COMMENTARY ON INTERIM RESULTS

(I) Review of 2003 interim results and segmental performance

Review of 2003 interim results

Profit attributable to Shareholders

The Group reported a profit attributable to shareholders of HK$1,309 million for the six months ended June 30, 2003, an increase of HK$128 million or 11% as compared to HK$1,181 million achieved for the same period in 2002. Earnings per share were HK$0.53, against HK$0.48 for the same period in 2002.

The increase in profit was largely because of the absence of provisions made for property and investment in the period under review while deducted from the half-year results of 2002 were attributable impairment provisions totalling HK$374 million, which comprised HK$331 million for properties and properties under development, including the Bellagio project held through an associate, and of HK$43 million for investments.

On the basis of taking out the provision factor, the Group's profit attributable to shareholders of HK$1,309 million for the first half of 2003 would decrease by HK$246 million or 16%, compared to HK$1,555 million, after adding back the attributable provisions of HK$374 million mentioned above to the reported profit of HK$1,181 million, for the first half of 2002. The unfavorable factors leading to this decline included the decrease in operating profit of HK$171 million arising principally from the devastating impact of SARS on the hotel businesses and the drop in office rental income for negative revision in the light of oversupply of Grade A office spaces, combined with an increase in taxation of HK$164 million following an increase in Hong Kong Profits Tax rate on the current tax charge and deferred tax liabilities, which had been enlarged upon the adoption of new accounting standard in the beginning of the current financial year.

Group's Turnover

The Group's turnover for the period was HK$5,463 million, a decrease of HK$113 million or 2% against HK$5,576 million earned in same period last year. Decrease in turnover was principally due to the reduction in hotel revenue and office rental income though it was offset by an improvement in revenue from the continued robust logistics operations.

Group Operating Profit

Group operating profit before borrowing costs for the period reduced to HK$2,368 million, or by 7% from HK$2,539 million for first half of 2002. This was primarily due to the reduction in rental contribution from office area and adverse results from hotel operations, the latter of which were adversely affected by the outbreak of SARS.

Net Profit

Mitigated by the reduction in borrowing costs of HK$78 million, the net profit fell by 4% against the interim results of 2002 to HK$2,063 million.

Segment performance

Property Investment

The Property Investment segment reported a revenue reduction of 6% to HK$2,092 million. Operating profit showed a decrease of 10% to HK$1,448 million.

Wharf Estates Limited

Harbour City

Harbour City, a core property investment asset of Wharf Estates Limited, generated a lower turnover of HK$1,326 million in the period as a consequence of reduction in revenue from hotels, office area and apartments. The hotel operations recorded a decrease in sales of 34% to HK$197 million due to the outbreak of SARS in second quarter of 2003. The average hotel room occupancy sharply reduced to around 48% in the period under review as opposed to 84% achieved in the same period last year. Negative rental revision in the office areas was observed given the oversupply situation of Grade A office. For the retail area, its revenue improved steadily for an overall higher rental rate coupled with a high sustainable occupancy level.

Times Square

Times Square, another core investment property asset of Wharf Estates Limited, generated total revenue of HK$415 million, which was lower than the previous period's level. A lower occupancy level in early part of 2003 had negatively affected the revenue contribution from its office area. Revenue from retails area recorded a slight decrease against the same period last year.

Wharf Estates China Limited

Both aggregate revenue and operating profit from investment properties in Mainland China, namely Beijing Capital Times Square and Shanghai Times Square, recorded double-digit growth over same period last year.

Communications, Media and Entertainment ("CME")

Despite continuous increases in subscribers to Pay TV, Broadband Internet multimedia and telecommunication services, the total revenue of CME segment decreased by HK$14 million or 1% to HK$1,748 million and its operating profit decreased slightly by HK$4 million or 2% to HK$199 million compared to the first half of 2002.

i-CABLE

Pay TV

Although subscribers of Pay TV grew by 25,000 and 20,000 over previous corresponding period of 600,000 and end of 2002 of 605,000 respectively to reach 625,000, its turnover decreased by 4% to HK$844 million year-on-year as a result of absence of the World Cup impact in the previous period. ARPU was HK$219, compared to HK$244 and HK$222 in the first and second halves of 2002 respectively. Its operating profit, on the other hand, reported an increase of HK$56 million or 37% to HK$210 million primarily due to continuing tight control over programming and other operating costs.

