Forbes Five-Star Award for Hotel and top 3-star honours in the 2011 Michelin Guide for its signature Caprice and Lung King Heen restaurants. As a result, it enjoyed a further increase in occupancy against a higher average room rate during the year. Meanwhile, the Group also owns and manages the 362-room Newton Hotel Hong Kong, the 317-room Newton Inn North Point and the 598-room Newton Place Hotel. Benefitting from the ever-increasing number of mainland tourists, who accounted for over 60% of their total customers, the Group's three Newton hotels have all achieved a double-digit increase in average room rates with a higher occupancy of over 80%. The Group is developing a new boutique hotel at 388 Jaffe Road, Wanchai and upon its scheduled completion in the second quarter of 2012, it will be operated by The Mira Hong Kong and 92 luxurious suites will be added to the Group's hotel portfolio. For the year ended 31 December 2011, the profit contribution[Note] from the Group's hotel operations increased by 108% to HK$325 million. (Note: this figure includes that derived from the hotels owned by the Group's subsidiaries, associates and jointly controlled entities)

Established in 1989 as a complementary business to the Group's shopping facilities, Citistore's retailing operation has developed into a network of five department store outlets and two "id:c" specialty stores in Hong Kong. Given improvement in both local consumption and visitor spending, Citistore recorded a satisfactory growth of 20% in pre-tax profit against a 13% increase in turnover. Meanwhile, the Group continued to hold interests (7.41% at 31 December 2011) in Intime Department Store (Group) Company Limited (stock code: 1833), which is a renowned department store chain operating and managing 27 department stores and shopping centres across major cities in mainland China.

Construction and Property Management

The Group cares for the environment and supports sustainable development for the benefit of future generations. As part of this pledge, inter-departmental communication and stakeholder engagement are always encouraged so as to ensure that local context, innovative architecture and sustainability features are perfectly blended into all of the Group's new developments in both Hong Kong and mainland China. In the construction process, energy-efficient and eco-friendly features recommended by the Leadership in Energy and Environmental Design (LEED) and Building Environmental Assessment Method (BEAM) Plus have been persistently integrated. For instance, pre-fabricated building components are now commonly used so as to raise efficiency by accelerating development progress for better quality control, whilst minimizing construction waste and disruption to the neighbourhoods. During the year, the Group's projects emerged as the first batch of developments in Hong Kong to achieve a China Green Building Label (GBL), which calls for reduced energy consumption at site works, re-use of local natural resources and the recycling of construction waste for better environmental management.

The Group's attention to every detail throughout the different stages of construction has also been extended to its developments in mainland China. In addition to its tight grip over all key aspects of development such as selection of main contractors and subcontractors, material sourcing and tender awarding, the Construction Department also maintains an ongoing dialogue with contractors and conducts on-site inspections so as to ensure that all the mainland projects are completed on schedule, within budget and in line with the Group's stringent environmental and quality requirements. In July 2011, accreditation as the "Main Contractor of Housing Construction (Level III)" was received from Beijing Municipal Commission of Housing and Urban-Rural Development, enabling the Group's Construction Department to take a more active role in mainland property development in future.

The Group's member property management companies, Hang Yick Properties Management Limited ("Hang Yick"), Well Born Real Estate Management Limited ("Well Born") and Goodwill Management Limited, collectively manage around 76,000 apartments and industrial/commercial units, 7.9 million square feet of shopping malls and office space and 18,000 car parking units in Hong Kong.

Hang Yick and Well Born also provide their quality property handover and management services to the Group's property developments in mainland China. Serving a total of about 5,000 mainland apartments, they have gained wide recognition for their excellent services. Hengbao Huating and Hengli Wanpan Huayuan, for instance, were both accredited as a "Community Showcase in Guangdong Province" and "Community Showcase in Guangzhou".

The Group's Construction and Property Management Teams are on the frontline throughout the year to fulfil the Group's pledge of providing green efforts and care to the community. Consequently, the Construction Department earned numerous accolades during the year including "Considerate Contractors Site Award" from the Development Bureau of the Hong Kong SAR Government, as well as "Construction Environmental Award – Merit" and "Proactive Safety Contractor Award" from The Hong Kong Construction Association, whilst the Property Management Teams also won nearly 700 performance-related accolades in addition to widespread recognition for their advocacy of care and love in this Year of Care. Their unflagging efforts will be elaborated in the "Sustainability and CSR" section of the Annual Report.

Business Review - Mainland China

In view of the worsening global economy, the Central Government continually fine-tuned its austerity measures in 2011 to cool the mainland property market. Both administrative and economic initiatives, including restrictions on quantity of home purchase, amount of mortgage, unit price and unit size, were adopted in curbing housing demand. Such measures gave rise to a sharp decline in transaction volume. In the wake of the tightened credit, many mainland developers traded price for volume, thus depressing the home prices further.

Housing was still in great demand in mainland China. In those second and third-tier cities in which the Group has residential development projects, with many infrastructural projects and transport facilities such as highways, high-speed rails, community amenities and greenery projects gradually being completed, the environment has much improved. Besides, the Group's projects in China boast distinctive design plans, full-range facilities, superb building quality and proficient property management, targeting end-users of medium to high-end residences. Such projects are highly sought after and earned acclaim in the market.

As a result of the austerity measures, the majority of home buyers were end-users, who were much concerned about the building quality and details of a development. Therefore, the Group stepped up the promotion of its quality brand-name and refined its marketing campaigns, whilst making appropriate adjustments to its sales-force. Turning to property management, the Group always, where local regulations allow, provides its own property management services to its mainland developments. For those projects which require property management services to be outsourced, the Group's property management team still renders its close supervision.

The Group has strengthened its supervision and management over its mainland projects in the midst of the market downturn. To improve its competitiveness, the Group has been streamlining its manpower structure and slashing superfluous spending to control costs while also standardizing building design to shorten development time.

The Group's leasing team in mainland China has become experienced at soliciting and interacting with tenants. Several global brands were successfully encouraged to become core tenants and are expected to emerge as the Group's strategic partners in future. With the new leasing team on board, the mainland shopping arcades are now under innovative transformation, with emphasis on positioning, environmental intelligence, technological quality, as well as meticulous management and attentive services.

The following development projects were completed during this financial year:

	Project name	Land-use purpose	Group's interest	Approximate attributable gross floor area (sq.ft.)
1.	Phase 1, Arch of Triumph, Changsha	Residential	99%	676,400
2.	Phase 1A, Villa Green, Chongqing	Residential	100%	521,500
3.	Phase 1A, La Botanica, Xian	Residential	50%	590,600
			Total:	**1,788,500**

By the end of 2011, the Group had nearly 1,000,000 square feet in attributable gross floor area of completed stock remaining unsold in mainland China.

Meanwhile, the Group joined a number of leading enterprises across the Straits to establish Straits Construction Investment (Holdings) Limited ("Straits Construction"). In March 2011, Straits Construction bought two prime sites, which were located at Nanjing Hexi New Town of Jiangsu Province and Fuzhou Pingtan Integrated Pilot Area of Fujian Province respectively, at an aggregate consideration of US$850 million. The Nanjing project will be developed into office buildings with a total gross floor area of approximately 9,190,000 square feet against a site area of approximately 3,380,000 square feet. For the Pingtan project, a 8,230,000-square-foot land lot will be developed into an integrated business community with a total gross floor area of approximately 17,600,000 square feet. The Group held a 10% stake in Straits Construction.

At the end of December 2011, the Group had a development land bank in mainland China amounting to 151.2 million square feet in attributable developable gross floor area, of which around 83 % was planned for residential developments for sale:

Land bank under development or held for future development

	Group's share of developable gross floor area* (million sq. ft.)
Prime cities	
Shanghai	1.1
Guangzhou	14.2
Sub-Total:	**15.3**
Second-tier cities	
Anshan	17.9
Changsha	14.5
Chengdu	4.0
Chongqing	6.0
Dalian	10.3
Fuzhou	1.7
Nanjing	3.4
Shenyang	17.3
Suzhou	17.0
Tieling	8.7
Xian	20.1
Xuzhou	5.3
Yixing	9.7
Sub-Total:	**135.9**
Total:	**151.2**

** Excluding basement areas and car parks*

Usage of development land bank

	Developable gross floor area (million sq. ft.)	Percentage
Residential	125.7	83%
Office	11.4	8%
Commercial	9.7	6%
Others (including clubhouses, schools and community facilities)	4.4	3%
Total:	**151.2**	**100%**

Property Sales

During the year, the Group sold and pre-sold an attributable HK$1,905 million worth of mainland properties, a significant increase of 47% over the previous year. Projects launched included “La Botanica” and “Palatial Crest” in Xian, “Villa Green” and “Grand Waterfront” in Chongqing, “Riverside Park” in Suzhou, “Emerald Valley” in Nanjing, “The Arch of Triumph” in Changsha and Xuzhou Lakeview Development. At 31 December 2011, the cumulative amount of mainland properties pre-sold attributable to the Group totalled HK$2,527 million and they will be reflected in the results for the coming financial years, when these developments are completed and delivered to buyers.

