BUSINESS REVIEW AND PROSPECTS

HARBOUR CITY – 50 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Harbour City** generated HK$1.5 billion in total revenue.

Offices

Harbour City offices, excluding Tower 6 of Gateway II, maintained 90 per cent occupancy while average vacancy rates in Central and Tsimshatsui were approaching 10 and 15 per cent respectively. Overall activities were dominated by transactions below 10,000 square feet with keen upgrade demand coming from small/medium trading and manufacturing related tenants. The number of existing tenants showing needs for expansion increased.

Hotels and Service Apartments

The consolidated occupancy for the three Marco Polo Hotels at **Harbour City** stayed at 84 per cent, the same level recorded a year ago. Even though there was a double-digit increase in the number of visitor arrivals during the first half of 2002, the sizeable growth contributed by the China Mainland leisure segment had actually driven down yields to a certain extent. However, the performance of the corporate and business segment is expected to improve starting September as it moves towards the high season and as compared to last year after "911".

Gateway Apartments continued to perform well with average occupancy at 84 per cent while others in the market were mostly at 70-per cent level. More than 50 per cent of the tenants are multi-national corporate tenants and over half of the leases are for 12 months and above.

Retail

Harbour City's retail podium maintained its high occupancy at 98 per cent with around 700 retail and food outlets. This critical mass draws extremely heavy foot traffic, at average 130,000 per day, and **Harbour City** is considered by international brands and retail chains as a "must" in terms of retail presence while operating in the Hong Kong retail market. Following the opening of a 3,800-square-foot Prada store in August 2002, Yves Saint Laurent is going to launch its flagship store, with the size of 9,000 square feet, on Canton Road in late 2003. Other recently committed upmarket retailers include Bottega Veneta, Kate Spade, Sistyr Moon and Hysteric Mini. During the first six months of 2002, rental reversion stayed positive with double-digit rental increments recorded out of most renewals.

TIMES SQUARE – 20 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Times Square** generated HK$450 million in total revenue, about the same level when compared against the first half of 2001.

Offices

Times Square offices' average occupancy improved to 93 per cent. Anchor tenants including Shell Oil, AT&T, and Apple Computer have all renewed their tenancies. With these successful renewals accounting for more than half of the total expiring leases in 2002, **Times Square**'s office occupancy is expected to stay above the 93 per cent level for the remainder of the year.

Retail

The **Times Square** retail podium with more than 230 shops and retail outlets continued to enjoy a respectable occupancy rate of 96 per cent during the first half of 2002, despite a major re-merchandising programme undergoing on 8/F and 9/F. Leveraging on the success of the Electronics World on the 7/F, more "niche" brands and specialty stores are being acquired in order to expand this theme up to the 8/F. Due to tremendous market demand, the 9/F has also been repackaged and named as the Kids Kingdom. In terms of leasing area, 38 per cent of expiring tenancies this year have been successfully re-merchandised with more active retailers. Improvement and refinement of the retail trade mix on other floors will continue through the second half of 2002. The opening of two new restaurants, Wasabi Sabi and Water Margin, at the Food Forum is well received by the market and plans are underway to bring in more exciting food and beverage outlets. Similar to **Harbour City** retail, positive rental reversion was also achieved by **Times Square**'s retail section during the first half of 2002.

MODERN TERMINALS – 10 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Modern Terminals** handled altogether 1.57 million TEUs in Kwai Chung, representing a drop of 7.1 per cent against the same period in 2001 due to the absence of Maersk's one-off shift of containers from South East Asia which took place in the first half of 2001. However, as a result of the continuation of **Modern Terminals**' re-engineering process, the falling income was partially offset by more than 3 per cent savings in operating costs. Average tariff turned out to be fairly stable during the first half of the year.

The first berth of Container Terminal 9 will become operational in 2003. **Modern Terminals**' participation in Shekou Container Terminal phase 2 was finally agreed among all shareholders and the joint venture documentation was signed on July 16, 2002. The terminal is scheduled to be ready for operation during the fourth quarter of 2003.

Capital expenditure for the first half of 2002 amounted to HK$151 million, including capitalised interest of HK$1.8 million for the construction of Container Terminal 9.