Internet and multimedia

Internet and multimedia revenue for the period decreased by HK$53 million or 21% to HK$193 million, in spite of a growth of Broadband subscribers by 55,000 and 22,000 over previous corresponding period of 192,000 and end of 2002 of 225,000 respectively to reach 247,000. The operating results recorded a loss of HK$48 million against profit of HK$31 million in the first half of 2002. The unfavourable results were primarily due to substantial decline of ARPU by 41% year-on-year to HK$125 following an aggressive pricing strategy under highly competitive environment. ARPU has stabilised in recent months.

As compared to the first half year of 2002, the combined results of Pay TV and Internet and multimedia businesses decreased the group revenue of i-CABLE by HK$86 million or 8% to HK$1,037 million and decreased its operating profit before corporate expenses by HK$23 million or 12% to HK$162 million.

Wharf T&T (Telecommunication services)

Compared to the first half year of 2002, Wharf T&T increased its telecommunication revenue by 8% to HK$615 million. Its installed base of fixed lines reached about 378,000 lines at June 30, 2003, an increase of 40% and 12% over previous corresponding period of 270,000 lines and end of 2002 of 340,000 lines respectively, which represented a market shares to 10% overall. The company's revenue from fixed-line telephony services rose by 9% to HK$468 million which accounted for 76 per cent of its total revenue, and IDD revenue rose by 6% to HK$147 million. Coupled with operating efficiency, Wharf T&T achieved an operating profit of HK$19 million compared with profit of HK$3 million in previous corresponding period.

Logistics

Modern Terminals

The total revenue of Logistics segment including Modern Terminals Limited ("Modern Terminals"), a 55.3%-owned subsidiary, was HK$1,532 million, an increase of HK$54 million or 4% as compared with HK$1,478 million in previous corresponding period. The operating profit also recorded an increase of HK$68 million or 9% to HK$854 million.

The revenue increase was mainly due to an increase in Modern Terminal's revenue as a result of its increase in throughput handled driven by strong trade volume from the increasing number of factories in Pearl River Delta, though at a lower tariff rate in line with the market development. Modern Terminal's operating profit also recorded a satisfactory increase.

Property development

During the period, Wharf Estates Development Limited had reported a low level of property sales activities. The Group's associates undertaking the Sorrento and Bellagio projects progresses their respective developments according to schedule and their sale proceeds derived there from were not accounted for as the Group's turnover.

Depreciation and amortisation

Depreciation and amortisation charge for the period totalled HK$598 million (including the amortisation of goodwill HK$11 million), a decrease of HK$49 million or 8% over same period last year. The drop resulted from the combined effect of a decrease in amortisation of the programming library of i-CABLE due to lack of previous period's programming costs for 2002 FIFA World Cup and a reduction of depreciation charge of HK$39 million following an extension of estimated useful lives of some plant and equipment of the Group (including Modern Terminals) starting from end of 2002. The decrease was partly offset by additional depreciation charges recorded by i-CABLE and Wharf T&T on their expanded capital expenditures.

Borrowing costs

Net borrowing costs charged for the period decreased by HK$78 million or 20% to HK$305 million from HK$383 million incurred in the previous corresponding period as a result of a persistently low interest rate environment as well as the Group's success in reducing interest margins through its refinancing activities. The charge was after capitalisation to related assets of HK$32 million for the period compared to HK$65 million in previous corresponding period. The Group's average borrowing cost for the period was 3.1% p.a., a reduction from 3.8% p.a. in the first half year of 2002.

Net other charges

The net other charges recorded in the first half of 2002 comprised provisions of HK$204 million for properties and HK$43 million for impairment in value of investments. No such items were recorded in the current period.

Share of profits less losses of associates

The share of profits of associates for the period was HK$54 million compared to a loss of HK$112 million in previous corresponding period. The reported losses in the first half of 2002 principally reflected the attributable loss for impairment in value of Bellagio, a 33-1/3% owned property development project.

Other items

The Group's profit before taxation increased by HK$320 million to HK$2,117 million from HK$1,797 million against same period last year.

The taxation charge for the period was HK$470 million, an increase of HK$164 million from HK$306 million recorded in the corresponding period last year. The significant increase was primarily resulted from the application of the higher new Hong Kong Profits Tax rate of 17.5% (2002: 16%) to the current tax and the deferred tax liabilities, the latter of which had been enlarged upon the adoption of the new accounting standard SSAP 12 "Income taxes" in the beginning of the current financial year.