Investment Properties

As at the year end date, the Group had 6.5 million square feet of completed investment properties in mainland China: mainly offices and shopping malls in the prime locations in Beijing, Shanghai and Guangzhou. During the year under review, the Group’s attributable gross rental income and net rental income increased by 91% to HK$916 million and by 149% to HK$584 million, respectively.

In Beijing, World Financial Centre recorded a 170% growth in rental income to HK$330 million with a leasing rate exceeding 90% at 31 December 2011. Being the only property in this capital city to have achieved the highest possible “Platinum” rating from both the United States Green Building Council’s LEED and HK-BEAM, many famous financial institutions and multinational corporations were attracted as its new office tenants. They included Rabobank, CITIC Prudential Insurance Company, British Petroleum and Shell China, whilst Michelin-starred Cantonese restaurant “Cuisine Cuisine” from Hong Kong has also established a presence on the commercial podium. Meanwhile, for the shopping mall at Beijing Henderson Centre, leasing performance was equally encouraging after the opening of a large-scale gourmet hall and an upscale supermarket in its basement floors.

In Shanghai, the grand opening of Henderson Metropolitan on 11 November 2011 underscored this city’s growing importance to the Group. Occupied by many Fortune 500 companies such as Oracle, Mitsubishi, Lufthansa and Dentsu, its super Grade-A office space of over 400,000 square feet has been fully let, whilst its 400,000 square feet of retail space was also highly sought-after by many branded retailers as it is conveniently located at the start of the Nanjing Road East pedestrian avenue with direct access to subway station from the building basement. The most prominent stores included Apple’s largest flagship outlet in Asia, as well as China flagship stores of Sasa and Azul by Moussy. During the year under review, a total rental income of HK$156 million was recorded by this project. Meanwhile, Grand Gateway Office Tower II atop Xujiahui subway station also houses many multinational corporations such as Microsoft, Adidas, Tesco and Yum! Brands Inc and its leasing rate at the end of 2011 was 99%. Centro, which was awarded a Gold LEED rating and Platinum BEAM rating, was fully let at 31 December 2011, whilst the pre-leasing response for its neighbouring Greentech Tower was also enthusiastic, with many world-renowned companies looking to lease sizeable area in this environmentally friendly and technologically advanced development. Greentech Tower was completed on 13 January 2012, expanding the Group’s mainland rental portfolio to 6.9 million square feet. In their vicinity, Skycity in the same Zhabei District also achieved full occupancy for its 4-level shopping arcade at 31 December 2011.

In Guangzhou, Heng Bao Plaza recorded a 23% growth in rental income with over 95% leasing rate by the end of 2011.

Joint-Venture Development in Macau

In April 2005, the Group entered into an agreement to jointly develop a large-scale waterfront development with a site area of approximately 1.45 million square feet in Taipa, Macau. The project is subject to application for land-use conversion with the total gross floor area to be finalized.

Henderson Investment Limited ("HIL")

For the year ended 31 December 2011, HIL's turnover amounted to HK$299 million, representing a decrease of HK$18 million, or 6%, compared to HK$317 million for the previous year ended 31 December 2010. Such decrease in turnover is mainly attributable to the period-on-period decrease of approximately 25% in the average monthly traffic volume of the toll bridge in Hangzhou, which was HIL's core asset, during the period from 1 July 2011 to 31 December 2011. This was due to (i) accidental damage to one of the link bridges of the toll bridge on 15 July 2011 which resulted in the four lane two-way traffic being temporarily reduced to two lanes of two-way traffic in the affected area of the toll bridge until the toll bridge was fully open to traffic, effective from 1 October 2011; and (ii) the implementation by Hangzhou Municipal Government of certain new policies which control the traffic flow of vehicles during certain peak hours each day, effective from 8 October 2011.

Profit attributable to equity shareholders for the year ended 31 December 2011 amounted to HK$108 million, representing a decrease of HK$55 million or 34% from HK$163 million for the year ended 31 December 2010. The decrease in profit was attributable to the fact that in the previous year, a total profit of HK$39 million was received from certain one-off items which included a net gain of HK$26 million from the disposal of a toll highway in Maanshan, Anhui Province.

HIL has a 60% interest in Hangzhou Henderson Qianjiang Third Bridge Company Limited ("the Joint Venture Company") which has been granted the operating right of the above-mentioned Qianjiang Third Bridge for a period of 30 years from 20 March 1997 (commencement date of bridge operation). This project was approved by Hangzhou Foreign Economic Relations and Trade Commission (杭州市對外經濟貿易委員會) in 1997 and was further approved by National Development and Reform Commission (formerly known as State Development & Planning Committee) (發展和改革委員會(前稱爲國家發展計劃委員會)) in 1999. The General Office of the People's Government of Zhejiang Province notified Zhejiang Province Department of Communications and other relevant government authorities in 2003 to provisionally fix the period for entitlement to toll fee in respect of 39 toll roads and highways in the province. In the case of Qianjiang Third Bridge, which was also included in the list, the period was provisionally fixed at 15 years (from 20 March 1997 to 19 March 2012). The Joint Venture Company immediately took action for clarification and had obtained from the Hangzhou Municipal Bureau of Communications a written pledge that the operation period for 30 years would remain unchanged and they were also of the view that the operating right and the toll fee collection right should be for a same period. For the sake of reassurance, the Joint Venture Company wrote to the People's Government of Zhejiang Province and Zhejiang Province Department of Communications (collectively the "Authorities") in June 2011 requesting for their confirmation that both the operating right and the toll fee collection right last for a same period of 30 years. Since June 2011 when the Joint Venture Company wrote to the Authorities requesting for the confirmation, the Joint Venture Company has been chasing after the relevant government officials on several occasions, but no reply had been received from the Authorities for over six months. The Joint Venture Company therefore decided to take one further step and on 9 February 2012 filed with Legislative Affairs Office, the People's Government of Zhejiang Province an administrative reconsideration application. The application was to seek an order to oblige the Authorities to carry out their statutory duties to officially confirm that the toll fee collection right of the Qianjiang Third Bridge should be for a period of 30 years. Whilst HIL was still waiting for the result of the application, the Joint Venture Company on 20 March 2012 received a letter dated 18 March 2012 from 杭州市城市"四自"工程道路綜合收費管理處 (Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office"), which is the relevant government body in Hangzhou to record the traffic flow and make payment of toll fee of the Qianjiang Third Bridge pursuant to the terms of an agreement dated 5 February 2004 (the "Collection Agreement") entered into between the Joint Venture Company and the Hangzhou Toll Office. In the letter, the Hangzhou Toll Office stated that, because the General Office of the People's Government of Zhejiang Province in 2003 provisionally fixed the period of entitlement to toll fee in respect of Qianjiang Third Bridge to end on 19 March 2012, they would, commencing from 20 March 2012, provisionally suspend payment of toll fee to the Joint Venture Company in respect of Qianjiang Third Bridge. The Hangzhou Toll Office also stated in the letter that they would, in accordance with the terms of the Collection Agreement, continue to record the traffic flow of Qianjiang Third Bridge and work with the Joint Venture Company. The Joint Venture Company has been instructed by HIL to write to the Hangzhou Toll Office to state that the action taken by the Hangzhou Toll Office has no legal or contractual basis and is unacceptable and to ask the Hangzhou Toll Office to clarify the basis of their action and to continue to perform their obligations under the Collection Agreement, failing which the Joint Venture Company would have no alternative but to take legal actions to protect its interest.

HIL has obtained legal opinion from an independent PRC law firm and has received firm advice that the toll fee collection right enjoyed by the Joint Venture Company should be for the same period of 30 years as the operating right enjoyed by the Joint Venture Company. Based on such advice, amortization and calculation of the recoverable amount of the intangible operating right in the preparation of the consolidated accounts of HIL for the year ended 31 December 2011 are on the basis that both the operating right and the toll fee collection right of the Bridge last for a period of 30 years expiring on 19 March 2027. There is, however, uncertainty as to the response of the Authorities and whether they would ultimately confirm that the toll fee collection right of the Qianjiang Third Bridge should be for a period of 30 years. HIL will continue to negotiate with the Authorities and take all necessary actions to protect its interest. If the Authorities confirm that the toll fee collection right of the Qianjiang Third Bridge should last for a period different from the period of the operating right and/or the Authorities negotiate other arrangements with HIL (such as buying out HIL's interest in Qianjiang Third Bridge or paying compensation to HIL), all of which are still uncertain, HIL would have to reconsider the remaining useful life and/or the recoverable amount of the intangible operating right.

Currently, the operating assets of HIL comprise its interest in the Qianjiang Third Bridge. If HIL ceases to have an economic interest in the Qianjiang Third Bridge, the directors of HIL would, if appropriate opportunity arises, identify suitable investments for HIL. In the event that no suitable investments are identified and acquired by HIL, its assets would consist substantially of cash. As a result, The Stock Exchange of Hong Kong Limited may consider that HIL does not have a sufficient level of operations or sufficient assets to warrant the continued listing of HIL's shares and may suspend dealings in or cancel the listing of the shares.

