Commentary on Interim Results

(I) Review of 2004 interim results and segmental performance

Review of 2004 interim results

Profit attributable to Shareholders

Unaudited Group's profit attributable to shareholders for the six months ended June 30, 2004 amounted to HK$1,680 million, representing an increase of HK$371 million or 28% over HK$1,309 million achieved for the same period in 2003. Earnings per share were HK$0.69, against HK$0.53 for the first half of 2003.

The resilient growth in profit was largely due to the increase in operating profit of the Group's hotel business by HK$123 million as compared with the first half of 2003, when the economy of Hong Kong was severely affected by the outbreak of SARS. The results improvement was also attributable to a reduction in borrowing costs by HK$174 million and increase in share of profits by HK$92 million mainly from associates undertaking property development.

Group's Turnover

Group's turnover for the period was HK$5,739 million, an increase of HK$276 million or 5% as compared to HK$5,463 million earned in same period last year. Increase in turnover was principally due to the improvement in hotel revenue by HK$145 million. The hotel revenue for last year was severely affected by SARS. For the first half of 2003, the hotel revenue totalled HK$197 million, as compared to HK$342 million for the period under review and HK$299 million for the first half of 2002. Communications, Media and Entertainment (CME) segment also reported revenue growth of HK$183 million resulting from enlarged subscribers and higher airtime sales of i-CABLE group.

Group Operating Profit

Group operating profit before borrowing costs for the period was HK$2,520 million, increased by HK$152 million or 6% from HK$2,368 million for first half of 2003. This was primarily due to the favourable results of hotel and CME operations as discussed above.

Segment performance

Property Investment

The Property Investment segment reported a revenue increase of HK$149 million or 7% to HK$2,241 million. Operating profit showed an increase of HK$106 million or 7% to HK$1,554 million. The improvement was chiefly contributed from hotel operations.

Wharf Estates Limited

Harbour City

Harbour City, a core property investment asset of Wharf Estates Limited, generated a turnover of HK$1,476 million in the period, an increase of HK$150 million or 11% as compared with the first half of 2003, because of improvement in revenue from hotels operations. The average hotel room occupancy was 88% in the period under review as compared to 48% achieved in the same period last year, which was adversely affected by the outbreak of SARS in the second quarter of 2003. Besides, satisfactory improvement in average hotel room rate was achieved. The hotel segment reported a profit of HK$113 million as opposed to a loss of HK$10 million in the same period last year. This compares to a profit of HK$95 million reported in the first six months of 2002.

The Harbour City's retail area benefited from the active leasing activities and the continuous influx of mainland tourists subsequent to the extension of the individual traveller scheme to additional cities and provinces in mainland China. Its revenue improved steadily for an overall higher rental rate coupled with a high sustainable occupancy level. The office area and apartments recorded a decrease in rental contribution, reflecting the reversionary impacts of the lower average rental rates achieved in the past two years, though the achieved rental rates have been improving since the beginning of 2004.

Times Square

Times Square, another core investment property asset of Wharf Estates Limited, generated a total revenue of HK$405 million, which was lower than the previous period's level by HK$10 million or 2%. Lower rental contribution from office area was recorded due to reversionary impacts of lower average rental rate achieved in the past two years. Occupancy level of the office area has returned to a high level following active leasing activities. The operating results of Times Square were helped by an increase in rental from retail area, which achieved satisfactory improvement both in occupancy and average rental rate under the boosted tourism environment.

Plaza Hollywood

Plaza Hollywood, under Wharf Estates Limited, reported a slight increase in retail rental revenue to HK$122 million due to higher average occupancy achieved for the period under review.

As at June 30, 2004, the aggregate property value of Harbour City, Times Square and Plaza Hollywood owned under Wharf Estates Limited was HK$50,168 million, based on the revaluation conducted by independent valuers as at December 31, 2003. This portfolio generated total revenue and operating profit of HK$2,003 million and HK$1,437 million respectively for the period under review, compared to HK$1,862 million and HK$1,331 million respectively reported in the first half of 2003.