Minority interests were HK$338 million for the period compared to HK$310 million in previous corresponding period.

Included in the Group's profit attributable to the shareholders were profit of HK$470 million (6/2002: HK$443 million) contributed from three major non-wholly owned subsidiaries, namely the 55.3%-owned Modern Terminals, 79.2%-owned i-CABLE Communications Limited ("i-CABLE") and 66.8%-owned Harbour Centre Development Limited ("HCDL"). Total dividends received or receivable from these subsidiaries amounted to HK$504 million for the period under review (6/2002: HK$494 million).

(II) Liquidity and Financial Resources

Shareholders' funds

As at June 30, 2003, the shareholders' funds of the Group totalled HK$48,417 million, an increase of HK$683 million from HK$47,734 million at December 31, 2002. Shareholders' funds at December 31, 2002 was restated and adjusted downwards as a prior year item by HK$979 million for making an additional provision for net deferred tax liabilities in accordance with new requirements of SSAP 12 "Income taxes" (revised) adopted retrospectively with effective from January 1, 2003. On that basis, the consolidated net asset value of the Group at June 30, 2003 was HK$19.78 per share, compared to the restated net asset value of HK$19.50 per share at December 31, 2002.

Supplemental Information

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

	Per share
Book net asset value at June 30, 2003	HK$19.78
Add adjustments for:–	
Modern Terminals	
– based on the previous average transaction prices	2.26
i-CABLE	
– based on market value at June 30, 2003 (@$1.97 p.s.)	0.77
Adjusted net asset value per share at June 30, 2003	HK$22.81

Net cash generated from the Group's operating activities

For the period under review, net cash generated from the Group's operating activities amounted to HK$2.7 billion which included proceeds from disposal of listed debt securities of HK$0.5 billion, compared to HK$2.2 billion in the previous corresponding period. Net cash inflow of HK$0.5 billion was recorded for investing activities which comprised net repayments of advances mainly from the associates undertaking the property developments of Bellagio and Sorrento of HK$0.8 billion and the uplift of pledged deposits of HK$0.3 billion net of purchase of fixed assets HK$0.6 billion.

Capital expenditure

The capital expenditure, including programming library of i-CABLE, incurred by the Group's core businesses during the period and their capital commitments at June 30, 2003 are analysed as follows:

		Capital Commitments as at June 30, 2003	
Business Unit/Company	Capital Expenditure for 1-6/2003 HK$ Million	Authorised And Contracted for HK$ Million	Authorised But not Contracted for HK$ Million
Property investments/others	98	96	1,211
Modern Terminals	196	847	172
i-CABLE	210	66	113
Wharf T&T	150	186	87
	654	1,195	1,583
At December 31, 2002		1,700	1,606

The capital expenditure of i-CABLE and Wharf T&T mainly related to network equipment while that of Modern Terminals was substantially for construction of Container Terminal 9.

In addition to the above, the Group had planned expenditures of approximately HK$1.1 billion (31/12/2002: HK$1.1 billion) related to the properties under development for sale at the end of June 2003.

Major property projects undertaken by associates

Pre-sales of the Sorrento and Bellagio projects undertaken by associates, 40%-owned and 33-1/3% owned by the Group, respectively, are continuing with good progress. For the period under review, 106 units of Sorrento and 103 units of Bellagio were sold. At June 30, 2003, accumulated sales of Sorrento Phase I and Phase II units reached 1,061 units or 83% and 346 units or 42% respectively. The sale of Bellagio accumulated to 1,356 units or 79% of the 1,704 Phases I and II units. Construction works for Phases III and IV commenced in March 2003 and are underway in accordance with schedule.

At June 30, 2003, the cash deposits in Sorrento's stakeholders account amounted to HK$0.7 billion, which would be sufficient to fully cover its outstanding construction cost for completion of the whole project. Following the completion of the Phase I and II units, the cash deposits in Bellagio's stakeholders' account at March 31, 2003, amounting to HK$1.2 billion were distributed to the shareholders of the project company in proportion to their equity interests in April 2003. The two project companies did not have any bank borrowings at June 30, 2003.