Associated Companies

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

Profit after taxation attributable to shareholders of this group for the year amounted to HK$6,149.6 million, an increase of HK$564.8 million compared to 2010 mainly due to growth in profit of mainland businesses. During the year under review, this group invested HK$4,725.1 million in production facilities, pipelines, plants and other fixed and intangible assets.

Gas business in Hong Kong

The total volume of gas sales in Hong Kong for the year 2011 rose by 2.1%, whilst appliance sales also increased by about 8% compared to 2010. As at the end of 2011, the number of customers was 1,750,553, an increase of 26,237 compared to 2010. Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is expected to be substantially completed within 2012. Construction of a 9 km pipeline in the western New Territories to strengthen supply reliability is also in progress. In tandem with the government's development of West Kowloon, South East Kowloon and a cruise terminal, network planning, design and construction in these locations are underway. Construction of a new submarine pipeline from Ma Tau Kok to North Point will commence in 2012. Meanwhile, new gas mains have been laid to Lei Yue Mun.

Utility businesses in Mainland China

At the end of December 2011, this group had an approximately 66.18% interest in Towngas China Company Limited ("Towngas China"; stock code: 1083), whose profit after taxation attributable to its shareholders amounted to HK$709 million in 2011, an increase of approximately 62.6% over 2010. In 2011, Towngas China acquired five new projects located in Xiushui county and Wuning Industrial Park, both in Jiujiang, Jiangxi province; in Miluo, this group's first in Hunan province; in Bowang New District, Maanshan, Anhui province; and in Beipiao, Liaoning province.

This group's city-gas businesses progressed well in 2011, with two new projects successfully established in Chaozhou, Guangdong province and Jingxian county, Hengshui, Hebei province. Inclusive of five new projects established by Towngas China in 2011, this group had 100 city-gas projects in mainland cities spread across 19 provinces/municipalities/autonomous regions as at the end of 2011. During the year under review, the number of gas customers on the mainland reached approximately 13.2 million and total volume of gas sales also exceeded ten billion for the first time, attaining 10,300 million cubic metres. This group is now the largest city-gas enterprise on the mainland.

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

During the third quarter of 2011, this group added a second integrated wastewater treatment project, for a special industry, to its existing integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Together with water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, this group has so far invested in and operates four water projects.

Emerging environmentally-friendly energy businesses

This group's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is progressing well.

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been successfully operating in Hong Kong for several years. Since 2008, ECO has been developing similar clean and environmentally-friendly energy projects on the mainland. A coalbed methane liquefaction facility located in Jincheng, Shanxi province was fully commissioned during the first quarter of 2011. The annual production capacity of the whole facility is 250 million standard cubic metres of liquefied coalbed methane. The facility has now become the largest liquefaction and utilisation project of its kind on the mainland.

ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is progressing as scheduled; construction is expected to commence in 2012 for commissioning in the first quarter of 2014. Coal-mine gas, which typically contains about 40% methane, will be used to produce liquefied methane by deploying coal-mine gas deoxidisation and coalbed methane cryogenic liquefaction technologies. This project has an estimated annual production capacity of about 80 million standard cubic metres.

ECO started to develop coal resources and coal chemical processing businesses in 2009. ECO has constructed a methanol production plant, with an annual capacity of 200,000 tonnes, in Junger, Erdos, Inner Mongolia. The plant is now at the pilot production stage and is expected to be fully commissioned in mid-2012. Construction of ECO's Xiaoyugou coal mine, which is associated with the methanol production plant, is also complete and pilot production started in early 2012. ECO acquired an operative open-pit coal mine in Inner Mongolia in September 2011 and this is now starting to contribute additional profits. ECO's coking coal mine and coking plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. The main product, coke, will be used for refining steel, and its by-product, coke oven gas, will provide an additional gas source for this group's Fengcheng city-gas project.

ECO's energy-related logistics and facilities businesses originated from its five dedicated liquefied petroleum gas vehicular filling stations in Hong Kong. ECO started its gas filling station business on the mainland in 2008. Since then, ECO has gradually established a network of compressed and liquefied natural gas filling stations servicing heavy-duty trucks in Shaanxi, Shandong, Liaoning, Henan and Anhui provinces.

ECO's aviation fuel facility in Area 38, Tuen Mun, servicing Hong Kong International Airport, is operating smoothly. The facility supplied over 5 million tonnes of aviation fuel to the airport in 2011. Jetties are available for berthing large-scale tankers and for unloading these tankers' aviation fuel. ECO's facility, with a total storage capacity of 264,000 cubic metres, is now a major logistics base for supply of aviation fuel in Hong Kong.

ECO has also started a coal logistics business and to this end has set up logistics platforms in important coal distribution areas such as Qinhuangdao, Hebei province and Dandong, Liaoning province from which to launch its operations. ECO is also investing in the construction of an inland coal and bulk cargo logistic port in Jining, Shandong province to connect an upstream dedicated coal transportation railway with a downstream canal running to eastern China. The logistic port, with an annual throughput of 10 million tonnes, is expected to be commissioned in 2012.

ECO set up a new-energy research and development centre in 2010 focusing on related application technologies. The centre has achieved good progress in developing innovative technologies for converting materials of low value, such as non-edible oil and coal tar oil, into clean fuel and substances of high value.

Overall, as at the end of 2011, inclusive of the projects of Towngas China, this group had 138 projects on the mainland, 18 more than that in 2010, spread across 21 provinces/municipalities/autonomous regions and encompassing upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

Property developments

All residential units of the Grand Waterfront property development project located at Ma Tau Kok south plant site had been sold by the end of December 2010, whereas those of Grand Promenade had also been sold by the end of the first quarter of 2011. Leasing of the commercial area of the Grand Waterfront property development project is good. Rental demand for the shopping mall and office towers of IFC complex, in which an approximately 15.8% interest is held by this group, continues to be robust. The occupancy rate of the project's hotel complex, comprising the Four Seasons Hotel and rental serviced apartments, remains high.

Financing programmes

In February 2011, this group concluded a HK$3,800 million 5-year syndicated term loan and revolving credit facility, mainly for refinancing a HK$3,000 million inaugural syndicated facility, taken up in 2006, and for its business development. The facility carries an interest margin of 0.49% per annum over HIBOR.

This group issued its first renminbi-denominated notes in Hong Kong in late March 2011 with a total amount of RMB1,000 million for a term of five years at a coupon interest rate of 1.4% (the "RMB Notes"). This group is the first company among Hang Seng Index Constituent Stocks in Hong Kong to raise funds through the offshore renminbi debt capital market. Inclusive of the RMB Notes, this group has issued medium term notes with, up to now, an aggregate amount equivalent to HK$6,070 million under its medium term note programme.

In April 2011, Moody's Investors Service upgraded both Towngas China's issuer and senior unsecured bond ratings from Baa3 to Baa2 with a stable outlook.

In 2011, Standard & Poor's Ratings Services launched the first credit rating benchmark developed especially for the region to assign credit ratings to borrowers active in mainland China, Hong Kong, and Taiwan (including the fast-growing offshore renminbi debt market). Hong Kong and China Gas was assigned the highest rating of cnAAA, whilst Towngas China was assigned cnA under this Greater China long-term credit rating scale.

This group predicts an increase of about 25,000 new customers in Hong Kong during 2012 and the combined results of its emerging environmentally-friendly energy businesses and mainland utility businesses will overtake the results of its Hong Kong gas business in 2012, and will have faster growth momentum than its Hong Kong gas business thereafter.

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

This group’s turnover for the year ended 31 December 2011 amounted to approximately HK$635 million, representing a decrease of 30% when compared to the previous year. This was mainly attributed to the decrease in the sales of the Shining Heights and The Spectacle. Its consolidated profit after taxation amounted to approximately HK$565 million, an increase of 17% as compared with the profit after taxation of HK$483 million in 2010.

This group sold 30 units in The Spectacle and 7 units in Shining Heights which accounted for a total profit of approximately HK$156 million for the year under review. A profit of HK$37 million was derived from the disposal certain units of the commercial arcade of MetroRegalia. Rental and other income from its commercial arcade amounted to approximately HK$50 million. The occupancy rate of the commercial arcade at Shining Heights was 93%. The commercial arcade of Metro Harbour View was fully let.

The foundation works of the development project at Fanling Sheung Shui Town Lot No.177 (“Fanling project”) have been completed. Superstructure works are in progress. The property will be developed into three residential towers built on a two-storey shopping podium mall with a total gross floor area of approximately 540,000 square feet.

As regards the project at 204-214 Tung Chau Street, demolition works have been done and superstructure works will commence at the end of the year. The project will be redeveloped into a commercial-cum-residential building with a total gross floor area of approximately 54,000 square feet.

This group acquired the site at the junction of Gillies Avenue South and Bulkeley Street Hung Hom Inland Lot No.555 in 2011. Foundation works will commence upon the completion of demolition works. The project will be developed into a commercial-cum-residential building with a total gross floor area of approximately 56,000 square feet.

During the year, the Harbour Cruise operations achieved profits of HK$4.7 million, representing a 15% increase over that of last year. Ferry operations recorded a profit of HK$4.7 million, a decrease of 36% as compared with the profit for last year. Due to the provision for bad debts and the increased operating costs incurred on annual drydock of the ferries, the Ferry, Shipyard and Related Operations recorded a profit of only HK$5.5 million, a decrease of 44% as compared with the same for last year.

