Business and Financial Review

(I) GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2001 amounted to HK$1,145 million, an increase of 1.5% as compared with HK$1,128 million for the corresponding period last year. Operating profit amounted to HK$2,473 million (2000 - HK$2,442 million). Earnings per share were 47 cents.

(II) INTERIM DIVIDEND

The Board has declared an interim dividend of 28 cents (2000 - 28 cents) per share in respect of the financial year ending December 31, 2001, payable on November 2, 2001 to Shareholders on record as at October 19, 2001.

(III) BUSINESS REVIEW AND PROSPECTS

Driven by stable recurrent earnings and value creation opportunities originating from its flagship investment property at Kowloon Point, the Group has successfully built up significant presence in all three core business areas of Property, CME and Logistics. Since both Hong Kong and China are strategically the Group's focus, the value of its businesses will be enhanced by China's imminent entry into the World Trade Organization.

Property

With typical clientele at Harbour City being mostly China business operators such as trading firms, importers, exporters and manufacturers, the investment property portfolio continued to benefit from an influx of overseas companies and the expansion of local operators, now eyeing also the potential of the soon-to-open China domestic market.

Bucking the trend of the lackluster market conditions, the occupancy rate of Harbour City office excluding Tower 6 of Gateway II had improved steadily to over 90% in the first six months of this year. The excellent response received by the newly launched Tower 6 has also met management's expectations. By securing high quality tenants such as Japan Airlines, Singapore Telecom and GlaxoSmithKline, Harbour City office has explicitly demonstrated its exceptional ability in attracting multinationals. During the first six months, the Times Square office portfolio maintained a 92% occupancy.

With its outstanding quality and services, Gateway Apartments achieved an occupancy rate of 85% by the end of June. More than 50% of the tenants are multinational corporate tenants and over half of the committed tenancies are for periods of 12 months or more.

Persistently high average occupancy at 98% has shown that shops in Harbour City, Times Square and Plaza Hollywood are all under keen demand. Following Gucci's opening of a 9,200-square-foot ground floor shop along Canton Road as its flagship store in Kowloon, Cova has also taken up a 2,275-square-foot ground floor space located in the new extension as its first outlet in Kowloon. Extensive studies are being carried out for Ocean Terminal's renovation plan.

Nelson Court on Waterloo Road was launched during early 2001. The pre-sale was extremely well received to an extent that majority of the units were sold within hours. Following the successful completion of various development projects including Galaxia, Serenade Cove and Nelson Court which totalled 1.1 million square feet, Wharf made a move in July to buy over Wheelock's 15.6% interest in the Yau Tong Consortium in order to replenish its land reserve. Other residential projects such as Bellagio, Sorrento and the Peak Portfolio are progressing according to schedule.

After site clearance and excavation work were completed in late 2000, the main construction contract for the third Times Square project in China, Chongqing Times Square, was awarded in late March 2001. Completion of the basement work is expected by early September 2001. The construction of another mixed commercial and residential development in Shanghai known as "Wheelock Square" is now under planning.

The Building and Construction Authority in Singapore have recently awarded the main contractor of the Glencaird Residences the coveted "Building Excellence Awards 2001" for its exceptional standard of workmanship and quality of finish. The Certificate of Statutory Completion has been obtained for all the 12 houses.

Despite a slow-down in the global economy as well as intense competition during the first six months, the three Marco Polo Hotels in Hong Kong managed to maintain an overall occupancy of 84.3%.

CME

Due to visionary investments in brand position, subscriber base, network and servicing infrastructure and content development, together with management's dedicated efforts over the last seven years, Wharf now owns a remarkably sizable and respectable portfolio of CME businesses in Hong Kong. Operating profit for the CME division in the first half of this year totalled HK$97.0 million.

After achieving its first breakeven in year 2000 with a net profit of HK$20 million, i-CABLE's strong earnings momentum was carried forward into first half this year. The company reported HK$76.5 million in net earnings for the six months ended June 2001 on the back of strong turnover growth, especially the one delivered by Internet and Multimedia. While Pay TV revenues went up by 8%, Internet & Multimedia revenues recorded an impressive 327% jump as it now accounts for 14% of total turnover.

Despite the adverse economic conditions and the rampant piracy issue, Pay TV subscribers grew by 11% from a year ago to 537,000. However, as the company moved to penetrate the market further, it was unavoidable to have attracted some of the relatively lower yield subscribers which resulted in a slightly lower ARPU. With the illegal piracy proving to be the root cause of the rising churn during second quarter this year, the company has now placed this issue under top priority and initiated various anti-piracy measures to tackle the problem head-on. Lately, the Government has also stepped up law enforcement actions and begun to prosecute suspected peddlers of illegal set top boxes.