Wharf Estates Development Limited

Owning various residential, office and industrial investment properties located in Hong Kong including the Peak properties, Wharf Estates Development Limited reported a decrease both in aggregate revenue and operating profit for the period under review. The decrease was chiefly attributable to a loss in rental earnings from the industrial building in Yau Tong, which was demolished in the second half of 2003 as well as lower occupancy or rental rate achieved for certain industrial and office buildings. However, the Peak investment properties performed well and reported a growth both in aggregate rental revenue and operating profit, due to the limited supply of luxurious residential properties in the Peak.

Wharf Estates China Limited

With its two major investment properties in mainland China, namely, Beijing Capital Times Square and Shanghai Times Square, of which the occupancy or rental rate continued to improve, Wharf Estates China Limited recorded satisfactory growth both in aggregate revenue and operating profit for the period under review.

Communications, Media and Entertainment ("CME")

Benefited from continuous increases in subscribers to Pay TV, Broadband Internet multimedia and telecommunication services, the total revenue of CME segment increased by HK$183 million or 10% to HK$1,931 million and its operating profit increased by HK$24 million or 12% to HK$223 million compared to the first half of 2003.

i-CABLE

The group revenue of i-CABLE was HK$1,154 million for the period under review, an increase of 11% as compared to HK$1,037 million in the first half of 2003, and its operating profit before unallocated items increased by HK$46 million or 28% to HK$208 million. The net profit attributable to shareholders of i-CABLE also increased by HK$52 million or 55% to HK$147 million. The performance of i-CABLE surpassed all previous periods in terms of both revenue and net profits.

Pay TV

The turnover of Pay TV for the period under review was HK$920 million, an increase of HK$76 million or 9% as compared to the first half of 2003. Its operating profit recorded an increase of HK$25 million or 12% to reach HK$235 million. The favourable results were due to subscriber growth and strong increase in airtime sales, despite new competition in the market. Subscribers of Pay TV grew by about 27,000 in the first half of 2004 as compared to 19,000 a year ago to reach 682,000 as a result of strengthened programming contents including UEFA EURO 2004 and the new Super Soccer Channel and Cable Entertainment News Channel launched in the second half of 2003, and an improved economy compared to one year ago. ARPU was HK$222, compared to HK$219 in the first half of 2003.

Internet and multimedia

Internet and multimedia revenue for the period increased by HK$39 million or about 21% to HK$232 million. Its operating loss, under a full cost allocated basis for network cost, narrowed to HK$27 million as compared to HK$48 million in the first half of 2003. The improvement was primarily due to growth of subscribers of about 6,000 in the first half of 2004 to 263,000 which was at a slower pace than the same period last year as overall market growth slowed down compared to last year; and ARPU increased by 14% year-on-year to HK$142 resulted from successful service enhancement through network upgrade and the introduction of value-added services.

Telecommunications

Wharf T&T

Compared to the first half year of 2003, Wharf T&T increased its telecommunication revenue by 3% to HK$634 million. Its installed base of fixed lines increased by 15,000 lines to reach 448,000 lines with market share of 12% for the first half of 2004. Wharf T&T continued to shift its focus from IDD to fixed lines. The company's revenue from fixed-line telephony services rose by HK$57 million or 12% to HK$525 million, whilst IDD revenue fell by HK$38 million or 26% to HK$109 million. The ratio between fixed lines and IDD improved to 4.8:1 for the first half of 2004, as compared to 3.2:1 for the first half of 2003 and 4:1 for the full year of 2003. The operating profit, however, showed a slight increase of HK$1 million to HK$20 million mainly due to higher depreciation charge, which neutralized the increase in EBITDA.

Combined with other telecommunication business, the turnover and operating profits of this segment was HK$674 million and HK$11 million respectively, compared to HK$615 million and HK$19 million achieved respectively in the same period last year.