During the year under review, this group achieved a profit of HK$245 million upon the disposal of Silvermine Beach Hotel. The Travel Operations Division registered an increase of 29% in its operating profit as compared with that for last year. Meanwhile, an impairment loss of HK$45 million was recorded in its available-for-sale securities investment during the year.

This group expects the residential units of the Fanling project to be sold in the second half of this year. The sales proceeds from this project and the remaining units of Shining Heights and The Spectacle are expected to be its main sources of revenue.

Miramar Hotel and Investment Company, Limited ("Miramar")

For the financial year ended 31 December 2011, Miramar's turnover amounted to approximately HK$2,496 million, representing an increase of 18% as compared with 2010. Profit attributable to shareholders posted a growth of 69% to approximately HK$1,325 million (2010: HK$784 million). Excluding the net increase in the fair value of its investment properties, underlying profit attributable to shareholders for 2011 was approximately HK$411 million (2010: HK$378 million), representing a year-on-year increase of 9%.

Miramar operates five core businesses, namely Hotel and Hotel Management business, Property Rental business, Food and Beverage business, Travel business and the newly-developed Apparel Retail business.

Occupancy rate for The Mira Hong Kong (The "Mira"), its flagship hotel, rose from 80% in 2010 to 83% in the year and average room rate posted a growth of 19% from HK$1,470 to HK$1,760. EBITDA (earnings before interest, taxes, depreciation and amortization) of The Mira grew 52% to reach approximately HK$206.5 million. In 2011, it obtained the hotel management project for a boutique hotel in Wan Chai. The boutique hotel, which is currently under construction, will be operated under the brand name of "The Mira" and is expected to commence operation in 2013. The boutique hotel offers a total of approximately 100 guest rooms.

For this year, overall income of Property Rental Business recorded a growth of 15% over that of 2010. At the end of 2011, occupancy rate of Miramar Shopping Centre was approximately 100% and average unit rate also recorded a mild increase. With the completion of work in the first half of 2011, Grade A office building of Miramar Tower also achieved approximately 100% occupancy rate at the end of 2011 with average unit rate slightly increased as compared to 2010. The refurbishment work in the shopping centre at The Mira was completed in the fourth quarter of 2011.

Miramar operates Tsui Hang Village restaurants, Sichuan restaurant named Yunyan Sichuan Restaurant, Cuisine Cuisine and The French Window that are located at IFC, as well as three new restaurants, namely Hide-Chan Ramen (a popular Japanese Ramen restaurant), Saboten (a traditional Japanese pork cutlet restaurant) and Assaggio Trattoria Italiana (an Italian restaurant) which commenced operation during the year.

Miramar introduced its successful brand "Cuisine Cuisine" to the mainland China market. The first Cuisine Cuisine is located in the Central Business District of Chaoyang district, Beijing and was opened in September 2011. Varnishing and decoration of the other Cuisine Cuisine in Wuhan was completed and is expected to commence operation in April 2012. During the year, two Tsui Hang Village restaurants were temporarily closed for renovation. This, together with the write-off of pre-opening expenses of new restaurants, resulted in a loss for the overall Food and Beverage business.

Turnover of its Travel Business increased 7% to reach HK$1,055 million whilst EBITDA slightly dropped to approximately HK$25 million in 2011.

Miramar extended its reach to Apparel Retail Business in 2011 and became the distributor of DKNY Jeans in mainland China. At present, it owns and operates five DKNY Jeans stores in each of Shanghai and Beijing. In addition, it secured and engaged over 20 franchisees to operate DKNY Jeans franchised stores. At the end of 2011, there were over 40 stores operated by Miramar and franchisees. A negative EBITDA of approximately HK$4 million was sustained during the year.

Corporate Finance

During the year, the holding company of the Group, namely, Henderson Development Limited which is controlled by the private family trust of Dr. Lee Shau Kee, made a capital investment of HK$10,000 million in exercising 172,414,000 warrants for the subscription of 172,414,000 shares in the Company at a price of HK$58 per share. This has significantly strengthened the capital base of the Company.

As at the year end date, the Group's gearing ratio was 19.9%, a significant drop when compared with 28.2% for the previous year. In order to provide additional funding resources to the Group to cater for its general funding and working capital requirements, the Group concluded a HK$10,000 million three-year syndicated term loan / revolving credit facility on 10 January 2011 with a consortium of 13 leading international banks and local financial institutions. The Group also signed up a HK$10,000 million five-year syndicated term loan / revolving credit facility on 22 June 2011 with a consortium of 17 leading international banks and local financial institutions. Overwhelming responses from the banking community and consecutive successful conclusions of these two large size syndicated credit facilities fully demonstrated the strong confidence and continuing support of international as well as local banks for the Group.

With the aim to further diversify the sources of funding and to enhance the Group's overall debt maturity profile, the Group established a US$3,000 million medium term note programme (the "MTN Programme") in August 2011. Since the establishment of the MTN Programme, the Group issued medium term notes of four years, five years and seven years in the Singapore domestic debt capital market for a total amount of S$600 million at coupon rates ranging from 3.65% to 4.00% and also issued five-year unrated public bonds for a total amount of US$700 million at a coupon of 4.75% which were sold to a wide spectrum of fixed-income investors that are mainly located in Hong Kong as well as in other parts of Asia. In addition, based on reverse enquiry generating from certain institutional fixed income investors, the Group also issued and distributed long term notes in Hong Kong Dollars through private placements with coupon rates fixed at 4.03% and 4.80% for notes of 10-year tenor and 20-year tenor respectively. Also, in March 2012, to take advantage of current market liquidity in the local money market, the Group issued HK$640 million two-year fixed rate bonds at a relatively low coupon rate of 2.16% to cater for and supplement its working capital requirement. In aggregate, the Group was able to obtain medium term and long term funding that amounted to the equivalent of over HK$11,000 million over a period of six months notwithstanding that unstable conditions have prevailed in the international financial markets since the establishment of the MTN Programme. Bond proceeds that originated from fixed income investors of diversified sources were applied towards refinancing certain existing short-to-medium term bank loan facilities of the Group.

Further, in light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group has concluded and has outstanding at 31 December 2011 Hong Kong dollar interest rate swap contracts for terms ranging from three to fifteen years. Such contracts were entered into for the purpose of converting part of the Group's Hong Kong dollar borrowings from floating interest rates into fixed interest rates at levels which are well below the average for the past several years. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

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

Prospects

The indication from The U.S. Federal Reserve to keep low interest rates until late 2014, as well as The European Central Bank's recent provision of massive low-interest loans to eurozone banks through a second round of long-term refinancing operations, led to a gradual stabilization of the financial markets. China's 2012 GDP growth target of 7.5% recently announced by the Central Government is regarded as a healthy and satisfactory goal. It is conducive to a positive development of the global economy if the U.S., in parallel, also re-ignites an economic recovery.

Looking ahead, given growing housing demand from both mainland and local residents, as well as the expected extension of the low interest rate environment, the Group remains optimistic about the prospects for Hong Kong's property market. Two sizeable developments, namely, the projects in Lok Wo Sha, Ma On Shan (Phase 1) and Tai Tong, Yuen Long will be put up for sale in 2012. Meanwhile, the Group has pushed ahead in earnest with the development of urban redevelopment projects. Among these, projects at 30-38 Po Tuck Street, 68 Boundary Street, 189-195 Sai Yeung Choi Street North and 186-188 Tai Po Road are now ready for sale or pre-sale in 2012. Together with the unsold stocks, a total of over 4,000 residential units will be available for sale this year and they are expected to bring significant revenue to the Group.

Turning to mainland China, both austerity and monetary policies are not expected to have significant changes in the first half of 2012. In the second half of 2012, however, it is likely there will be a slight relaxation of the monetary policy provided that the general price level is contained within a reasonable range and it could have a profound impact on the property market. Currently, the mainland property market is restrained by policy measures, which would be adjusted in line with changes in external environment. The Group's projects are all well positioned for sale so as to capitalize on emerging opportunities arising from market changes. For those second and third-tier cities, housing supply and home prices were relatively steady in the past. However, when infrastructural projects and transportation networks currently undertaken are completed, the increased pace of urbanization in those cities will drive up the housing demand.

On the property investment front, strong cross-border spending by mainland shoppers and business expansion by overseas companies will fuel further rental growth in Hong Kong. The Group's portfolio of shopping malls and offices, which boasts quality developments in both core areas and up-and-coming commercial hubs, is well placed to benefit from this market development and the Group's rental incomes are expected to maintain their upward trend. In mainland China, the gradual completion of new commercial projects will increase the Group's rental proceeds and provide additional recurrent cash flow. The Group's overall rental income for 2012 is set to grow considerably.