Gearing Ratios

As at June 30, 2003, the ratio of net debts to total assets reduced to 24.9 per cent and the ratio of net debts to shareholders' equity decreased to 40.0 per cent, compared to 26.0 per cent and 42.9 per cent at December 31, 2002, respectively. The Group's net debts decreased from HK$20.5 billion at December 31, 2002 to HK$19.4 billion at June 30, 2003, which was made up of HK$21.0 billion in debts less HK$1.6 billion in deposits and cash. Included in the Group's debts were loans of HK$1,273 million and HK$304 million borrowed by two non-wholly owned subsidiaries, Modern Terminals and i-CABLE respectively (31/12/2002: HK$941 million borrowed by Modern Terminals and HK$386 million borrowed by i-CABLE). These loans are without recourse to the Company and other subsidiaries of the Group.

Availability of committed and uncommitted facilities

High liquidity continued to sustain in the banking market during the first half of 2003. The Group arranged an aggregate of HK$3.0 billion loan facilities to refinance a number of its loan facilities, mainly the asset-backed notes prepaid in May 2003, with substantial reduction in interest margins and on more favourable terms.

The Group's available loan facilities and debt securities amounted to HK$28.8 billion. Debts totalling HK$21.0 billion were outstanding at June 30, 2003, against the available facilities as analysed below:

	30/6/2003			
Debt Maturity	Available Facility HK$ Billion	Total Debt HK$ Billion		Undrawn Facility HK$ Billion
Company and wholly-owned subsidiaries				
Committed facilities				
Repayable within 1 year	3.3	3.1	15%	0.2
Repayable between 1 to 2 years	5.3	5.0	24%	0.3
Repayable between 2 to 3 years	3.4	2.7	13%	0.7
Repayable between 3 to 4 years	5.3	5.3	25%	–
Repayable between 4 to 5 years	4.9	2.3	12%	2.6
	22.2	18.4	89%	3.8
Uncommitted facilities	2.3	0.5	2%	1.8
	24.5	18.9	91%	5.6
Non wholly-owned subsidiaries – Committed and uncommitted				
Modern Terminals Limited	2.9	1.3	6%	1.6
i-CABLE Communications Limited	0.9	0.3	1%	0.6
Others	0.5	0.5	2%	–
	28.8	21.0	100%	7.8
– Secured	1.0	0.8	4%	0.2
– Unsecured	27.8	20.2	96%	7.6
Total	28.8	21.0	100%	7.8

As at June 30, 2003, the banking facilities of the Group were secured by mortgages over certain investment properties with an aggregate carrying value of HK$3,681 million (31/12/2002: HK$17,923 million).

An analysis of the Group's total debts by currency at June 30, 2003 is shown as below:

	HK$ Billion
Hong Kong dollar	15.8
United States dollar (swapped into Hong Kong dollars)	4.6
Renminbi	0.6
	21.0

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, 2003, the Group also maintained a portfolio of long-term investments, primarily in blue-chip securities, with a market value of HK$1.1 billion.

(III) Employees

The Group has approximately 9,667 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, 2003 amounted to HK$989 million, compared to HK$991 million in the first half of 2002.

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 (the "Stock Exchange"), at any time during the six-month period ended June 30, 2003. Nevertheless, the matter regarding the acquisition by the Group of a 39.08% effective interest in City Super Limited from a wholly-owned subsidiary of Wheelock and Company Limited ("Wheelock") as announced on February 17, 2003, 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, 2003, Directors of the Company had the following personal beneficial interests, all being long positions, in the ordinary shares of the Company and of a subsidiary of the Company, namely, i-CABLE Communications Limited ("i-CABLE"):

	Number of Shares
The Company	
Mr Gonzaga W J Li	686,549
Mr Stephen T H Ng	650,057
Mr Erik B Christensen	25,000
Mr TY Ng	178,016
i-CABLE	
Mr Stephen T H Ng	1,000,000

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted under the Executive Share Incentive Scheme of the Company previously held by Directors of the Company during the financial period:

Name of Director	Date granted (Day/Month/Year)	No. of ordinary share represented by unexercised options outstanding as at Jan. 1, '03 (all such options lapsed on June 16, '03)	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:	22/06/1993	210,000	17/06/1997 to 16/06/2003	19.00	1.00
Mr Quinn Y K Law:	22/06/1993	100,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr Stephen T H Ng:	22/06/1993	200,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr TY Ng:	22/06/1993	100,000	17/06/1996 to 16/06/2003	19.00	1.00

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests, both long and short positions, held as at June 30, 2003 by any of the Directors or Chief Executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and