By doubling its Broadband subscribers to over 100,000 in the first six months this year, the Internet & Multimedia business outperformed all expectations. As the company's share of the residential Broadband market improved from 25% to 33%, the discrepancy between the company and the incumbent operator was seen to be narrowing. Since none of the five newly licensed wireless Broadband operators was able to bring along any significant impact on the overall market, both PCCW-HKT and the company are now widely accepted to be the only two serious contenders in this particular business segment. An EBITDA of HK$13 million was achieved one year after the launch of the Broadband services.

The company's network expansion plan continued on track. By the end of June, the network covered about 1.84 million homes in Hong Kong, of which over 1.5 million were served by fibre and close to 1.3 million homes were cable modem ready. To combat pirated viewing, the company has brought forward its plan to introduce digital television broadcasting to the third quarter of this year.

With the committed efforts to bring the piracy problem under control, together with the already secured World Cup 2002 broadcasting rights and the newly reached carriage agreement with the STAR Group which included major trophy events such as the English Premier League and various other non-sports programs, the management is confident that the growth momentum for Pay TV will pick up again irrespective of the setback in the first half of this year. Trials for delivering voice over the HFC network with Internet Protocol have provided positive results, and the commercial roll-out of the service is expected by next year. Meanwhile, in order to plant seeds for i-CABLE's long-term future growth, certain overseas investment opportunities are being examined by the company.

During the first six months this year, New T&T continued with its rapid and successful transformation moving from low-value IDD to high-value fixed line business. With the company's focus on fixed-line voice and data, revenues generated by this segment almost doubled to HK$260 million and accounted for 56% of the total revenue as of the end of June, against 41% one year ago and as little as 10% back in 1998.

Total revenue grew by 43% to HK$463 million on the back of rising installed fixed lines which went from the year-end figure of 140,000 to over 180,000, representing a five year CAGR of 80%. A gross operating profit of HK$232 million was delivered while margin expanded from 43% to 50%. EBITDA also turned from a loss of HK$3 million in 2000 to a profit of HK$57 million in 2001 with EBITDA margin improved to 12%. Net loss for the first half had been reduced to HK$44 million from last year's HK$91 million.

A net funding of HK$231 million was invested during the first six months, primarily into the continual process of expanding capacity. After becoming the first and only FTNS operator in Hong Kong to have interconnection with all three licensed Mainland operators, New T&T opened its Shenzhen representative office in June 2001. Only recently, New T&T celebrated the completion of its Hong Kong Island network expansion plan as it now covers the entire Island North serving more than 30% of the total business lines in the Hong Kong Island. New cable landing stations were also interconnected with New T&T's fibre network to provide backhaul services.

By securing contracts to build a new IP-based wide area network for the Central Clearing and Settlement System ("CCASS") under the HKSCC and a high performance community network for the Securities and Futures Commission, New T&T's high recognition given by the business community in Hong Kong, especially the finance sector, was explicitly illustrated. With the company's rising business market share, currently at 10% of the total market and 20% of the addressable market, New T&T will continue to assume the role of the most serious FTNS challenger to the incumbent operator, PCCW-HKT. All growth for installed base, revenue, and EBITDA are expected to accelerate in the second half to return New T&T's first net profit.

Logistics

Modern Terminals, a 55.3%-owned subsidiary of the Group, handled altogether 1.53 million TEUs during first half this year. This figure represents a growth of 13% over the same period last year and compares favorably with the industry average.

In anticipation of the potential opportunities brought by WTO, the company continued to invest in various projects in order to solidify its significant position in the sector under the rapidly changing business environment. Procurement of some new terminal handling equipments has been made. ModernPorts.com (Phase 2) which serves as the electronic platform complementing the whole logistics flow has also been launched recently.

Despite some initial delays, the Container Terminal 9 development is now progressing satisfactorily. Additional investments are being made in capacity enhancement to accommodate an additional 400,000 TEUs in existing terminals to cope with the rising throughput volumes before CT9 comes on stream in second half 2003.

Modern Terminals' involvement in the construction of container terminal business in Southern China continues to gain momentum. The investment in Kaifeng Container Terminals is now contributing positively. While continuing to manage the Shekou Container Terminal 1 operation, the construction of Shekou Container Terminal 2 has begun.