Founded in 1976, the Group has, over the past 35 years, built up a sizeable and diversified asset portfolio. According to the Group's accounts ended 31 December 2011, the net asset book value attributable to equity shareholders reached a record high of HK$185,000 million, translating into a net asset value per share of HK$78.23 which was more than double of its closing market price of HK$38.6 per share at the end of 2011. If the Group's investment in a listed associate, namely, Hong Kong and China Gas, had merely been valued based on its closing market price rather than its book value at the end of 2011, the net asset value attributable to equity shareholders should have increased by an additional amount of exceeding HK$20,000 million.

Among all the listed associates, Hong Kong and China Gas accounted for the largest share of profit contribution. Its earnings increased by 10% during the year. It is expected to grow further in line with China's economic growth, with its promising mainland businesses overtaking its Hong Kong businesses. Meanwhile, the Group's total net rental income in Hong Kong and mainland China increased by 25% to approximately HK$4,170 million during the year. The earnings from Hong Kong and China Gas and rental property portfolio serve as a solid base for the Group's sustainable growth.

In addition, the Group held extensive land reserves for development. For its holding of around 40 urban redevelopment projects, the total gross floor area available for development amounted to 4.3 million square feet and about 6,000 housing units could be built. Meanwhile, the Group also held New Territories land reserves amounting to 41.9 million square feet, which included land lots of 9.1 million square feet in the future new development towns. If the allowed plot ratio for development in these future new development towns is 2 to 3 times, they are expected to provide a total gross floor area of 18 to 27 million square feet and about 30,000 to 45,000 housing units can be built. In mainland China, the Group had a land bank of approximately 151 million square feet in attributable gross floor area. As the development of the above projects gains pace, they are expected to provide the Group with handsome return and create abundant value for shareholders in the years ahead.

Appreciation

Executive Director and Chief Financial Officer, Mr. Au Siu Kee, Alexander, was re-designated as a Non-executive Director on retirement with effect from 1 July 2011. I would like to thank him for his invaluable contribution during his tenure as Executive Director and Chief Financial Officer.

Sir Po-shing Woo resigned as a Non-executive Director on 29 February 2012 after serving on the Board for over 30 years since 1981. I would like to thank him for his support, devotion and invaluable contribution to the Company during such a long tenure.

Mr. Woo Ka Biu, Jackson ceased to be an alternate to Sir Po-shing Woo upon Sir Po-shing Woo's resignation on 29 February 2012. I am delighted that he will continue to serve the Board as an Independent Non-executive Director with effective from 1 March 2012.

I would also like to take this opportunity to express my gratitude to my fellow directors for their full support, and to thank all our staff for their dedication and hard work.

Lee Shau Kee
Chairman

Hong Kong, 21 March 2012

BUSINESS RESULTS

Consolidated income statement
for the year ended 31 December 2011

	Note	***2011*** **HK$ million**	*2010* HK$ million
Turnover	3	**15,188**	7,092
Direct costs		**(8,418)**	(3,843)
		6,770	3,249
Other revenue	4	**325**	209
Other net income	5	**76**	1,555
Selling and marketing expenses		**(937)**	(658)
Administrative expenses		**(1,687)**	(1,508)
Profit from operations before changes in fair value of investment properties and investment properties under development		**4,547**	2,847
Increase in fair value of investment properties and investment properties under development	6	**8,968**	9,538
Profit from operations after changes in fair value of investment properties and investment properties under development		**13,515**	12,385
Finance costs	7(a)	**(1,169)**	(970)
Share of profits less losses of associates		**3,711**	2,908
Share of profits less losses of jointly controlled entities		**2,924**	2,916
Profit before taxation	7	**18,981**	17,239
Income tax	8	**(1,618)**	(1,601)
Profit for the year		**17,363**	15,638
Attributable to:			
Equity shareholders of the Company		**17,184**	15,820
Non-controlling interests		**179**	(182)
Profit for the year		**17,363**	15,638
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*10(a)*	***HK$7.44***	*HK$7.32*
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development net of deferred tax (underlying earnings per share)			
Basic and diluted	*10(b)*	***HK$2.41***	*HK$2.33*

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

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	***2011*** **HK$ million**	*2010* HK$ million
Profit for the year		**17,363**	15,638
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences: net movement in the exchange reserve		**1,938**	1,120
Cash flow hedges: net movement in the hedging reserve		**(1,150)**	136
Available-for-sale equity securities: net movement in the fair value reserve		**(614)**	175
Share of other comprehensive income of associates and jointly controlled entities		**270**	335
		444	1,766
Total comprehensive income for the year		**17,807**	17,404
Attributable to:			
Equity shareholders of the Company		**17,587**	17,560
Non-controlling interests		**220**	(156)
Total comprehensive income for the year		**17,807**	17,404

Consolidated balance sheet
at 31 December 2011

	Note	***2011*** **HK$ million**	*2010* HK$ million
Non-current assets			
Fixed assets		**92,771**	84,068
Intangible operating right		**454**	479
Interest in associates		**40,117**	37,981
Interest in jointly controlled entities		**23,722**	20,947
Derivative financial instruments		**620**	752
Other financial assets		**3,617**	3,489
Deferred tax assets		**673**	541
		161,974	148,257
Current assets			
Deposits for acquisition of properties		**8,433**	6,925
Inventories		**68,204**	60,717
Trade and other receivables	12	**4,495**	4,497
Cash held by stakeholders		**514**	119
Cash and cash equivalents		**18,850**	9,797
		100,496	82,055
Current liabilities			
Trade and other payables	13	**9,030**	5,812
Bank loans and overdrafts		**19,699**	7,516
Current taxation		**798**	733
		29,527	14,061
Net current assets		**70,969**	67,994
Total assets less current liabilities		**232,943**	216,251

Consolidated balance sheet
at 31 December 2011 (continued)

	Note	***2011*** **HK$ million**	*2010* HK$ million
Non-current liabilities			
Bank loans		**16,581**	27,132
Guaranteed notes		**10,877**	6,991
Amount due to a fellow subsidiary		**8,583**	12,976
Derivative financial instruments		**1,895**	641
Deferred tax liabilities		**5,082**	4,088
		43,018	51,828
NET ASSETS		**189,925**	164,423
CAPITAL AND RESERVES			
Share capital		**4,738**	4,352
Reserves		**180,598**	154,686
Total equity attributable to equity shareholders of the Company		**185,336**	159,038
Non-controlling interests		**4,589**	5,385
TOTAL EQUITY		**189,925**	164,423

Notes:

1 Basis of preparation

The final results set out in this announcement do not constitute the Group's statutory accounts for the year ended 31 December 2011 but are extracted from those accounts.

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

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

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

2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the accounts of the Group:

- HKAS 24 (Revised 2009), *Related party disclosures*

  HKAS 24 (Revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and prior years. HKAS 24 (Revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

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2 Changes in accounting policies (continued)

- Improvements to HKFRSs (2010)

  Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the accounts in the current and prior years.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes* (the "Amendments") in respect of the recognition of deferred tax on investment properties and investment properties under development carried at fair value under HKAS 40, *Investment property*. The Amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the Amendments, the Group has adopted the Amendments early to the accounts for the year ended 31 December 2010.

Under the Amendments, the Group now measures any deferred tax liability in respect of its investment properties in Hong Kong with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

2 Changes in accounting policies (continued)

Up to the date of issue of these accounts, except the Amendments, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these accounts. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 7	*Financial instruments: Disclosures - Transfers of financial assets*	1 July 2011
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
HKFRS 9	*Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3 Turnover

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

The major items are analysed as follows:

	2011	*2010*
	HK$ million	HK$ million
Sale of properties (note (i))	**9,692**	5,752
Less: Cancelled sales (note (ii))	**-**	(3,230)
	9,692	2,522
Rental income	**3,920**	3,157
Construction	**44**	37
Infrastructure	**299**	317
Hotel operation	**224**	184
Department store operation	**347**	307
Others	**662**	568
Total (note 11(b))	**15,188**	7,092

Notes:

(i) Included in sale of properties is an amount of HK$Nil (2010: HK$45 million) relating to the Group's share of revenue from its interest in a property project jointly developed by the Group and an associate.

(ii) During the year ended 31 December 2010, the Group received written requests from the purchasers of 20 property units in 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year.

4 Other revenue

	2011	2010
	HK$ million	HK$ million
Bank interest income	**189**	120
Other interest income	**8**	19
Others	**128**	70
	325	209

5 Other net income

	2011	2010
	HK$ million	HK$ million
Net gain on disposal of subsidiaries (note (i))	**-**	1,203
Gain on disposal of an associate	**-**	37
Net gain on disposal of fixed assets	**72**	272
Gain on sale of listed securities	**-**	90
Excess of interest in fair value of the acquirees' identifiable assets over cost of business combination	**-**	22
(Impairment loss)/reversal of impairment loss on trade and other receivables		
- trade debtors	**(1)**	59
- others (note (ii))	**-**	(171)
Bad debts written off	**(7)**	-
Provision on inventories	**(1)**	(4)
Net foreign exchange gain	**76**	27
Others	**(63)**	20
	76	1,555

Notes:

(i) During the year ended 31 December 2010, the Group completed the disposal of (i) its entire interest in Maanshan Huan Tong Highway Development Limited, as a result of which the Group recognised a net gain on disposal of HK$47 million; and (ii) its entire interest in Sin Cheng Holdings Pte Ltd., an indirect wholly-owned subsidiary (which owns 50% equity interest in Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre), as a result of which the Group recognised a net gain on disposal of HK$1,156 million. Accordingly, the Group recorded an aggregate net gain on disposal of HK$1,203 million for the year ended 31 December 2010.

