Business Review

Wheelock Properties Limited

("WPL", 100% owned)

Lexington Hill in Western District was launched for pre-sales in February 2012 and met with good demand. In total 103 out of 104 residential units were promptly sold at an average price of HK$12,000 per square foot. A retail shop and 22 carparking spaces were subsequently sold, with total sales proceeds amounting to HK$1.28 billion. Superstructure work is underway, with completion scheduled for 2014.

The pre-sales of Kadoorie Hill's 66 residential units were launched in October 2012. This development is located in Homantin's Prince Edward Road West. A total of 57 out of 66 units at an average price of HK$18,000 per square foot and 51 carparking spaces were sold for total proceeds of HK$1.77 billion. Completion is scheduled for 2013.

WPL sold the 37,000-square-foot retail mall and 155 carparking spaces in Bellagio, Sham Tseng in 2012 for HK$296 million.

Austin Station project, a prime residential development by a 50:50 joint venture with New World Development, is targeted for pre-sales in 2013, subject to the pre-sale consent application process. This development, with an attributable GFA of 641,000 square feet, is located on top of the Austin MTR station in Kowloon West and next to the future terminus for the Express Rail Link to the Mainland (targets to open in 2015). It also guards the main entrance to the West Kowloon Cultural District which is under development. Superstructure work is underway. Full completion is scheduled for 2015.

One Bay East, a commercial development in Kwun Tong's Hoi Bun Road overlooking the Victoria Harbour and the Kai Tak Cruise Terminal, is targeted for pre-sales in 2013, subject to the pre-sale consent application process. This development is located at the heart of the new CBD2 as part of the Energizing Kowloon East initiative by the government. It comprises two Grade A office buildings with a GFA of 1,025,000 square feet and easy access to the Ngau Tau Kok MTR station. The general building plan was approved in August 2012. Foundation work is underway. Full completion is scheduled for 2015.

The Hung Luen Road commercial development is progressing as planned. It comprises two Grade A office buildings and two low-rise retail buildings with a GFA of 590,000 square feet. It is located at the harbour side with a panoramic view of Victoria Harbour and has good accessibility to the future MTR Whampoa station (Kwun Tong Line Extension targets to open in 2015). The general building plan has been submitted for approval.

WPL replenished 1.04 million square feet of land bank in Hong Kong during 2012.

In January 2012, WPL acquired an 88,800-square-foot residential site in Tseung Kwan O for HK$1.86 billion. This development, with a GFA of 488,200 square feet, is in close proximity to the Tseung Kwan O MTR station to provide convenient connectivity. The general building plan was approved in November 2012. Foundation work is underway. Full completion is scheduled for 2016.

In October 2012, WPL successfully acquired ownership of the residential building in No. 92–98 High Street of Western District for HK$349 million. The redevelopment, with a GFA of 69,200 square feet, comprises 75 residential units. Vacant possession was delivered in December 2012. Demolition work is in progress.

In November 2012, WPL acquired a 6,300-square-foot residential and commercial redevelopment site in 171 Shau Kei Wan Road of Hong Kong Island East for HK$561 million. The new development, with a GFA of 57,800 square feet, is now being planned. Vacant possession is scheduled for 2014.

In December 2012, WPL won a tender for a 171,900-square-foot residential site in Tseung Kwan O for HK$1.97 billion. This development, with a GFA of 429,700 square feet, is located at the Tseung Kwan O Bay waterfront with a panoramic view of Victoria Harbour and in close proximity to the residential site acquired in January 2012. Design planning is underway.

Wheelock Properties (Singapore) Limited

("WPSL", 75.8% owned)

In accordance with Hong Kong Financial Reporting Standards, WPSL's profit contribution to the Group for 2012 was HK$396 million (2011: HK$3,855 million) due to lower properties completion.

Scotts Square, a prime residential development atop a retail complex, is located in the heart of the Orchard Road shopping belt. At the end of 2012, 93% of the retail space was leased (2011: 43%) with internationally celebrated brands including Hermès, Michael Kors, Anne Fontaine and On Pedder. The average monthly retail rental achieved was S$22 per square foot. Scotts Square apartments were 85% sold with an average price of S$4,000 per square foot at the end of 2012.

Wheelock Place, a prime commercial development on the Orchard Road, achieved an average occupancy of 99% for retail and office at the end of 2012. Lease renewal retention held up well at 78%. Marks & Spencer opened its flagship store in the second quarter of 2012.

Orchard View, a luxury residential development comprising 30 four-bedroom apartments with private lift lobbies, was 100% sold at the year end at an average price of S$2,845 per square foot.

Construction of Ardmore Three, a 36-storey freehold luxury residential development with 84 three-bedroom units at 1,800 square feet each along Ardmore Park, is underway.

In China, a high-end residential development in Hangzhou's Fuyang District with a GFA of 303,530 square metres is being developed. The project is 22 kilometres from the city centre, with residences commanding a nice mountain view. Full completion is scheduled for 2018.

