COMMENTARY ON INTERIM RESULTS

1. REVIEW OF 2002 INTERIM RESULTS AND SEGMENTAL PERFORMANCE

The Group reported a profit attributable to shareholders of HK$1,202 million for the six months ended June 30, 2002, compared to HK$1,145 million for the same period in 2001, an increase of 5%. Earnings per share were HK$0.49, compared to HK$0.47 for the previous corresponding period. The healthy profit growth was achieved in a weak economy and a keen competitive environment, reflecting the comparative resilience of the Group's core business assets.

Turnover and revenue

The Group's turnover for the period was HK$5,576 million, decreased by HK$227 million or 4% from HK$5,803 million for the previous corresponding period mainly due to a reduction in property sales by HK$482 million.

The Property Investment segment with its two core assets, Harbour City and Times Square, reported an encouraging revenue growth of 3% to HK$2,286 million as a result of the improvement in occupancy at Gateway Towers 3, 5 and 6, Gateway Apartments and Shanghai Times Square. Harbour City and Times Square, representing 70% of the Group's business assets, generated total revenue of HK$1,928 million in the first half of 2002, an increase of HK$26 million or 1% from HK$1,902 million in the first half of 2001.

In spite of the difficult economic environment and market conditions, the Group has continued to report consistent growth in its CME (Communications, Media and Entertainment) business segment, which achieved total revenue of HK$1,762 million, an increase of HK$299 million or 20%, as a result of increase in revenue from Pay TV, Internet multimedia and telecommunication services. Pay TV turnover increased by HK$75 million or 9% to HK$877 million mainly due to an increase in advertising revenue and growth in subscribers to 600,000, spurred by the 2002 FIFA World Cup and the effectiveness of the anti-piracy measures. Internet and multimedia turnover grew by HK$114 million or 86% to HK$246 million as Broadband subscribers almost doubled year on year to 192,000. The combined impact of the continued growth in revenue of Pay TV and Internet and multimedia increased i-CABLE's group revenue by HK$189 million or 20% to HK$1,123 million. Wharf New T&T, another CME business segment, increased its telecommunication revenue by HK$109 million or 24% to HK$572 million as revenue from fixed-line telephony services increased by HK$131 million or 43% to HK$433 million which accounted for 76% of its total revenue.

The total revenue of Logistics segment with its core asset Modern Terminals Limited ("MTL") was HK$1,478 million, a decrease of HK$74 million or 5% as compared with HK$1,552 million for the previous period. The revenue reduction was mainly due to the decline of 7.1% in throughput volume handled by MTL in the absence of Maersk's non-recurrent "one-off" revenue contribution for the exceptional flow of cargo when Maersk used Hong Kong as a short term transitionary transshipment centre in the first half of 2001 to accommodate their relocation move from Singapore to Malaysia.

Operating profit

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for the period was HK$3,186 million, representing an increase of HK$186 million, or 6% from HK$3,000 million for the previous corresponding period. Depreciation and amortisation for the period was HK$647 million (including the amortisation of goodwill HK$11 million), an increase of 23% over the previous period mainly due to an increase in depreciation for i-CABLE and Wharf New T&T on their expanding capital expenditure on network and equipment and an increase in amortisation of the programming library of i-CABLE.

Operating profit before borrowing costs for the period was HK$2,539 million, increased by 3% from HK$2,473 million for the previous period.

Operating profit of Property Investment segment increased by 9% to HK$1,608 million. Harbour City, including its hotels, and Times Square, representing 70% of the Group's business assets, reported an aggregate operating profit of HK$1,406 million in the first half of 2002, increase of HK$103 million or 8% from HK$1,303 million in the previous period.

The Property Development segment recorded a minimal contribution to the Group.