(ii) The impairment loss for the year ended 31 December 2010 as referred to above included an amount of HK$135 million which was written off against certain remaining amounts of prepaid development costs in relation to a property development project in mainland China which was terminated during the previous financial year ended 30 June 2008.

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

The Group's investment properties and investment properties under development were revalued at 31 December 2011 by DTZ, an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The Group's investment properties were valued in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential. The Group's investment properties under development were valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

7 Profit before taxation

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

		2011	*2010*
		HK$ million	HK$ million
(a)	***Finance costs:***		
	Bank interest	**1,071**	818
	Interest on loans wholly repayable within five years	**199**	157
	Interest on loans repayable after five years	**335**	308
	Other borrowing costs	**207**	158
		1,812	1,441
	Less: Amount capitalised *	**(643)**	(471)
		1,169	970

* The borrowing costs have been capitalised at rates ranging from 2.60% to 6.84% (2010: 2.20% to 5.64%) per annum.

(b)	***Directors' remuneration***	**161**	167

(c)	***Staff costs (other than directors' remuneration):***		
	Salaries, wages and other benefits	**1,496**	1,396
	Contributions to defined contribution retirement plans	**68**	61
		1,564	1,457

7 Profit before taxation (continued)

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

	2011 **HK$ million**	*2010* HK$ million
(d) Other items:		
Depreciation	**168**	146
Less: Amount capitalised	**(12)**	(14)
	156	132
Net foreign exchange gains	**(84)**	(26)
Cash flow hedges: net foreign exchange losses/(gains) reclassified from equity	**8**	(1)
	(76)	(27)
Amortisation of intangible operating right	**44**	43
Cost of sales		
- completed properties for sale (2010 - net of cancelled sales) (note (i))	**6,482**	2,096
- trading stocks	**351**	292
Auditors' remuneration	**20**	20
Rentals receivable from investment properties less direct outgoings of HK$1,119 million (2010: HK$1,051 million) (note (ii))	**(2,299)**	(1,632)
Other rental income less direct outgoings	**(321)**	(301)
Dividend income from investments in available-for-sale equity securities		
- listed	**(59)**	(25)
- unlisted	**(17)**	(18)

Notes:

(i) Included in the cost of sales for the year ended 31 December 2011 in respect of completed properties for sale is an amount of HK$Nil (2010: HK$10 million) relating to the Group's share of cost of properties sold in connection with the property project jointly developed by the Group and the associate as disclosed in note 3(i).

(ii) Included contingent rental income of HK$203 million for the year ended 31 December 2011 (2010: HK$165 million).

8 Income tax

	2011	*2010*
	HK$ million	HK$ million
Current tax - Provision for Hong Kong Profits Tax		
Provision for the year	**655**	370
(Over)/under-provision in respect of prior years	**(26)**	36
	629	406
Current tax - Provision for taxation outside Hong Kong		
Provision for the year	**127**	261
(Over)/under-provision in respect of prior years	**(74)**	26
	53	287
Current tax - Provision for Land Appreciation Tax		
Provision for the year	**9**	18
Under-provision in respect of prior years	**18**	-
	27	18
Deferred taxation		
Origination and reversal of temporary differences	**909**	890
	909	890
	1,618	1,601

Provision for Hong Kong Profits Tax has been made at 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

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

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

9 Dividends

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

	2011	*2010*
	HK$ million	HK$ million
Interim dividend declared and paid for HK$0.3 (2010: HK$0.3) per share	**711**	650
Final dividend proposed after the balance sheet date of HK$0.7 (2010: HK$0.7) per share	**1,658**	1,644
	2,369	2,294

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

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

	2011	*2010*
	HK$ million	HK$ million
Final dividend in respect of the previous financial year/period, approved and paid during the year of HK$0.7 (2010: HK$0.7) per share	**1,644**	1,503

10 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity shareholders of the Company of HK$17,184 million (2010: HK$15,820 million) and on the weighted average number of 2,309 million ordinary shares in issue during the year (2010: 2,160 million ordinary shares), calculated as follows:

	2011 **million**	*2010* million
Number of issued ordinary shares at 1 January	**2,176**	2,147
Weighted average number of shares issued in respect of exercise of warrants	**122**	-
Weighted average number of shares issued in respect of scrip dividends	**11**	13
Weighted average number of ordinary shares for the year and at 31 December	**2,309**	2,160

Diluted earnings per share were the same as the basic earnings per share for both the current and prior years as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during the years ended 31 December 2011 and 2010 would have an anti-dilutive effect.

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company of HK$5,560 million (2010: HK$5,042 million), excluding the effects of changes in fair value of investment properties and investment properties under development net of deferred tax during the year. A reconciliation of profit is as follows :

	2011 **HK$ million**	*2010* HK$ million
Profit attributable to equity shareholders of the Company	**17,184**	15,820
Effect of changes in fair value of investment properties and investment properties under development	**(8,968)**	(9,538)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development	**490**	1,072
Effect of share of changes in fair value of investment properties (net of deferred tax) of:		
- associates	**(1,200)**	(659)
- jointly controlled entities	**(1,887)**	(1,742)
Effect of share of non-controlling interests	**(59)**	89
Underlying profit attributable to equity shareholders of the Company	**5,560**	5,042
Underlying earnings per share	**HK$2.41**	HK$2.33

11 Segment reporting

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

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

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

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

(a) Results of reportable segments

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2011

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

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2010

	Property development HK$ million (Note 3)	*Property leasing* HK$ million (Note (iii))	*Construction* HK$ million	*Infra-structure* HK$ million	*Hotel operation* HK$ million	*Department store operation* HK$ million	*Others* HK$ million	*Eliminations* HK$ million	*Consolidated* HK$ million
External revenue	2,522	3,157	37	317	184	307	568	-	7,092
Inter-segment revenue	-	188	425	-	-	-	30	(643)	-
Reportable segment revenue	2,522	3,345	462	317	184	307	598	(643)	7,092
Reportable segment results	(211)	1,933	(30)	271	35	54	514		2,566
Bank interest income									120
Provision on inventories	(4)	-	-	-	-	-	-		(4)
Unallocated head office and corporate income, net									165
Profit from operations									2,847
Increase in fair value of investment properties and investment properties under development									9,538
Finance costs									(970)
									11,415
Share of profits less losses of associates (note (i))									2,908
Share of profits less losses of jointly controlled entities (note (ii))									2,916
Profit before taxation									17,239
Income tax									(1,601)
Profit for the year									15,638

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) During the year, the Group's share of revenue of associates arising from their activities of property development and property leasing amounted to HK$95 million (2010: HK$281 million) and HK$562 million (2010: HK$517 million), respectively.

Included in the Group's share of profits less losses of associates during the year is a profit of HK$39 million (2010: HK$115 million) contributed from the property development segment, and a profit of HK$1,582 million (2010: HK$1,006 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the year of HK$1,200 million (2010: HK$659 million)).

(ii) During the year, the Group's share of revenue of jointly controlled entities arising from their activities of property development and property leasing amounted to HK$373 million (2010: HK$100 million) and HK$1,336 million (2010: HK$1,203 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the year is a profit of HK$54 million (2010: HK$71 million) contributed from the property development segment, and a profit of HK$2,759 million (2010: HK$2,544 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties during the year of HK$1,887 million (2010: HK$1,742 million)).

(iii) Turnover for the property leasing segment comprises rental income of HK$3,448 million (2010: HK$2,726 million) and rental-related income of HK$472 million (2010: HK$431 million), which in aggregate amounted to HK$3,920 million for the year ended 31 December 2011 (2010: HK$3,157 million).

(b) Geographical information

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

11 Segment reporting (continued)

(b) Geographical information (continued)

	Revenue from external customers For the year ended 31 December		*Specified non-current assets At 31 December*	
	2011	*2010*	***2011***	*2010*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**13,647**	5,958	**127,571**	118,051
Mainland China	**1,541**	1,134	**29,493**	25,424
	15,188	7,092	**157,064**	143,475

(c) Other segment information

	Amortisation and depreciation For the year ended 31 December		*Impairment loss/ (reversal of impairment loss) on trade debtors For the year ended 31 December*	
	2011	*2010*	***2011***	*2010*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**1**	1	**-**	(55)
Property leasing	**20**	16	**(1)**	-
Construction	**39**	13	**-**	-
Infrastructure	**45**	43	**-**	-
Hotel operation	**50**	53	**-**	-
Department store operation	**3**	4	**-**	-
Others	**42**	45	**2**	(4)
	200	175	**1**	(59)

12 Trade and other receivables

	2011 **HK$ million**	*2010* HK$ million
Instalments receivable	**1,300**	1,256
Debtors, prepayments and deposits	**2,961**	3,052
Gross amount due from customers for contract work	**54**	17
Amounts due from associates	**165**	139
Amounts due from jointly controlled entities	**15**	33
	4,495	4,497

(i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits and other receivables of HK$488 million (2010: HK$458 million) which are expected to be recovered after more than one year.