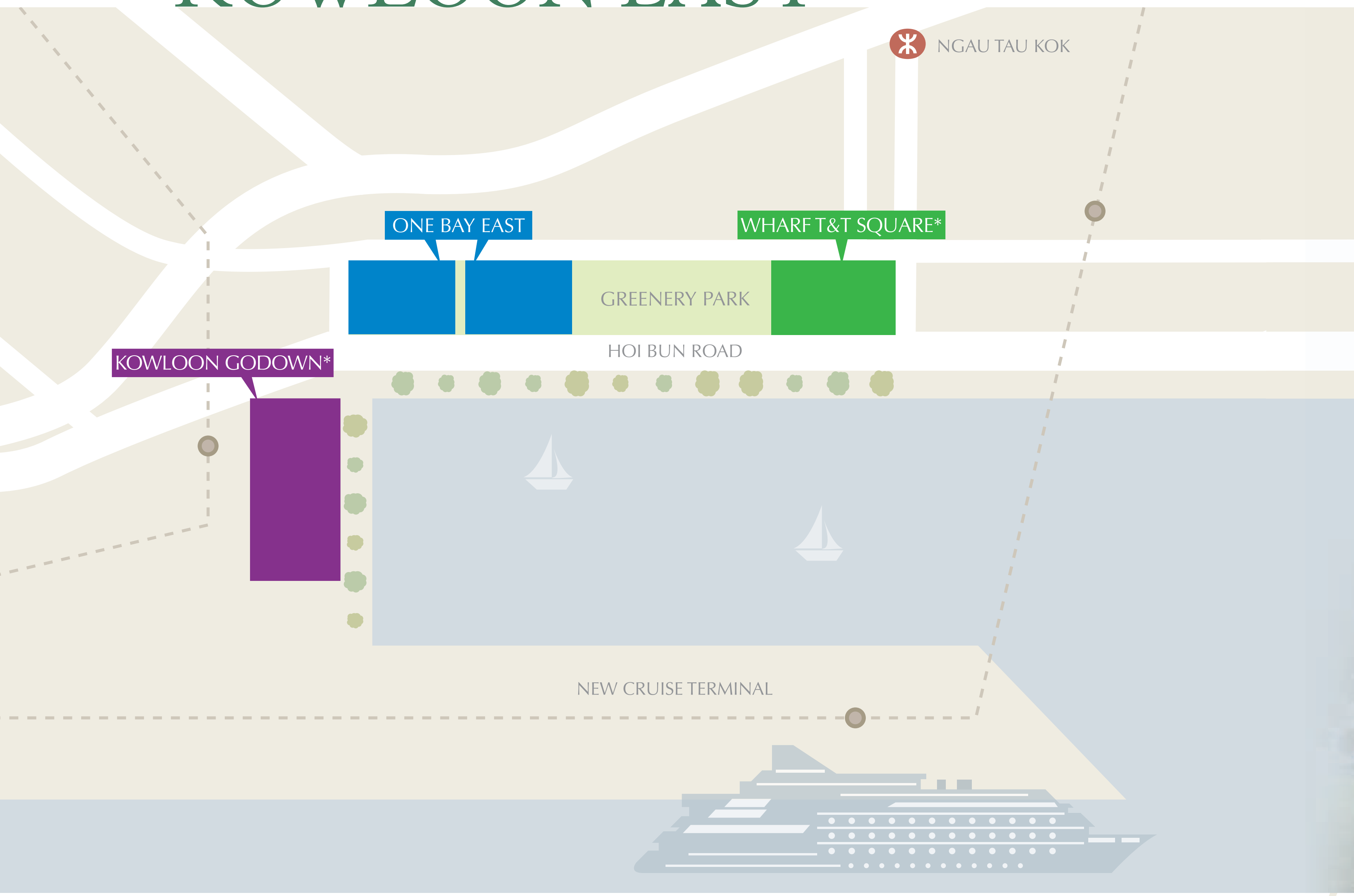
The Wharf (Holdings) Limited

("Wharf", 51.4% owned)

Excluding investment property valuation surplus and exceptional items, Wharf's profit attributable to its shareholders for the year of 2012 increased by 37% to HK$11,040 million. Core earnings per share were HK$3.64 (2011: HK$2.70).

Including investment property valuation surplus and exceptional items, Wharf's profit attributable to shareholders amounted to HK$47,263 million (2011: HK$30,568 million). Basic earnings per share were HK$15.60 (2011: HK$10.22).

