Business and Financial Review

(I) GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended 30 September 2001 amounted to HK$460.8 million, compared to HK$460.5 million achieved in the same period last year. Earnings per share were 22.7 cents (2000 – 22.7 cents).

(II) INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended 30 September 2001 of 2.5 cents (2000 – 2.5 cents) per share, payable on Thursday, 31 January 2002 to Shareholders on record as at 11 January 2002.

(III) BUSINESS REVIEW

With a well-diversified portfolio of businesses in the areas of property development, property investment, quality retail, CME (communications, media and entertainment) and logistics, most of which have a substantial recurrent earnings base, the Wheelock Group has explicitly demonstrated the resilient character of its operations under the prevailing volatile market conditions.

Rising sales transactions for primary residential units recorded recently in Hong Kong are indicative signs of interest rate cuts taking effect after a total of more than 4% drop in the average mortgage rate this year. Together with the government's shift towards a much more pro-market stance, Hong Kong's residential property market now appears to be stabilized.

On the macro front, most western countries have come closer together to work on possible solutions or precautionary actions in arresting any further world-wide recessionary slump, as a result of the "911" tragedy in the United States. Moreover, this particular incident has also prompted central banks around the world to relax their monetary policy further. Given that the long-term fundamentals of Hong Kong have not changed, being strategically located at the doorstep of China which is widely anticipated to be the market with the highest growth potential in the coming decade, economic activities here will pick up at some stage following the conclusion of the WTO deal.

Properties

During the period under review, the Group continued its sales of various property projects, including mainly The Primrose, The Astrid, Forest Hill and My Loft.

Bellagio, the Sham Tseng site, is a joint venture development equally owned by the Company, New Asia Realty and Wharf. The lease modification for the enlarged CDA site has recently been finalized with the Government. Construction works for all four phases have been progressing according to schedule. Pre-sale for initial phases covering 1,704 units is targeted to take place during the first half of 2002. Completion of these phases of the development is scheduled for 2003.

Sorrento, the MTRC Kowloon Station Package Two development, is equally owned by a five-member consortium comprising the Company, New Asia Realty, Realty Development Corporation, and two Wharf group's companies. The initial batch out of the total 1,272 units under Phase I has just been launched with extremely favourable response. Construction works have been progressing according to schedule. Completion of Phase I is expected by the end of 2002.

The residential development on Castle Peak Road known as Palm Cove will have a total of 228,000 square feet in GFA providing 260 units. Superstructure works are in progress and pre-sale is targeted to take place in the first half of 2002.

The King's Park development is owned by a five-member consortium comprising Realty Development Corporation, New World Development, Sino Land, Chinese Estates and Manhattan Garments. This residential site located in Homantin will be developed into eight towers consisting of 700 units with a total GFA of 904,200 square feet. Demolition works have completed and the tendering for foundation works is now in progress.

In Singapore, the physical hand-over of units to purchasers marked the successful completion of the Ardmore Park project undertaken by Marco Polo Developments Limited, a subsidiary of the Company. Following the grant of the Temporary Occupation Permit in May 2001, the Certificate of Statutory Completion was also obtained on 18 October 2001. To-date stage billings representing 98 per cent of the total sale price of all units sold have been billed and 85 per cent of those have been collected.

The average occupancy of Ardmore View is currently 96 per cent with duration of leases ranging from 12 to 24 months. Provisional planning permission for the redevelopment of this property to 110,200 square feet GFA was obtained in February 2000. This redevelopment will proceed when market conditions improve in Singapore.

The office tower as well as podium levels 3, 4 and 5 of the Wheelock Place in Singapore are currently 93 per cent let to quality multinational tenants.

The former Marco Polo Hotel Singapore site is now being redeveloped into a freehold, luxury high-rise condominium complex with 467,600 square feet in GFA, known as "Grange Residences". Foundation works have now completed and other construction works have been progressing according to schedule. Completion is expected by the second half of 2003.

Retail

In the first half of this financial year, the weak economy and consumer sentiments had put pressure on the Group's retail business. In spite of the positive turnover growth, the need to offer deeper discounts to stimulate sales has caused Lane Crawford to suffer a decline in operating margin. To restore the position, tighter cost control and merchandizing control programmes have been implemented.

The fourth On Pedder boutique in Hong Kong opened in April 2001 has achieved a satisfactory result. The company will continue to focus on maintaining and extending this brand across the region.