(ii) there existed during the financial period no rights to subscribe for shares, underlying shares and debentures of the Company which were held by any of the 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 5% 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, 2003 as recorded in the register kept by the Company under section 336 of the SFO:

	Names	No. of Ordinary Shares
(i)	Woodenfield Limited	140,136,675
(ii)	Lynchpin Limited	171,974,029
(iii)	Star Attraction Limited	171,974,029
(iv)	New Asia Realty and Trust Co., Ltd.	191,343,162
(v)	Myers Investments Limited	191,343,162
(vi)	Wheelock Properties Limited	191,343,162
(vii)	Diplock Holdings Limited	1,050,087,051
(viii)	WF Investment Partners Limited	1,069,456,184
(ix)	Wheelock and Company Limited	1,241,430,213
(x)	Bermuda Trust (Guernsey) Limited	1,241,430,213
(xi)	J.P. Morgan Chase & Co.	147,113,218

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (x) above to the extent that the shareholding stated against party (i) above was entirely duplicated or included in that against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), (iii) in (iv), (iv) in (v), (v) in (vi), (vi) in (vii), (vii) in (viii), (viii) in (ix) and (ix) in (x).

All the interests stated above represented long positions and as at June 30, 2003, there were no short positions recorded in the said register.

Share option scheme

Details of share options granted to Directors of the Company 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 employees (all being participants with options not exceeding the respective individual limits and including 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 1 Jan. '03	No. of ordinary shares represented by options lapsed/ exercised during the financial period	No. of ordinary shares represented by unexercised options outstanding as at 30 June '03	Period during which rights exercisable (Day/Month/ Year)	Price per share to be paid on exercise of options (HK$)
(i)	22/06/2003	1,781,000	(1,781,000)	–	17/06/1996 to 16/06/2003	19.00
(ii)	01/08/1996	330,000	–	330,000	01/08/2002 to 31/07/2003	25.00
(iii)	01/08/1996	440,000	–	440,000	01/08/2005 to 31/07/2006	25.00
		2,551,000	(1,781,000)	770,000		

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the financial period.

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.

Interim dividend in cash and in specie

The Board has declared an interim dividend in respect of the half-year period ended June 30, 2003 amounting to HK$802 million ("Interim Dividend"), to be paid by way of (a) cash for an aggregate sum of HK$294 million ("Cash Dividend"), equivalent to 12 cents per share, and (b) distribution of 244,747,663 shares of HK$1.00 each in the share capital of i-CABLE Communications Limited ("i-CABLE Shares") held by the Company ("Distribution"), with a value of HK$2.075 per i-CABLE Share, being the closing price per i-CABLE Share on The Stock Exchange of Hong Kong Limited ("Stock Exchange") as at August 19, 2003. On these bases, the Interim Dividend will amount to 32.75 cents per Share in total (2002: interim dividend in cash of 28 cents per share).

Pursuant to the Distribution, one i-CABLE Share will be distributed for every 10 Shares of the Company held on September 19, 2003, being the record date for the purposes of determining the Shareholders' entitlements to the Interim Dividend ("Record Date"). No fraction of an i-CABLE Share will be distributed but fractional entitlements will be aggregated and disposed of for the benefit of the Company.

The Distribution will not be made to the Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong ("Overseas Shareholders"). The number of i-CABLE Shares that they are entitled to will not be distributed to them. Arrangements will be made for such i-CABLE Shares to be sold in the market as soon as practicable. Any net proceeds of sale after deduction of the expenses will be distributed *pro-rata* to such Overseas Shareholders.

The i-CABLE Shares to be distributed pursuant to the Distribution will rank *pari passu* in all respects with all other issued i-CABLE Shares. The Cash Dividend will be paid on Monday, September 29, 2003 to Shareholders and the share certificates for the i-CABLE Shares will also be despatched on September 29, 2003 to Shareholders by post.

Upon completion of the Distribution, the percentage of issued share capital of i-CABLE Communications Limited ("i-CABLE Share Capital") held by the Company will decrease from 79.24% to 67.12%. At the same time, the percentage of i-CABLE Share Capital in the hands of the public will increase from 20.56% to 26.62%, thereby meeting the minimum public float of 25% as prescribed in the Rules Governing the Listing of Securities on the Stock Exchange.

Book closure

The Register of Members will be closed from Friday, September 19, 2003 to Friday, September 26, 2003, 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 in cash and the Distribution, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, September 18, 2003.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 19, 2003