KOWLOON EAST



	GFA (SQ. FT.)	PROJECT NATURE
ONE BAY EAST	1,025,000	OFFICE
WHARF T&T SQUARE*	596,200	OFFICE
KOWLOON GODOWN*	829,000	RESIDENTIAL

* UNDER REDEVELOPMENT PLANNING

PROPOSED ENVIRONMENTALLY FRIENDLY LINKAGE SYSTEM

THE MAP IS SIMPLIFIED AND FOR REFERENCE ONLY

Scotts Square
Scotts Road, Singapore

Wheelock Square
Nanjing Xi Road, Shanghai, China

Hong Kong Property Investment

Harbour City

Revenue increased by 13% to HK$7,508 million and operating profit by 13% to HK$5,757 million. Excluding the three hotels, Harbour City was valued at HK$125 billion at the end of 2012, representing 36% of Wharf's business assets.

Harbour City achieved a record year with retail sales growing by 13% to reach a record of HK$31 billion or HK$2,600 per square foot per month. Market share increased further to an unmatched 6.9% of total Hong Kong retail sales, demonstrating its continued leadership in the marketplace. Revenue from Harbour City's retail sector increased by 18% to HK$4,223 million in 2012. Occupancy was maintained at virtually 100% at the end of 2012.

Office occupancy at Harbour City climbed to 97% at the year end. Revenue increased by 6% to HK$1,710 million on the back of positive rental reversion. Revenue from the serviced apartments increased by 3% to HK$310 million with occupancy at 85% at the year end.

Times Square

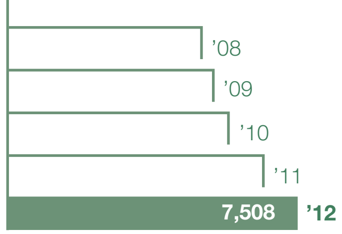
Revenue increased by 10% to HK$1,908 million and operating profit by 10% to HK$1,678 million. Times Square was valued at HK$44 billion at the end of 2012, representing 13% of Wharf's business assets.

Times Square remains the most successful vertical shopping mall in Hong Kong. Retail sales grew by 1.5% during 2012 despite 17% of total retail space being withdrawn from the market for refurbishment. Retail revenue increased by 7% to HK$1,352 million with occupancy maintained at virtually 100% at the end of 2012. The cinema relocation refurbishment is progressing as planned. The new retail shops at the ground and lower floors, as well as the new cinema on 12^{th} and 13^{th} floors are scheduled to open in the second half of 2013.

Revenue from the office sector grew by 17% to HK$556 million, with occupancy increased to 98% by the year end.

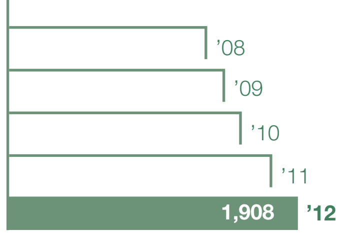
Harbour City

Revenue (HK$ Million)



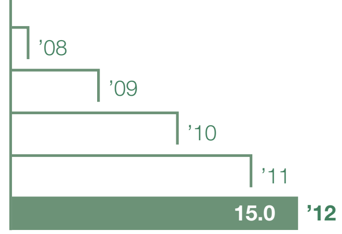
Times Square

Revenue (HK$ Million)



China Property Development

Sales (RMB Billion)



Plaza Hollywood

Revenue increased by 11% to HK$420 million and operating profit by 10% to HK$307 million. Retail sales grew by 15% during 2012, riding on the success in brand repositioning and tenant-mix refinement. Plaza Hollywood was valued at HK$8 billion at the end of 2012.

China Property Investment

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

92% of the office space at Shanghai Wheelock Square was committed by the year end. Average spot rent achieved in 2012 was RMB430 per square metre per month, with the highest headline rent at RMB476 per square metre per month, among the highest office rental rates in Shanghai.

Dalian Times Square retail mall's occupancy stood at 100% at the year end. The tenant mix was further refined with the introduction of Bottega Veneta, Chanel, Sportmax, Tod's and Versace. The gross rental yield on cost soared to 59% in 2012, with only four years of operation.

Chongqing Times Square retail mall's occupancy stood high at 94% at the year end, after the re-opening in July 2011. More young fashion and accessories brands were recruited to enrich the overall product offerings. The gross rental yield on cost was maintained at 22% in 2012.

Wharf is developing a series of International Finance Squares in the cities of Chengdu, Wuxi, Chongqing, Suzhou and Changsha. Upon their completion between 2013 and 2016, Wharf's commercial properties and retail area in Hong Kong and China will multiply.

The first phase of the Chengdu IFS, including a 200,000-square-metre mega-sized retail mall and a Grade A office tower, is scheduled for completion in the second half of 2013. Retail pre-leasing has been encouraging, with 80% of the retail space leased at the year end. Rental rates contracted were above budget. The retail mall is scheduled to open by the first quarter of 2014. Full completion is scheduled for the second half of 2014.