CME's operating results recorded a significant growth of HK$106 million to HK$203 million, more than double the HK$97 million for the previous period. i-CABLE group improved its operating profit by HK$51 million or 38% to HK$185 million, principally due to the net combined results of its Pay TV and Broadband businesses. Though there was a reported 9% growth in revenue, the operating profit of the Pay TV service decreased by HK$31 million or 17% primarily due to the increase in non-recurring programming costs related to the 2002 FIFA World Cup. On the back of subscriber growth and high operating leverage, the operating result of the Internet and multimedia segment turned from a loss of HK$51 million in the first half of 2001 to a profit of HK$31 million in the first half of 2002. Wharf New T&T also recorded a turnaround profit of HK$3 million from loss of HK$44 million for the previous period.

The operating profit of MTL reduced by HK$59 million mainly due to the absence of Maersk's non-recurrent "one-off" net revenue contribution as explained in the previous section.

Borrowing costs

Net borrowing costs charged for the period were HK$383 million, decreased substantially from HK$632 million incurred in the previous corresponding period as a result of market interest rate cuts as well as the Group's success in its refinancing activities to reduce interest margins. The charge was after capitalisation of HK$65 million for the current period compared to HK$111 million in the previous period. The Group's average borrowing cost in the first half of 2002 was 3.8% per annum, reduced from 6.5% per annum in the first half of 2001.

Remaining items

Net operating profit for the period is HK$2,156 million, an increase of HK$315 million or 17% as compared to the first half of 2001.

Other net charges in the period under review amounted to HK$247 million while there was no such item in the previous corresponding period. The charges mainly include provisions of HK$204 million for impairment in value of properties under development and for sale and HK$43 million for impairment in value of investments, respectively.

The share of losses of associates was HK$112 million compared to HK$158 million in the first half of 2001. The attributable losses in both periods were mainly the result of an associate making provisions for impairment in value of a property development, namely, Bellagio.

The Group's profit before taxation was HK$1,797 million, increased HK$114 million from HK$1,683 million for the previous period.

The taxation charge for the period under review was HK$285 million compared to HK$191 million reported in the previous period, primarily resulting from the increase in the Group's net operating profit and the inclusion of an additional provision of HK$47 million in relation to previous years' assessments.

Minority interests were HK$310 million compared to HK$347 million for the previous period.

Further information on the segmental details is provided in the Note 2 to the Accounts on pages 9 and 10.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2002, the Group's shareholders' funds totalled HK$54,513 million, a decrease from HK$54,645 million at December 31, 2001. On that basis, the consolidated net asset value of the Group at that date was HK$22.27 per share, compared to net asset value of HK$22.33 per share at the end of 2001.

Supplemental Information

To better reflect the underlying net asset value of the Group, the following objective-base adjustments are given below:

	Per share
Net asset value at June 30, 2002 per accounts	HK$22.27
Add adjustments for:	
Modern Terminals – based on the previous average transaction prices	2.27
i-CABLE – based on market value at June 30, 2002	2.62
Adjusted net asset value per share at June 30, 2002	HK$27.16

For the period under review, net cash generated from the Group's operating activities amounted to HK$2.2 billion. Included in investing activities was capital expenditure incurred during the period of HK$927 million. This expenditure comprised HK$352 million incurred by i-CABLE group 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. There was also HK$244 million incurred by Wharf New T&T for telephony equipment and network. Other capital expenditure included HK$151 million incurred by Modern Terminals for CT9 construction and HK$180 million for various property construction and renovation programmes.

Included in capital expenditure were capitalised costs primarily relating to staff costs for network construction of HK$52 million (2001: HK$57 million) incurred by i-CABLE and of HK$32 million (2001: HK$26 million) incurred by Wharf New T&T. There was no non-cash revenue in the form of telecommunications capacity and services capitalised by Wharf New T&T as plant and equipment assets, with corresponding credit to deferred income account, for the period under review, as compared to HK$71 million for the full year 2001. Other capitalised costs mainly included programming cost capitalised by i-CABLE as deferred items for the period amounted to HK$45 million (2001: HK$59 million). All capitalised costs/deferred income items are amortised/recognised in accordance with the Group's accounting policies.