Joyce Boutique's turnover showed a significant drop during the period under review due mainly to the closure of four Armani Shops in January 2001. Sluggish sales and deeper promotional discounts were again the main reasons for a narrowing profit margin. The company's cost rationalization exercise continued.

In terms of expansionary movements, Joyce at Pacific Place was closed for renovation in August and re-opened a month later with its retail area doubled and a Joyce Beauty outlet appended. One Hugo shop was added in Causeway Bay and two Boss concession counters were also opened in Times Square Lane Crawford and Central Lane Crawford.

Wharf

The Group's principal associate Wharf Holdings recorded an unaudited profit of HK$1,145 million for the half-year period ended 30 June 2001. Driven by stable recurrent earnings and value creation opportunities originating from its flagship investment property at Kowloon Point, Wharf has successfully built up significant presence in all three core business areas of property, CME and logistics.

Bucking the trend of the lacklustre market conditions, the occupancy rate of Harbour City office excluding Tower 6 of Gateway II had improved steadily to over 90 per cent in the first six months of this year. By securing high quality tenants such as Japan Airlines, Singapore Telecom and GlaxoSmithKline at the newly launched Tower 6, Harbour City office has explicitly demonstrated its exceptional ability in attracting multinationals in addition to trading houses. Apart from the office portion, other segments also did fairly well. Persistently high average occupancy at 98 per cent has shown that shops in Harbour City are under keen demand. With its outstanding quality and services, Gateway Apartments achieved an occupancy rate of 85 per cent at the end of June. Extensive studies are being carried out for Ocean Terminal's renovation plan as well as the building plan for the approved Ferris wheel.

Being a widely accepted successful case in the Hong Kong retail property sector, Times Square continues its role as the centre of gravity for both business and leisure activities within the district of Causeway Bay. During the first six months, Times Square office maintained a 92 per cent occupancy while the retail portion remained virtually full at more than 98 per cent.

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 per cent interest in the Yau Tong Consortium in order to replenish its land reserve.

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 over 84 per cent.

After achieving a net profit of HK$20 million in year 2000, i-CABLE's strong earnings momentum was carried forward into 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 from its Internet and Multimedia business, and operating leverage.

Despite the adverse economic conditions and rampant piracy, Pay TV subscribers grew by 11 per cent from a year ago to 537,000. As piracy proved to be the root cause of the rising churn since the beginning of this year, the company has placed this issue under top priority and initiated various anti-piracy measures to tackle the problem head-on.

By doubling its Broadband subscribers to over 100,000 in the first six months of this year, the company's share of the residential Broadband market improved from 25 per cent to 33 per cent. PCCW-HKT and the company are now widely accepted to be the two clear leaders in this particular business segment.

During the first six months of this year, Wharf New T&T continued its rapid and successful transformation into a high-value fixed-line business. While installed fixed-lines increased from 140,000 to over 180,000 in six months, revenues generated by this segment almost doubled to HK$260 million, representing 56 per cent of the total revenue.

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, Wharf New T&T's high recognition given by the business community in Hong Kong, especially the finance sector, was explicitly illustrated. In order to further enhance the company's profile, it has recently been renamed as Wharf New T&T from its former name of New T&T.

Modern Terminals handled altogether 1.53 million TEUs during the first half of this year. This figure represents a growth of 13 per cent over the same period last year and compares favourably with the industry average.

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 the second half of 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.

(IV) OUTLOOK

A combination of the downward trend of global interest rates, together with the local banking deregulation process, Hong Kong interest rates are at an all time low. Most property end-users would find it much more affordable to buy than to rent, and investors would attempt to look for better alternative investments than bank deposits at extreme low yield. With its sizeable landbank, mainly represented by its 74 per cent effective interest in Bellagio, 61 per cent effective interest in Sorrento and 11 per cent effective interest in the King's Park Homantin project, the Group is well-placed to take advantage of the gradual recovery of the economy once more positive factors have returned to restore the confidence of consumers and investors.

It is anticipated that the current weak office and retail rental markets in Singapore will take some time to turn around. Occupancy in Orchard Road has however been firmly supported by the relatively tight supply situation in that area. This would benefit the Group's investment property, Wheelock Place, with its strategic location along Orchard Road.

The Group is well-positioned to benefit from China's entry into the WTO. While rising business and trading activities between the Greater China region and the rest of the world will definitely have positive impacts on office demand and throughput cargo flow in Hong Kong, the China domestic market will offer great opportunities for all the three core businesses under the group in terms of long term future growth.