China Property Development

Property completion accelerated in 2012 with 758,000 square metres completed and recognised. Completion from subsidiary projects generated a revenue of HK$9,573 million, 51% higher than 2011. Operating profit grew by 57% to HK$3,562 million. Profit recognised during the year included significant contributions from Shanghai Xiyuan, Chengdu Tian Fu Times Square, Suzhou Ambassador Villa and Wuxi Times City.

Seven new projects were launched for pre-sales during 2012. Together with projects previously launched, Wharf has 30 projects on sale across 12 cities in China.

A total of 1.3 million square metres of properties were sold during the year to generate attributable sales proceeds of RMB15 billion, 18% higher than 2011. The net order book (net of business tax) increased to RMB15.7 billion for 1,448,000 square metres at the end of 2012.

The Eastern China region posted a 21% growth in contracted sales over 2011. The largest contributors were Suzhou Times City with RMB2.2 billion sales proceeds generated, followed by Wuxi Times City and Changzhou Times Palace. Palazzo Pitti and Junting in Hangzhou were launched in December 2012 for proceeds of RMB340 million.

The Western China region reported a 21% growth in contracted sales over 2011. The largest contributors were Chengdu Tian Fu Times Square and Chengdu Crystal Park with RMB1.5 billion and RMB1.1 billion sales proceeds generated respectively. International Community in Chongqing sold further units for attributed proceeds of RMB662 million. The Sirius of Chengdu International Commerce Centre and Times Town of Shuangliu Development Area were launched for pre-sales in April and December 2012.

The Southern China region registered a 41% growth in contracted sales over 2011. The first phase of Evian Riviera and Evian Buena Vista in Foshan and Donghui City in Guangzhou were launched for pre-sales during 2012, generating attributed proceeds of RMB847 million. Evian Town and Evian Uptown sold further units for sales proceeds of RMB1.2 billion on an attributable basis.

In Tianjin, Peaceland Cove pre-sold further units for attributed proceeds of RMB1.1 billion. The Magnificent has met with a favourable response.

In 2012, Wharf acquired six property development sites in the cities of Beijing, Changzhou, Chengdu, Dalian and Shanghai with an attributable GFA of 0.84 million square metres for RMB4.8 billion.

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

Total land bank in China was maintained at 12.3 million square metres at the end of 2012, spanning across 15 cities.

All projects under development are progressing in accordance with plan.

Hong Kong Property Development

One Midtown in Tsuen Wan was completed in June 2012. This enabled HK$2.6 billion of revenue and HK$1.3 billion of operating profit recognised during the year.

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

The master layout plan for the Mount Nicholson has been approved. This 50:50 joint venture development with Nan Fung group offers an attributable GFA of 162,000 square feet on the Peak and a panoramic view of Victoria Harbour. Construction work is underway.

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

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

Yau Tong Godown's redevelopment plan into a residential and commercial development with a GFA of 256,000 square feet has been approved. Foundation work is underway.

The master layout plan for the Yau Tong Bay joint venture project, in which Wharf has approximately a 15% interest, was approved by the Town Planning Board in February 2013.

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

Other Businesses

Marco Polo Hotels

Marco Polo operates 13 owned or managed hotels in the Asia Pacific region. The Marco Polo Lingnan Tiandi in Foshan and Marco Polo Suzhou were added in 2012. A pipeline of 10 new hotels is being rolled out in the Mainland, the Philippines and Thailand in the next five years to significantly strengthen Marco Polo's network.

Revenue from the Marco Polo hotels and club grew by 9% to HK$1,391 million in 2012. Operating profit increased by 5% to HK$391 million.

All Marco Polo hotels performed strongly during 2012. Consolidated occupancy of the three Marco Polo hotels in Hong Kong reached 85%, with an increase of 8% in average room rates.

Modern Terminals

(a 68%-owned subsidiary of Wharf)

Modern Terminals' consolidated revenue decreased by 13% to HK$2,969 million mainly due to a one-off income recovery in 2011. Excluding this one-off impact, consolidated revenue decreased by 6.3%. Consolidated operating profit decreased by 26% to HK$1,142 million. Throughput in Hong Kong dropped 9% to 4.8 million TEUs. In the Mainland, throughput at Taicang International Gateway in Suzhou grew by 1% to 1.5 million TEUs, while Da Chan Bay Terminal One in Shenzhen handled 572,000 TEUs during the year.

i-CABLE

(a 74%-owned subsidiary of Wharf)

Revenue increased by 1% to HK$2,127 million with a net loss at HK$278 million (2011: loss of HK$179 million). A healthy financial position was maintained with net cash of HK$188 million. Competitive pressure remained high during the year while higher programming costs were incurred due to the London Olympics and European football leagues.

Wharf T&T

Revenue rose by 4% to HK$1,826 million and operating profit by 9% to HK$250 million, another record revenue and profit for the second year in a row. Net cash inflow position started to recover as the investment on +EN rollout for the business market passed its peak.