Other investing activities included the net purchase of non-trading investment securities totalling HK$439 million, additional advances to associates in proportion to the Group's respective shareholdings thereof in the amount of HK$899 million for property development, mainly for Bellagio and Sorrento.

As at June 30, 2002, the ratio of net debt to total assets marginally increased to 23.7% from 23.4% at December 31, 2001. The Group's net debt increased from HK$19.8 billion at December 31, 2001 to HK$20.2 billion at June 30, 2002, which was made up of HK$23.6 billion in debts less HK$3.4 billion in deposits, debt securities and cash. Included in the Group's net debts were loans of HK$1,073 million borrowed by a non-wholly owned subsidiary, Modern Terminals Limited. These loans are without recourse to the Company and other subsidiaries of the Group.

High liquidity continued to sustain in the banking market during the six months ended June 30, 2002. Capitalising on this opportunity, the Group arranged an aggregate of HK$2.1 billion loan facilities to refinance a number of its loan facilities with substantial reduction in interest costs and on more favourable terms such as longer maturities, more lenient covenants and the inclusion of revolving conditions. Amongst these financing activities, the Group arranged the issue of Retail Bonds totalling HK$600 million via a wholly-owned subsidiary. The result was satisfactory and the Bonds were fully subscribed for. This was the first ever retail bond issued by private corporation in Hong Kong.

Excluding the project loans for Sorrento and Bellagio, which are undertaken by associates, the Group's available committed loan facilities and debt securities amounted to HK$27.9 billion and uncommitted facilities amounted to HK$2.5 billion. The available committed facilities were HK$6.3 billion lower than that as at December 31, 2001, which was mainly due to the cancellation of two facilities with higher cost amounting to HK$4.5 billion and HK$1.4 billion respectively. Various facilities with favourable terms are under discussion and a facility of HK$4.5 billion will be completed in September 2002. Total debt in the amount of HK$23.6 billion were drawn down at June 30, 2002, the maturity profile of which is analysed as follows:

Debt Maturity	HK$ Billion	
Repayable within 1 year	2.0	8%
Repayable between 1 to 2 years	9.5	41%
Repayable between 2 to 3 years	6.2	26%
Repayable between 3 to 4 years	1.8	8%
Repayable between 4 to 5 years	4.1	17%
– Secured	5.0	21%
– Unsecured	18.6	79%
Total	23.6	100%

As at June 30, 2002, the banking facilities of the Group were secured by mortgages over certain investment properties with an aggregate carrying value of HK$19,214 million. At December 31, 2001, banking facilities were secured by mortgages over investment properties with an aggregate carrying value of HK$19,171 million.

An analysis of the Group's total debts by currency at June 30, 2002 is shown below:

	HK$ Billion
Hong Kong dollar	16.0
United States dollar (swapped into Hong Kong dollars)	7.0
Renminbi	0.6
	23.6

The Group's debts are primarily denominated in Hong Kong and US dollars and all US dollars loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts.

The use of financial derivative products is strictly controlled. The majority of the derivative products entered into by the Group were used for management of the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong and US dollars, to facilitate the Group's business and investment activities. As at June 30, 2002, the Group also maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK$1.3 billion.

3. EMPLOYEES

The Group has approximately 9,290 employees. Employees are remunerated according to nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the six months ended June 30, 2002 amounted to HK$991 million, compared to HK$1,001 million in the first half of 2001.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at any time during the six-month period ended June 30, 2002. Nevertheless, the matter regarding a tenancy agreement between a non wholly-owned subsidiary of the Company and a wholly-owned subsidiary of Wheelock and Company Limited ("Wheelock") as announced on May 17, 2002, being a matter involving conflict of interest for Wheelock, the Company's substantial shareholder, was not approved by a meeting of the Company's Directors in accordance with the provisions of paragraph 11 of the above mentioned Code of Best Practice, but instead was duly approved by Resolutions in Writing of the Board of Directors of the Company.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2002, Directors of the Company had the following personal beneficial interests in the securities of the Company and of a subsidiary of the Company, namely, i-CABLE Communications Limited ("i-CABLE"):

