Business Review and Prospects

Harbour City

Retail

The overall occupancy level of **Harbour City** was maintained at 98 per cent during the six months under review. International names signed up during the period included Vacheron Constantin, Tag Heuer, Montegrappa, cK Calvin Klein, Mulberry, Plastiq, Replay, Max Studio.com, FCUK, as know as de base, Oregon Scientific, le coq sportif Golf, Cutter & Buck, New Balance, Birkenstock, Nike Women, Caffe Colorado etc. Most new leases and renewed tenancies showed favourable rental growth.

The Ocean Terminal revamp started with LCX and Faces was almost completed with the newly introduced SportX area and KidX with a very popular Playstation centre. The brand new Audio/Visual/Electronics "cluster" at Ocean Centre is now completed and an attractive draw. The cluster is composed of Chung Yuen, Broadway, Fortress and a number of AV specialty shops.

Offices

Occupancy for **Harbour City** offices increased to about 93 per cent at the end of June 2004. New leases during the first half of 2004 reached 400,000 square feet which was equivalent to about 80 per cent of year 2003's total. Although double-digit rental increase was recorded during the first half, the current rental level is still lagging behind that of 2001 and hence the rental reversion stayed negative. Of the 602,000 square feet office area due for renewals in first half of 2004, 442,000 square feet were renewed, representing a retention rate of 73 per cent.

Hotels and Serviced Apartments

The consolidated occupancy for the three Marco Polo Hotels at **Harbour City** rebounded strongly to exceed 88 per cent, as compared to the 48 per cent recorded a year ago affected by SARS. Underpinned by the remarkable increase in total visitor arrivals and the individual traveller scheme implemented by the Central Government, average room rate also fully recovered. Apart from China, other high growth segments included South Africa, South America and India.

Having gone through a period of rapid price increase, particularly at the luxury end, sales activities for residential properties in Hong Kong have moderated and prices are also beginning to stabilise. Leasing demand for high-end residential premises like Wharf's Peak Portfolio has nevertheless increased as a result of the recovery of the financial markets. Occupancy for Gateway Apartments was maintained at around 80 per cent, a level comparable to the pre-SARS situation back in early 2003.

As at June 30, 2004, there were capital expenditures planned for **Harbour City** totalling HK$295 million, of which HK$82 million have been contracted for and HK$213 million authorised but not yet contracted for.

Times Square

Retail

On the back of **Times Square**'s increasing traffic, most retail tenants registered double-digit year-on-year growth in sales performance. Apart from newly recruited fashion names such as French Connection, Tommy Hilfiger, D-Mop, Red-Dragon, Lloyd, Billabong, The North Face, Lafuma and Lacoste, additional quality F&B operators including Super Star Seafood Restaurant and Chung's Cuisine are also drawing an impressive amount of traffic into the retail podium. The refurbishment project at the basement level commenced in May and is targeted to complete by August. With a rejuvenated configuration and more product offerings, the exercise of optimising trade mix will continue throughout the second half. The retail occupancy of **Times Square** was maintained at 98 per cent during the period under review.

Offices

With the anchor commitment of 93,648 square feet by MLC (Hong Kong) Ltd, the occupancy rate of **Times Square** is set to improve to approximately 93 per cent. Other than this particular transaction, others, inclusive of new lettings as well as expansion of existing tenants, were mostly with the size of 5,000 square feet and below. Of the 75,280 square feet office area due for renewals in the first half, 41,989 square feet were renewed. This represents a retention rate of 56 per cent. Negotiations of the remaining soon-to-expire tenancies are progressing smoothly.

Wharf Estates Development Limited

Sorrento

Sorrento is an MTRC joint-venture project above the Kowloon Station, equally owned by a five-member consortium comprising Wharf, Harbour Centre Development, Wheelock, Wheelock Properties Limited ("Wheelock Properties") (formerly known as New Asia Realty and Trust Company, Limited) and a wholly-owned subsidiary of Wheelock Properties. As at the end of June 2004, the entire 1,272 units out of Phase I had been sold, raising more than HK$6.1 billion in proceeds. With respect to Phase II consisting of Towers 1 and 2, which was launched one year later in November 2002, cumulative sales and proceeds reached 809 units (94 per cent sold) and HK$5.4 billion as at the end of this period under review.

Bellagio

Bellagio, in Sham Tseng on the western shore of New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wharf, Wheelock and Wheelock Properties. Phases I and II were first launched in September 2002 for pre-sales. As at the end of June 2004, cumulative sales reached 1,686 units (99 per cent sold), realising proceeds of HK$4.1 billion. Construction works for Phases III and IV, which cover the remaining 1,641 units, are in progress with a target to complete by the end of 2005. The application for pre-sale permit is currently being processed.