Financial Review

(I) Review of 2012 Results

The Group continued to deliver solid financial results with its profit attributable to equity shareholders increased by 18% to HK$26,935 million and profit before property revaluation surplus increased by 4% to HK$8,734 million. The favourable results were mainly attributable to the remarkable performance of Wharf's property development segment and its persistent rental revenue growth, added by a one-off profit recognised from the acquisition of an associate, Greentown China Holdings Limited ("Greentown"), and the increase in property revaluation surplus. However, in the absence of the better property sale recognised on completion of One Island South and Scotts Square in 2011, core profit decreased year-on-year by 20% to HK$7,267 million.

Revenue and Operating Profit

Group revenue decreased by 4% to HK$33,124 million (2011: HK$34,558 million) due to lower property sales recognised, which was partly mitigated by the strong recurrent rental growth.

Group operating profit decreased by 12% to HK$15,570 million (2011: HK$17,730 million), of which HK$14,170 million (2011: HK$11,388 million) was contributed by Wharf, HK$734 million (2011: HK$3,880 million) by WPSL, and HK$666 million (2011: HK$2,462 million) by Wheelock and its other subsidiaries.

Property Investment

Revenue and operating profit both increased by 13% to HK$12,004 million (2011: HK$10,670 million) and HK$9,122 million (2011: HK$8,108 million) respectively, attributable to higher retail rental income through better sales performance achieved by retail tenants and the continuous positive rental reversions for office areas. Revenue from the Mainland increased by 26% to HK$1,005 million (2011: HK$796 million), mainly due to the escalating revenue generated by Shanghai Wheelock Square and the renovated Chongqing Times Square. Hotels recorded increase in revenue through improved room rates with occupancy remained at high level despite rooms renovation interruption for the Gateway Hotel.

Property Development

Revenue and operating profit decreased by 17% and 32% to HK$13,370 million (2011: HK$16,021 million) and HK$5,458 million (2011: HK$8,058 million) respectively, due to lower sales recognised on completion as compared to 2011. In 2011, One Island South and Scotts Square were completed, enabling the recognition of revenue and operating profit of HK$9.4 billion and HK$5.7 billion respectively.

In Hong Kong, recognised property sales and operating profit amounted to HK$3,019 million (2011: HK$3,403 million) and HK$1,536 million (2011: HK$2,101 million) respectively, mainly generated from One Midtown and Bellagio Mall. During the year, One Midtown was completed and contributed revenue of HK$2,634 million and operating profit of HK$1,307 million.

In Singapore, recognised property sales and operating profit amounted to HK$778 million (2011: HK$6,275 million) and HK$360 million (2011: HK$3,683 million) respectively, mainly generated from sales of the remaining Scotts Square and Orchard View units.

In the Mainland, recognised property sales and operating profit amounted to HK$9,573 million (2011: HK$6,343 million) and HK$3,562 million (2011: HK$2,274 million) respectively, mainly derived from Chengdu Tian Fu Times Square, Shanghai Xiyuan and Wuxi Times City.

During the year, inclusive of joint ventures and associates (other than Greentown) on an attributable basis, the Group's contracted property sales increased to HK$26.2 billion (2011: HK$19.9 billion), increasing its net order book to HK$22.5 billion by year end 2012 (December 2011: HK$17.2 billion), of which about 86% is in the Mainland and the balance is in Hong Kong pending recognition on completion.

Logistics

Revenue and operating profit decreased by 13% and 26% to HK$3,070 million (2011: HK$3,520 million) and HK$1,161 million (2011: HK$1,563 million) respectively, mainly due to the slowdown in global trade growth.

Communications, Media and Entertainment ("CME")

Revenue increased by 2% to HK$3,953 million (2011: HK$3,863 million) but an operating loss of HK$22 million (2011: profit of HK$45 million) was reported. Wharf T&T's operating profit increased by 9% to HK$250 million (2011: HK$230 million) while i-CABLE's operating loss widened to HK$271 million (2011: loss of HK$186 million).

Investment and Others

Investment and other operating profit amounted to HK$456 million (2011: HK$525 million), comprising largely dividend and interest income.

Increase in Fair Value of Investment Properties

The book value of the Group's investment property portfolio as at 31 December 2012 increased to HK$250.7 billion (2011: HK$200.5 billion), with HK$228.4 billion thereof stated at fair value based on an independent valuation as at that date. That resulted in a revaluation surplus of HK$35,924 million (2011: HK$27,651 million). The attributable net revaluation surplus of HK$18,201 million (2011: HK$14,507 million), after deducting related deferred tax and non-controlling interests in total of HK$17,723 million (2011: HK$13,144 million), was credited to the consolidated income statement.

Investment properties in the amount of HK$22.3 billion, which had not been revalued were all under development and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of their respective completion.