(ii) Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis at the balance sheet date:

	2011 **HK$ million**	*2010* HK$ million
Current or under 1 month overdue	**1,438**	1,567
More than 1 month overdue and up to 3 months overdue	**209**	66
More than 3 months overdue and up to 6 months overdue	**9**	26
More than 6 months overdue	**104**	65
	1,760	1,724

(iii) The trade debtors at 31 December 2011 included an amount of HK$26 million (2010: HK$31 million) in relation to the toll income receivable from Hangzhou Henderson Qianjiang Third Bridge Company, Limited, a 60% owned subsidiary of the Group which is engaged in the operation of a toll bridge in Hangzhou, mainland China. The toll income is collected on behalf of the Group by 杭州市城市「四自」工程道路綜合收費管理處 (Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office"), which is the relevant government body in Hangzhou, mainland China to record the traffic flow and make payment of the toll fee of the toll bridge, pursuant to the terms of an agreement dated 5 February 2004 entered into between the Group and the Hangzhou Toll Office.

12 Trade and other receivables (continued)

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

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

13 Trade and other payables

	2011	*2010*
	HK$ million	HK$ million
Creditors and accrued expenses	**4,195**	4,271
Gross amount due to customers for contract work	**3**	1
Rental and other deposits	**1,078**	908
Forward sales deposits received	**3,585**	410
Amounts due to associates	**100**	107
Amounts due to jointly controlled entities	**69**	115
	9,030	5,812

(i) All of the trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$615 million (2010: HK$563 million) which is expected to be settled after more than one year.

(ii) Included in trade and other payables are trade creditors with the following ageing analysis at the balance sheet date:

	2011	*2010*
	HK$ million	HK$ million
Due within 1 month or on demand	**1,067**	859
Due after 1 month but within 3 months	**503**	406
Due after 3 months but within 6 months	**149**	394
Due after 6 months	**1,214**	1,067
	2,933	2,726

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

14 Review of results

The financial results for the year ended 31 December 2011 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated accounts for the year ended 31 December 2011.

Turnover and profit

	Turnover		Contribution / (loss) from operations	
	Year ended 31 December		Year ended 31 December	
	2011	2010	**2011**	2010
	HK$ million	HK$ million	**HK$ million**	HK$ million
Reportable segments				
– Property development	**9,692**	2,522	**2,186**	(211)
– Property leasing	**3,920**	3,157	**2,620**	1,933
– Construction	**44**	37	**(61)**	(30)
– Infrastructure	**299**	317	**197**	271
– Hotel operation	**224**	184	**84**	35
– Department store operation	**347**	307	**65**	54
– Other businesses	**662**	568	**257**	514
	15,188	7,092	**5,348**	2,566

	Year ended 31 December	
	2011	2010
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company		
– excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred tax) held by the Group's subsidiaries, associates and jointly controlled entities	**5,560**	5,042
– including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred tax) held by the Group's subsidiaries, associates and jointly controlled entities	**17,184**	15,820

The Group's turnover of HK$15,188 million for the year ended 31 December 2011 represents an increase of HK$8,096 million, or 114%, over that of HK$7,092 million in the previous year. Such increase was mainly attributable to the increase in revenue from property sales and property leasing during the year in the amounts of HK$7,170 million and HK$763 million, respectively, when compared with the previous year.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties and investment properties under development) of HK$5,560 million for the year ended 31 December 2011 represents an increase of HK$518 million, or 10%, over that of HK$5,042 million in the previous year. Such increase was mainly attributable to the increase in profit contributions from operations of HK$2,782 million during the year, which was nevertheless being offset by the following major charges during the year :-

(a) the absence of the one-off gain on disposal of the Group's interest in Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre ("Beijing Yansha") in the amount of HK$1,007 million which was recognised in the previous year;

(b) the increase in finance costs of HK$199 million which is mainly due to a higher level of bank and other borrowings during the year;

(c) the increase in taxation of HK$599 million, which is mainly due to (i) the deferred tax charge of HK$250 million upon the reversal of deferred tax arising from the deductible temporary differences relating to the elimination and capitalisation of expenses within the Group during the year; and (ii) the absence of a deferred tax credit of HK$353 million upon the recognition in the previous year of deferred tax assets relating to available tax losses of certain Hong Kong property projects; and

(d) the increase in profit after tax attributable to non-controlling interests of HK$509 million, which is mainly due to the recognition in the previous year of a loss after tax attributable to non-controlling interests of HK$512 million relating to the cancelled sales of 39 Conduit Road and which did not recur during the year.

Including the fair value change (net of non-controlling interests and deferred tax) of investment properties and investment properties under development held by the Group's subsidiaries, associates and jointly controlled entities, the Group profit attributable to equity shareholders of HK$17,184 million for the year ended 31 December 2011 represents an increase of HK$1,364 million, or 9%, over that of HK$15,820 million in the previous year. Such increase in the Group profit attributable to equity shareholders was mainly attributable to the increase in the Group's attributable share of fair value change of the investment properties and investment properties under development of HK$846 million during the year.

Discussions on the major reportable segments are set out below.

Property development

The gross revenue from property sales during the year ended 31 December 2011 amounted to HK$9,692 million (2010: HK$5,752 million, before deducting the revenue (net of forfeited deposits) of HK$3,230 million relating to cancelled sales). The Group did not recognise any cancelled sales which were entered into prior to the year ended 31 December 2011.

During the year ended 31 December 2011, the Group's share of aggregate net pre-tax profit from subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities in relation to property development segment amounted to HK$2,079 million (2010: HK$539 million), comprising pre-tax profit contributions of :-

(i) HK$1,974 million from subsidiaries (after deducting non-controlling interests) (2010: HK$329 million);

(ii) HK$42 million from associates, mainly in relation to the sales of units of Grand Promenade in which The Hong Kong and China Gas Company Limited ("HKCG") has a 50% equity interest and units of Shining Heights and The Spectacle held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry") (2010: HK$128 million); and

(iii) HK$63 million from jointly controlled entities, mainly in relation to the sales of units of Grand Promenade in which the Group has the other 50% equity interest (2010: HK$82 million).

Property leasing

Turnover and profit contribution from property leasing for the year ended 31 December 2011 increased by HK$763 million (or 24%) and HK$687 million (or 36%), respectively, over that in the previous year. In particular, such increases are mainly attributable to the following :-

(i) increased turnover of HK$383 million and increased profit contributions of HK$320 million in relation to the improved occupancies of three recently completed properties in mainland China, namely World Finance Centre in Beijing as well as Centro and Henderson Metropolitan in Shanghai; and

(ii) the organic growth of other investment properties in Hong Kong and mainland China, in particular Manulife Financial Centre in Hong Kong which increased by HK$88 million in turnover and HK$110 million in profit contribution.

Gross rental revenue attributable to the Group during the year ended 31 December 2011 amounted to HK$5,805 million (2010 : HK$4,865 million), of which HK$4,889 million (2010 : HK$4,385 million) was generated in Hong Kong and HK$916 million (2010 : HK$480 million) was generated in mainland China. In this regard, the Group's share of gross rental revenue comprises contributions from (i) subsidiaries (after deducting non-controlling interests) of HK$3,907 million (2010: HK$3,145 million); (ii) associates of HK$562 million (2010: HK$517 million); and (iii) jointly controlled entities of HK$1,336 million (2010: HK$1,203 million).

On the same basis, the Group's share of pre-tax net rental income in aggregate amounted to HK$4,169 million (2010: HK$3,344 million), of which HK$3,585 million (2010 : HK$3,109 million) was generated in Hong Kong and HK$584 million (2010 : HK$235 million) was generated in mainland China. In this regard, the Group's share of pre-tax net rental income comprises contributions from (i) subsidiaries (after deducting non-controlling interests) of HK$2,614 million (2010: HK$1,925 million); (ii) associates of HK$475 million (2010: HK$439 million); and (iii) jointly controlled entities of HK$1,080 million (2010: HK$980 million).

Construction

Turnover for the year ended 31 December 2011 increased by HK$7 million, or 19%, over that in the previous year which is mainly attributable to the incremental revenue contribution from a new major construction contract following the completion of certain other construction contracts during the year.

The loss from operations for the year ended 31 December 2011 increased by HK$31 million over that in the previous year which is mainly attributable to an additional depreciation charge of HK$27 million for the reason that the Group acquired additional construction plant and machinery in the aggregate carrying amount of HK$53 million during the year to undertake forthcoming construction activities of the Group's development projects.

Infrastructure

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

For the financial performance of the Group's infrastructure business for the year ended 31 December 2011, please refer to the paragraph headed "Henderson Investment Limited ("HIL")" in the Chairman's statement of the Company's 2011 final results announcement.

Hotel operation

Turnover for the year ended 31 December 2011 increased by HK$40 million, or 22%, over that in the previous year which is mainly attributable to the increase in the occupancy rates and room tariffs of guestrooms during the year when compared with the previous year.