CME – 10 PER CENT OF GROUP TOTAL BUSINESS ASSETS

i-CABLE

In a weak economy and a competitive operating environment, **i-CABLE** continued to report growth in the first half of 2002. Turnover increased by 20 per cent to HK$1,123 million and net profit grew by 34 per cent to HK$103 million when compared with the same period last year.

Pay TV

Anti-piracy measures continued, and were enhanced, in the first half of this year ahead of World Cup. They have proven to be helpful in arresting the decline in ARPU and revenue to enable Pay TV subscription revenue to recover to its previous peak in the first quarter of 2001 by the first quarter of 2002. That momentum continued into the second quarter amidst the World Cup fever. While total subscribers grew to 600,000, first half ARPU recovered to HK$244 from HK$239 a year ago and monthly churn eased back to 1.5 per cent.

Beginning in April, new channels to target the international communities and special interest groups were introduced with positive market response received. The total number of channels on offer is expected to increase to over 50 before the end of the year. In "mainstream" programming, the World Cup Carnival from May 31 to June 30 broke all viewership, subscription and airtime sales records in the history of CABLE TV. Besides, these activities have also served to enhance the brand name of CABLE TV in Hong Kong. The new HK$150 million Digital News Centre was commissioned by the Chief Executive of the HKSAR in April 2002.

Internet & Multimedia

The Broadband subscriber base increased from 160,000 to 192,000 during the first six months of 2002, which represented more modest growth than in 2001. On the back of rising competition, ARPU declined to HK$213 from HK$225 a year ago.

By the end of June, over 1.78 million households in about 10,000 buildings throughout the territory were already covered by **i-CABLE**'s Broadband network, an infrastructure that can only be matched by the incumbent telephone operator. Furthermore, the very favourable incremental cost structure of this business provides **i-CABLE** a clear competitive edge.

Capital expenditure for **i-CABLE** during the first half of 2002 amounted to HK$352 million, mainly for digital set-top boxes for the Pay TV service, network construction, cable modems and related equipment for the Broadband service, and the Digital News Centre commissioned in April 2002. That included an amount of HK$52 million relating to staff costs was capitalised for network construction.

Wharf New T&T

In the middle of a very weak economy and a global meltdown within the industry, the overall telecommunications market in Hong Kong contracted during the period under review. **Wharf New T&T** was able to continue to gain market share and control costs to report a healthy growth in customers, business volume, revenue and operating margin, based on the solid foundation and headstart built steadily in earlier years.

Wharf New T&T's installed base of fixed lines grew to 270,000 as at June 30, 2002, for a market share of over 7 per cent. This represented a net gain of 33,000 in 6 months and 86,000 in 12 months. Turnover increased by 24 per cent to HK$572 million from the first half of 2001 and gross profit increased by 43 per cent to HK$331 million (for a gross profit margin of 58 per cent, vs. 50 per cent in 2001). Net operating expenses rose by 9 per cent to HK$190 million and EBITDA increased by 147 per cent to HK$141 million (for an EBITDA margin of 25 per cent, vs. 12 per cent in 2001). That produced a small net profit of HK$3 million, compared to a net loss of HK$44 million in 2001. Net cash outflow improved to HK$188 million, compared to HK$231 million in 2001.

Total revenue from business customers in the first half of 2002 increased to HK$454 million, representing an increase of 18 per cent compared to the first half of 2001, and accounted for about 79 per cent of **Wharf New T&T**'s total revenue. Total revenue from residential customers in the first half of 2002 increased to HK$118 million, representing an increase of 51 per cent compared to the first half of 2001, and accounted for about 21 per cent of total revenue for the company.

Capital expenditure for the first half of 2002 amounted to HK$244 million, mainly for telephony equipment and network construction. For network construction, an amount of HK$32 million relating to staff costs was capitalised and included in the capital expenditure.

GROUP

As projected, Group financial position benefited largely from the falling interest rates and total borrowing costs during the period under review amounted to HK$448 million (2001: HK$743 million) with interest capitalised at HK$65 million (2001: HK$111 million). The amount of borrowing costs expensed was HK$383 million, down by 39 per cent from the HK$632 million recorded for the same period a year ago. Debt to total assets remained steady at around 23.7 per cent as of the end of June 2002.