Other Net Income

Other net income amounted to HK$3,116 million (2011: HK$629 million), mainly including the book accounting gain of HK$2,233 million arising from Wharf's acquisition of a 24.6% equity interest in Greentown as detailed in note 3(a) to the financial statements, profit on disposal of available-for-sale investments of HK$492 million (2011: HK$184 million) and net exchange gain of HK$274 million (2011: HK$417 million).

Finance Costs

Finance costs charged to the consolidated income statement were HK$1,162 million (2011: HK$2,747 million), which included an unrealised mark-to-market gain of HK$573 million (2011: loss of HK$1,387 million) on cross currency/interest rate swaps as measured in compliance with the prevailing accounting standards. Net of non-controlling interests, the attributable gain is HK$301 million (2011: attributable loss of HK$679 million).

Excluding the unrealised mark-to-market gain, finance costs were HK$2,757 million (2011: HK$1,870 million) before capitalisation of HK$1,022 million (2011: HK$510 million), and HK$1,735 million (2011: HK$1,360 million) after capitalisation. The increase in finance costs was mainly due to increase in gross borrowings and rise in effective borrowing rates. The Group's effective borrowing rate for the year was 2.8% (2011: 2.1%) per annum.

Share of Results after Tax of Associates and Jointly Controlled Entities

Share of profits of associates increased by 96% to HK$1,621 million (2011: HK$825 million), mainly due to increase in profit contributions from property development projects in the Mainland, including an attributable profit of HK$893 million from the 24.6% equity interest in Greentown acquired during the year.

Share of profits of jointly controlled entities ("JCEs") increased by HK$600 million to HK$634 million (2011: HK$34 million), reflecting the increased profit contributions from property development projects in the Mainland which began to bear fruit.

Income Tax

Taxation charge was HK$4,347 million (2011: HK$4,338 million), which included deferred taxation of HK$1,087 million (2011: HK$901 million) provided for the revaluation surplus of investment properties located in the Mainland.

Excluding the above deferred tax, the tax charge was HK$3,260 million (2011: HK$3,437 million), mainly due to a decrease in profit recognised by Property Development segment.

Non-controlling Interests

Profit attributable to non-controlling interests increased by HK$7,503 million to HK$24,421 million (2011: HK$16,918 million), which was mainly attributable to profit of Wharf and WPSL.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 18% to HK$26,935 million (2011: HK$22,866 million). Earnings per share were HK$13.26 (2011: HK$11.25).

Excluding the net investment property surplus of HK$18,201 million (2011: HK$14,507 million), Group profit attributable to equity shareholders increased by 4% to HK$8,734 million (2011: HK$8,359 million).

Further stripping out the exceptional attributable book accounting gain arising from acquisition of equity interests in Greentown of HK$1,133 million (2011: HK$ Nil) and the attributable mark-to-market gains totalling HK$334 million (2011: losses of HK$679 million) on swaps and other financial assets, core profit decreased by 20% to HK$7,267 million (2011: HK$9,038 million). Core earnings per share were HK$3.58 (2011: HK$4.45).

BUSINESS AND FINANCIAL REVIEW

Set out below is an analysis of the Group profit attributable to the equity shareholders as contributed by each of Wharf, WPSL and the Company together with its other subsidiaries.

Profit attributable to	**2012 HK$ Million**	2011 HK$ Million
Wharf group	**5,617**	4,053
WPSL group	**528**	2,457
Wheelock and other subsidiaries	**1,122**	2,528
Core profit	**7,267**	9,038
Attributable book accounting gain arising from acquisition of equity interests in Greentown	**1,133**	—
Attributable mark-to-market gains/(losses) on swaps and other financial assets	**334**	(679)
Profit before investment property surplus	**8,734**	8,359
Investment property surplus (after deferred tax)	**18,201**	14,507
Profit attributable to equity shareholders	**26,935**	22,866

Wharf's profit for the year ended 31 December 2012 increased by 55% to HK$47,263 million (2011: HK$30,568 million). Excluding the net investment property surplus, Wharf's profit was HK$13,927 million (2011: HK$6,727 million). Before the investment property surplus and the abovementioned exceptionals, Wharf's core profit increased by 37% to HK$11,040 million (2011: HK$8,083 million).

WPSL's reported profit for the year ended 31 December 2012 was S$63.3 million (2011: S$291.2 million) according to the accounting standards adopted in Singapore. In accordance with Hong Kong Financial Reporting Standards, WPSL's contributed profit to the Group was HK$396 million (2011: HK$3,855 million).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

The Group's Shareholders' equity increased by 24% to HK$152.0 billion (2011: HK$122.6 billion), or HK$74.83 per share (2011: HK$60.32 per share) as at 31 December 2012.

Including the non-controlling interests, the Group's total equity increased by 22% to HK$285.9 billion (2011: HK$235.2 billion).

Total Assets

The Group's total assets increased by 18% to HK$429.8 billion (2011: HK$364.1 billion). Total business assets, excluding bank deposits and cash, certain financial investments, deferred tax assets and other derivative financial assets, increased by 22% to HK$381.9 billion (2011: HK$312.3 billion).