As at June 30, 2004, there were capital expenditures planned for property projects under Wharf Estates Development Limited totalling HK$23 million which have all been contracted for.

i-CABLE

i-CABLE operated in a mixed environment during the first half of 2004. An improving economy instilled greater demand-side consumer confidence on the one hand, while supply-side competition heightened on the other. In that context, the company was able to exceed all past performances in the period under review.

Pay TV

Subscription rose to 682,000 at the end of June, which represented a four per cent net gain over the 6-month period. On the back of higher subscription and strong airtime sales, the Pay TV division registered growth in both EBITDA and operating profit in spite of the increase in content costs. As the division continued to expand its programming platform, the latest acquisition will in deed guarantee the exclusive live coverage of English Premier League, which is the most popular and widely followed European soccer tournament in Hong Kong, for the next three seasons. By the end of July, CABLE TV was broadcasting 86 channels on its platform, 45 of which in the basic package, to offer viewers wide programme choice. In China, the company's satellite channel, Horizon Channel, has expanded coverage to about 18 million homes through programme syndications and various collaborations.

Internet and Multimedia Services

Performance of the Broadband segment continued its recovery with successful service enhancement through network upgrade and the introduction of value-added services. While overall market growth has slowed down, **i-CABLE**'s broadband subscription grew to 263,000 by the end of June. Subscription growth was particularly noticeable in the second quarter with the introduction of a bundled marketing package with CABLE TV. Portal content enhancement has also brought significantly improved income from value-added services. During the period under review, additional content agreements had been concluded with several mobile service operators which certainly helped to further strengthen **i-CABLE**'s role as the leading multimedia content supplier in Hong Kong.

As at June 30, 2004, there were capital expenditures planned for **i-CABLE** totalling HK$756 million, of which HK$548 million have been contracted for and HK$208 million authorised but not yet contracted for.

Wharf T&T

The first half of 2004 marked a new era in the competitive landscape for the FTNS market in Hong Kong. While the economic recovery has led to a modest rise in demand, the 'liquidity' of customer migration in the overall market slowed down drastically from 2003 as a result of most competitors' significant amount of effort directed towards various customer retention programmes. Furthermore, the incumbent's intensifying challenges against the regulatory regime through legal or other means have, to some extent, paralysed the legal framework and measures originally meant to prevent the dominant operator from engaging in anti-competitive practices. It also led to the repeal of the mandatory Type II interconnection policy.

During the six-month period under review, the fixed line installed base grew by 15,000 to reach 448,000, representing an overall market share of 12 per cent. With the composition of 298,000 business lines and 150,000 residential lines, **Wharf T&T** held an 18 per cent share in the business market and a seven per cent share in the residential market as at the end of June 2004.

While fixed line revenue grew by 12 per cent to HK$525 million (2003: HK$468 million), IDD revenue fell by 26 per cent to HK$109 million (2003: HK$147 million). The ratio between turnover from fixed lines and IDD rose to 4.8:1 (2003: 3.2:1). Total outgoing IDD volume, including both wholesale and retail, grew by 26 per cent to 217 million minutes (2003: 172 million minutes).

As at June 30, 2004, there were capital expenditures planned for **Wharf T&T** totalling HK$179 million, of which HK$105 million have been contracted for and HK$74 million authorised but not yet contracted for.

Modern Terminals Limited

In terms of throughput volume, **Modern Terminals** handled 1.6 per cent more boxes in Kwai Chung at 1.96 million TEUs during the first half of 2004, as compared to the 1.93 million recorded same time a year ago. The unit's market share in Kwai Chung stood at 32 per cent. As **Modern Terminals**' earlier investments in China are beginning to bear fruit, a significantly higher contribution from this area actually helped to offset to some extent the continuous pressure on tariff in Hong Kong.

Chiwan Container Terminals, in which **Modern Terminals** holds an effective stake of eight per cent, recorded a throughput growth of 55 per cent to 1.12 million TEUs during the first half. Berth 4 of Shekou Container Terminals (Phase II) came on stream in February this year. Together with Berth 3 which commenced operation in the third quarter of 2003, Shekou Container Terminals (Phase II) handled in total 492,000 TEUs during the period under review.

On April 1, 2004, a share realignment exercise was carried out by several shareholders of the SCT consortium which resulted in a substantially common ownership structure for Phases I and II. Such efficient structure will certainly bring along synergies and other mutual benefits to all shareholders. Upon swapping the interests, **Modern Terminals** owns approximately 10 per cent in each of Phases I and II.

As at June 30, 2004, there were capital expenditures planned for **Modern Terminals** totalling HK$1,451 million, of which HK$610 million have been contracted for and HK$841 million authorised but not yet contracted for.