	Quantity Held
The Company – Ordinary Shares	
Mr Gonzaga W J Li	686,549
Mr Robert H Burns	17,000
Mr Stephen T H Ng	650,057
Mr T Y Ng	178,016
i-CABLE – Ordinary Shares	
Mr Stephen T H Ng	750,000

As at June 30, 2002, Directors of the Company had the following personal interests in options to subscribe for shares of the Company granted under the Executive Share Incentive Scheme (the "Scheme") of the Company:

Name of Director		Date granted (Day/Month/Year)	No. of shares represented by unexercised options outstanding as at 01/01/2002	No. of shares represented by options exercised during the financial period	No. of shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
Mr Gonzaga W J Li:	(i)	22/06/1993	210,000	–	210,000	17/06/1997 to 16/06/2003	19.00	1.00
Mr Quinn Y K Law:	(i)	22/06/1993	100,000	–	100,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr Stephen T H Ng:	(i)	16/04/1992	500,000	(500,000)	–	13/04/1995 to 12/04/2002	12.00	1.00
	(ii)	22/06/1993	200,000	–	200,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr T Y Ng:	(i)	22/06/1993	100,000	–	100,000	17/06/1996 to 16/06/2003	19.00	1.00

During the period under review, Mr Stephen T H Ng exercised options under the Scheme to subscribe for a total of 500,000 ordinary shares of the Company at an exercise price of HK$12.00 per share.

Save as disclosed above, as recorded in the register kept by the Company under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests held as at June 30, 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and

(ii) there existed during the financial period no rights to subscribe for equity or debt securities of the Company which were held by any Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at June 30, 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

	Names	No. of Ordinary Shares
(i)	Diplock Holdings Limited	1,050,087,051
(ii)	WF Investment Partners Limited	1,069,456,184
(iii)	Wheelock and Company Limited	1,241,430,213
(iv)	Bermuda Trust (Guernsey) Limited	1,241,430,213

Note:

For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) above is entirely duplicated or included in the shareholdings stated against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), and that the shareholdings stated against parties (iii) and (iv) above represent the same block of shares; all of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at June 30, 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

SHARE OPTION SCHEME

Details of share options granted to Directors of the Company under the Company's Executive Share Incentive Scheme are set out in the above section headed "Directors' interests in shares".

Particulars, and movements during the financial period, of the Company's outstanding share options, which were granted to 21 employees (including all those Directors who were granted share options) working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, were as follows:

	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2002	No. of ordinary shares represented by options exercised during the financial period	No. of ordinary shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
(i)	16/04/1992	680,000	(680,000)	–	13/04/1995 to 12/04/2002	12.00	1.00
(ii)	22/06/1993	1,823,000	(42,000)	1,781,000	17/06/1996 to 16/06/2003	19.00	1.00
(iii)	01/08/1996	330,000	–	330,000	01/08/2002 to 31/07/2003	25.00	1.00
(iv)	01/08/1996	440,000	–	440,000	01/08/2005 to 31/07/2006	25.00	1.00
		3,273,000	(722,000)	2,551,000			

The weighted average closing price of the ordinary shares of the Company immediately before the dates of all exercises by employees of the Company's share options during the financial period was HK$17.84 per share.

No share option was cancelled or lapsed during the financial period. Apart from the Directors and employees mentioned above, no option was granted to any other categories of participants as stated in rule 17.07 of the Listing Rules.

BOOK CLOSURE

The Register of Members will be closed from Thursday, October 17, 2002 to Monday, October 21, 2002, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Wednesday, October 16, 2002.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 22, 2002