Profit contribution for the year ended 31 December 2011 increased by HK$49 million, or 140%, over that in the previous year which is mainly attributable to the aforementioned reasons as well as the absence during the year of an operating loss of HK$15 million relating to Newton Kowloon Hotel (which ceased business operation on 30 June 2010) recognised in the previous year.

Department store operation

Turnover and profit contribution for the year ended 31 December 2011 increased by HK$40 million (or 13%) and HK$11 million (or 20%), respectively, over that in the previous year. Such increases are mainly attributable to the continuing strong market sentiment of Hong Kong's retail sector during the year when compared with the previous year.

Other businesses

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

Turnover for the year ended 31 December 2011 increased by HK$94 million, or 17%, over that in the previous year which is mainly attributable to the increase in the turnover from the trading of building materials, dividend income and disposal of leasehold land in the aggregate amount of HK$113 million.

Nevertheless profit contribution for the year ended 31 December 2011 decreased by HK$257 million, or 50%, from that in the previous year which is mainly attributable to the decrease in the gains on disposals of fixed assets (mainly other land and buildings) and available-for-sale equity securities during the year in the aggregate amount of HK$290 million, which was partially offset by the increase in profit contribution of HK$81 million from project management services due to the increase in the Group's property sales revenue and property leasing revenue during the year.

Associates

The Group's share of post-tax profits less losses of associates during the year ended 31 December 2011 amounted to HK$3,711 million (2010 : HK$2,908 million), representing an increase of HK$803 million, or 28%, over that in the previous year. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates of HK$1,200 million during the year ended 31 December 2011 (2010 : HK$659 million), the Group's share of the underlying post-tax profits less losses of associates for the year ended 31 December 2011 amounted to HK$2,511 million (2010: HK$2,249 million), representing an increase of HK$262 million, or 12%, over that in the previous year. Such increase was mainly attributable to the following :-

(i) the Group's share of increase in the underlying post-tax profit contribution from HKCG of HK$240 million, mainly due to the share of increase in profit contribution from the gas operation and related businesses of HK$331 million which is nevertheless partially offset by the share of decrease in profit contribution from property sales of HK$49 million (as all the residential units of Grand Promenade were fully sold by the end of the first quarter of 2011) and the share of decrease in net investment gain of HK$41 million;

(ii) the Group's share of increase in the underlying post-tax profit contribution from HK Ferry of HK$29 million, mainly due to the share of the one-off gain on disposal of a hotel property during the year of HK$75 million, which is nevertheless partially offset by the share of decrease in profit contribution from property sales (Shining Heights and The Spectacle) of HK$16 million, the share of impairment loss on available-for-sale equity securities during the year of HK$14 million and the share of decrease in the gain on securities investments, interest income and exchange gain in the aggregate amount of HK$19 million; and

(iii) the Group's share of increase in the underlying post-tax profit contribution from Miramar Hotel and Investment Company, Limited of HK$15 million, mainly due to the share of increase in profit contributions from property leasing and hotel operation in the aggregate amount of HK$53 million, which is nevertheless partially offset by the share of decrease in profit contributions from food and beverage, travel and apparel business operations in the aggregate amount of HK$25 million and the share of increase in net realised and unrealised losses on trading securities of HK$14 million.

Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities during the year ended 31 December 2011 amounted to HK$2,924 million (2010: HK$2,916 million), representing an increase of HK$8 million, or 0.3%, over that in the previous year. Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK$1,887 million during the year ended 31 December 2011 (2010: HK$1,742 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the year ended 31 December 2011 amounted to HK$1,037 million (2010: HK$1,174 million), representing a decrease of HK$137 million, or 12%, from that in the previous year. Such decrease was mainly attributable to the following :-

(i) the absence during the year of the Group's share of profit contribution of HK$195 million from the department store operation in mainland China recognised in the previous year, following the disposal of the Group's interest in Beijing Yansha in December 2010;

(ii) the Group's share of decrease in post-tax profit contribution of HK$44 million from the sale of residential units of Grand Promenade, which were fully sold by the end of the first quarter of 2011;

(iii) the Group's share of increase in the underlying post-tax profit contribution of HK$75 million from the IFC Complex, due to favourable rental reversions upon lease renewals of the Four Seasons Place and the increases in the average room rates and occupancy rates of the Four Seasons Hotel; and

(iv) the Group’s share of increase in the underlying post-tax profit contribution of HK$12 million from the property leasing projects held by the other jointly controlled entities.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the year ended 31 December 2011 were HK$1,169 million (2010: HK$970 million). Finance costs before interest capitalisation for the year ended 31 December 2011 were HK$1,812 million (2010: HK$1,441 million). During the year ended 31 December 2011, the Group’s effective borrowing rate was approximately 3.13% per annum (2010: approximately 2.64% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$8,968 million in the consolidated income statement for the year ended 31 December 2011 (2010: HK$9,538 million).

Financial resources and liquidity

Medium Term Note Programme

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

Maturity profile and interest cover

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

	2011 **HK$ million**	2010 HK$ million
Bank and other borrowings repayable:		
– Within 1 year	**19,699**	7,516
– After 1 year but within 2 years	**3,225**	16,407
– After 2 years but within 5 years	**13,903**	10,054
– After 5 years	**10,330**	7,662
Amount due to a fellow subsidiary	**8,583**	12,976
Total debt	**55,740**	54,615
Less: Cash and bank balances	**18,850**	9,797
Net debt	**36,890**	44,818
Shareholders’ funds	**185,336**	159,038
Gearing ratio (%)	**19.9%**	28.2%

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio decreased from 28.2% at 31 December 2010 to 19.9% at 31 December 2011, which is mainly attributable to the combined effect of, inter alia, (i) the Group profit attributable to equity shareholders of HK$17,184 million for the year ended 31 December 2011; and (ii) the increase in the Group's shareholders' funds at 31 December 2011 due to the enlargement of the Group's capital base by HK$10,026 million following the exercise during the year of 172,870,014 warrants by the holders thereof (including Henderson Development Limited, being the parent and ultimate controlling party of the Group controlled by the family of Dr. the Hon. Lee Shau Kee ("Dr. Lee"), the chairman of the Board of directors of the Company).

The interest cover of the Group is calculated as follows:

	Year ended 31 December	
	2011	2010
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation)	**8,898**	6,990
Interest expense (before interest capitalisation)	**1,605**	1,283
Interest cover (times)	**6**	5

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

Treasury and financial management

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

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

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the USD borrowings in the aggregate principal amounts of US$982,500,000 and £50,000,000 at 31 December 2011 (2010: US$972,500,000 and £50,000,000), interest rate swap contracts and cross currency swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates ("HKD borrowings") in the aggregate principal amount of HK$13,000,000,000 at 31 December 2011 (2010: HK$7,100,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

On 15 September 2011, the Company acquired the issued share capitals and the shareholders' loans of 24 companies from (i) Henderson Development Limited; (ii) Jetwin International Limited and Shau Kee Financial Enterprises Limited, which are controlled by a private trust of the family of Dr. Lee; and (iii) Madam Lee Wun Yiu, the sister of Dr. Lee. These 24 companies hold various property interests in Hong Kong and the Company paid an aggregate cash consideration of HK$796 million for the acquisition, which was completed on 15 September 2011.

Save as disclosed above, the Group did not undertake any other significant acquisitions or any significant disposals of subsidiaries or assets during the year ended 31 December 2011.

Charge on assets

Assets of the Group were not charged to any third parties at both 31 December 2011 and 31 December 2010.

Capital commitments

At 31 December 2011, capital commitments of the Group amounted to HK$37,401 million (2010: HK$36,032 million). In addition, the Group's attributable share of capital commitments in relation to its jointly controlled entities amounted to HK$832 million (2010 : HK$278 million).

Contingent liabilities

At 31 December 2011, the Group's contingent liabilities amounted to HK$45 million (2010: HK$65 million).

Employees and remuneration policy

At 31 December 2011, the Group had approximately 8,000 (2010: 8,000) full-time employees. The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the year ended 31 December 2011 amounted to HK$ 1,704 million (2010: HK$1,606 million), which comprised (i) staff costs included under directors' remuneration of HK$140 million (2010: HK$149 million); and (ii) staff costs (other than directors' remuneration) of HK$1,564 million (2010: HK$1,457 million).

OTHER INFORMATION

Closure of Register of Members

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

   The Register of Members of the Company will be closed from Thursday, 7 June 2012 to Monday, 11 June 2012, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 6 June 2012.

2. Book Close for determining the qualification for the proposed final dividend

   The Register of Members of the Company will be closed from Friday, 15 June 2012 to Monday, 18 June 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Thursday, 14 June 2012.

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

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

Audit Committee

The Audit Committee met in March 2012 and reviewed the systems of internal control and compliance and the annual report for the year ended 31 December 2011.

Corporate Governance

During the year ended 31 December 2011, the Company has complied with the Code on Corporate Governance Practices (the “CGP Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that the roles of the chairman and the chief executive officer of the Company have not been segregated as required under code provision A.2.1 of the CGP Code. The Company is of the view that it is in the best interest of the Company that Dr. Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

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

Forward-Looking Statements

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

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 21 March 2012

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