The Group's Investment Property portfolio was HK$250.7 billion, representing 66% of total business assets. Together, Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$169.0 billion, representing 67% of the value of the portfolio.

Other major business assets included fixed assets of HK$19.9 billion, interest in JCEs and associates (mainly for the Mainland property development and port projects) of HK$37.3 billion and properties under development and held for sale of HK$65.0 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$134.6 billion (2011: HK$111.0 billion), representing 35% of the Group's total business assets.

Debt and Gearing

The Group's net debt increased by HK$20.2 billion to HK$73.2 billion (2011: HK$53.0 billion) as at 31 December 2012, which was made up of HK$103.2 billion in debt and HK$30.0 billion in bank deposits and cash. Excluding Wharf's net debt of HK$55.6 billion, which is non-recourse to the Company and its other subsidiaries, and WPSL's net cash of HK$2.8 billion, Wheelock's net debt was HK$20.4 billion (2011: HK$15.0 billion). Analysis of the net debt by group is as below:

Net debt/(cash)	**2012 HK$ Million**	2011 HK$ Million
Wharf (excludes the subsidiaries below)	**49,201**	35,348
Modern Terminals	**11,193**	11,155
Harbour Centre Development Ltd.	**(4,581)**	(2,700)
i-CABLE	**(188)**	(338)
Wharf group	**55,625**	43,465
WPSL group	**(2,801)**	(5,510)
Wheelock and other subsidiaries	**20,417**	15,059
Group	**73,241**	53,014

The ratio of net debt to total equity was 25.6% (2011: 22.5%) as at 31 December 2012.

Finance and Availability of Facilities

The Group's available loan facilities and issued debt securities amounting to HK$127.9 billion (2011: HK$115.0 billion), of which HK$103.2 billion were drawn, as at 31 December 2012 are analysed as below:

	Available Facilities HK$ Billion	**Total Debt HK$ Billion**	**Undrawn Facilities HK$ Billion**
Wharf (excludes the subsidiaries below)	71.9	58.8	13.1
Modern Terminals	13.7	12.3	1.4
Harbour Centre Development Ltd.	6.1	3.2	2.9
i-CABLE	0.5	0.1	0.4
Wharf group	92.2	74.4	17.8
WPSL group	2.4	1.7	0.7
Wheelock and other subsidiaries	33.3	27.1	6.2
Group	**127.9**	**103.2**	**24.7**

Of the above debt, HK$19.4 billion (2011: HK$26.8 billion) was secured by mortgages over certain properties under development and fixed assets with total carrying value of HK$31.7 billion (2011: HK$64.5 billion).

The Group's debt was primarily denominated in Hong Kong dollars ("HKD"), United States dollars, Renminbi ("RMB") and Singapore dollars ("SGD"). The borrowings were mainly used to fund the Group's property development and port investments in the Mainland, and property development projects in Singapore and Hong Kong.

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

The Group continued to maintain a strong financial position with ample surplus cash denominated principally in HKD, RMB and SGD and undrawn committed facilities to facilitate the Group's expanding business and investment activities. The Group also maintained a portfolio of financial investments, primarily in blue-chip securities, with an aggregate market value as at 31 December 2012 of HK$14.8 billion (2011: HK$7.1 billion), which is immediately available for liquidation for the Group's use.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group's operating cash inflow before changes in working capital was HK$16.2 billion (2011: HK$18.6 billion). The changes in working capital resulted in a net cash outflow of HK$0.2 billion (2011: HK$18.9 billion). For investing activities, the Group reported a net cash outflow of HK$28.3 billion (2011: HK$15.3 billion), mainly for additions to investment properties of HK$15.0 billion, including the premium payment for the lease renewal of Ocean Terminal of HK$7.9 billion and land and construction costs for Chengdu IFS, investments in associates and JCEs involved in property development projects mainly in the Mainland of HK$5.9 billion (including the acquisition of a 24.6% equity interest in Greentown of HK$2.7 billion) and net purchase of financial investments and other financial assets of HK$6.3 billion (including the subscription for perpetual subordinated convertible securities of Greentown of HK$2.6 billion).

Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2012 and related commitments to planned expenditure as at 31 December 2012 is analysed as follows:

(A) Major capital and development expenditure

	Hong Kong/ Singapore HK$ Million	Mainland China HK$ Million	Total HK$ Million
Property investment			
Wharf group	8,884	5,860	14,744
WPSL group	69	—	69
Wheelock and other subsidiaries	232	—	232
	9,185	5,860	15,045
Development properties			
Wharf group	787	13,321	14,108
WPSL group	205	972	1,177
Wheelock and other subsidiaries	2,696	43	2,739
	3,688	14,336	18,024
Properties total	12,873	20,196	33,069
Non-properties			
Wharf group			
Modern Terminals	175	436	611
Wharf T&T	504	2	506
i-CABLE	207	2	209
Others	5	—	5
	891	440	1,331
Group total	**13,764**	**20,636**	**34,400**

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

(ii) The Group also incurred HK$18.0 billion for investment in development properties mainly related to Mainland projects, including HK$4.6 billion cash contribution to JCEs and associates and HK$2.7 billion for the acquisition of a 24.6% equity interest in Greentown by Wharf.

(iii) For Modern Terminals, the capital expenditure was mainly for additions to other fixed assets and the construction of the Da Chan Bay port project in the Mainland while those for Wharf T&T and i-CABLE were incurred substantially for procurement of production and broadcasting equipment, network rollout and internet service equipment.

(B) Commitments to capital and development expenditure

As at 31 December 2012, the Group's major commitments to capital and development expenditure that is expected to be incurred in the forthcoming years was estimated at HK$102.3 billion, of which HK$30.1 billion was authorised and contracted for. By segment, the commitments are analysed as below:

	As at 31 December 2012		
	Authorised and contracted for HK$ Million	Authorised but not contracted for HK$ Million	Total HK$ Million
Property investment			
Hong Kong/Singapore			
Wharf group	1,132	824	1,956
WPSL group	11	—	11
Wheelock and other subsidiaries	2	—	2
	1,145	824	1,969
Mainland China			
Wharf group	7,197	20,031	27,228
	8,342	20,855	29,197
Development properties			
Hong Kong/Singapore			
Wharf group	164	638	802
WPSL group	396	—	396
Wheelock and other subsidiaries	5,476	5,916	11,392
	6,036	6,554	12,590
Mainland China			
Wharf group	15,383	41,133	56,516
WPSL group	22	2,543	2,565
Wheelock and other subsidiaries	107	289	396
	15,512	43,965	59,477
	21,548	50,519	72,067
Non-properties			
Wharf group			
Modern Terminals	30	420	450
Wharf T&T	119	289	408
i-CABLE	23	128	151
	172	837	1,009
Group total	**30,062**	**72,211**	**102,273**

Properties commitments are mainly for land and construction costs, inclusive of attributable commitments to joint ventures, to be incurred in stages in the forthcoming years. Attributable committed land costs of HK$8.5 billion are payable in 2013.

The above commitments and planned expenditure will be funded by the respective groups' own internal financial resources including surplus cash, cash flows from operations as well as bank and other financings with the construction costs self-financed mainly by pre-sale proceeds and project loans. Other available resources include financial investments.

(III) Human Resources

The Group had approximately 15,900 employees as at 31 December 2012, including about 2,800 employed by managed operations. Employees are remunerated according to their job responsibilities and the market pay trends with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the respective group's achievement and results.

(IV) Business Model

Wheelock is a property company with focus on Hong Kong, China and Singapore. The Group's prized portfolio of investment properties has a book value of over HK$250 billion. Its attributable land bank exceeds 175 million square feet for development and 41 million square feet for investment.

The solid cash flow and asset backing from listed subsidiaries Wharf and WPSL provide the financial capacity for wholly-owned subsidiary WPL to focus on the core business of development properties in Hong Kong. The Hong Kong land bank currently under management exceeds seven million square feet. It includes one of the largest collections of top end Peak residential properties and a significant share, both commercial and residential, in Government's "energized" Kowloon East, labelled CBD2.

In 2012, contracted Hong Kong sales totalled HK$7 billion for 1.1 million square feet. The target for 2013 is HK$10 billion with key projects Austin Station (a luxury residential development in Kowloon West) and One Bay East (a prime office development in Kowloon East).

Wharf is Wheelock's core investment in the form of a listed company focuses on prime investment properties in Hong Kong and the Mainland and owns one of the world's most prized portfolios, with a book value of HK$232 billion as at the end of 2012. It includes Harbour City and Times Square, which house the two most successful shopping malls in Hong Kong that together account for 9% of total Hong Kong retail sales. Wharf is also one of the most active Hong Kong developers in the Mainland. Inclusive of associated company Greentown, its attributable land bank comprises 18 million square metres across more than 40 cities. 2012 contracted sales totalled RMB15 billion for 1.3 million square metres.

Development in Singapore is spearheaded by WPSL, renowned for luxury residences. The current land bank in Singapore is 0.9 million square feet, all residential. It also operates prime commercial properties on Orchard Road, the retail heart of the city.

(V) Business Strategy

For the Group's core business, Wheelock endeavours to continuously enhance its competitiveness and drive sustainable growth through:

1. Building and maintaining a diversified land bank with timely acquisitions and constant turning of assets;

2. Selective joint ventures for mega-size projects to achieve de-concentration;

3. Competence in selection and acquisition, planning and design, execution, sales and marketing;

4. Building organisation and focusing professional team efforts in building brand; and

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