Logistics

The total revenue of Logistics segment for the period under review, mainly contributed by Modern Terminals Limited ("Modern Terminals"), a 55.3%-owned subsidiary, was HK$1,515 million, a decrease of HK$17 million or 1% as compared with HK$1,532 million in the first half of 2003. The operating profit also recorded a decrease of HK$23 million or 3% to HK$831 million.

Modern Terminals

Despite the growth in throughput handled by Modern Terminals mainly driven by feeder and transshipment volume, Modern Terminal's revenue and operating profit decreased for the period under review as the average tariff rate continued to be under pressure. As compensated by attributable profit from Modern Terminals' investments in mainland China through associates, which became operational gradually and performed well in the first half of 2004, coupled with lower taxation charge in profits tax and in the deferred tax liability, the net profit after tax of Modern Terminals grew by 3% as compared over the same period last year.

Property development

Wharf Estates Development Limited and Wharf Estates China Limited conducted during the period under review some property sale activities in Hong Kong and China respectively and recorded an aggregate gain of HK$12 million, as compared to a loss of HK$13 million in the first half of 2003. The sales of Sorrento and Bellagio residential units undertaken through associates continued for the period under review and their sales results were taken up as the Group's share of associates profit but not in the Group's turnover and operating profit.

Borrowing costs

Due to a persistently low interest rate environment as well as a declining Group's net debt level, net borrowing costs charged decreased by HK$174 million or 57% to HK$131 million for the period under review from HK$305 million incurred in the same period last year. The charge was after capitalization to related assets of HK$12 million for the period compared to HK$32 million in the previous corresponding period. The Group's average borrowing cost was 1.6% p.a., a reduction from 3.1% p.a. in the first half of 2003.

Share of profits less losses of associates

The share of profits of associates for the period was HK$146 million, an increase of HK$92 million as compared to profit of HK$54 million in the first half of 2003. The increase was chiefly attributable to improvement in sales of Sorrento and Bellagio residential units and higher profit contribution from container port business engaged by Modern Terminals through its associates in mainland China.

Profit before taxation

Combining the effects of increase in operating profit, reduction in borrowing costs and increase in associates' profit as explained in the above, the Group's profit before taxation increased by HK$418 million or 20% to HK$2,535 million from HK$2,117 million in the same period last year.

Taxation

The taxation charge for the period was HK$465 million, a decrease of HK$5 million from HK$470 million recorded in the corresponding period last year. Excluding the effect of the 1.5% increase in profits tax rate on deferred tax liability, which increased total tax charge by HK$99 million in the first half of last year, there was an increase in taxation of HK$94 million for the period under review. Such increase was in line with the improvement in profits before taxation.

Minority interest

Minority interests were HK$390 million for the period compared to HK$338 million in the previous corresponding period. The increase arose mainly from better results achieved by two non-wholly owned subsidiaries, namely, Harbour Centre Development Limited and i-CABLE Communications Limited.

Included in the Group's profit attributable to the shareholders were profits of HK$553 million (6/2003: HK$470 million) contributed from three major non-wholly owned subsidiaries, namely, the 55.3%-owned Modern Terminals, 67.1%-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$500 million for the period under review (6/2003: HK$504 million).

(II) Liquidity and financial resources

Shareholders' funds

As at June 30, 2004, the shareholders' funds of the Group totalled HK$52,530 million, an increase of HK$902 million from HK$51,628 million at December 31, 2003. The consolidated net asset value of the Group at June 30, 2004 was HK$21.46 per share, compared to HK$21.09 per share at December 31, 2003.

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, 2004	HK$21.46
Add adjustments for:–	
Modern Terminals	
– based on the previous average transaction prices	2.15
i-CABLE	
– based on market value at June 30, 2004 (@HK$2.98 p.s.)	1.17
Adjusted net asset value per share at June 30, 2004	HK$24.78

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$2.6 billion, as compared to HK$2.7 billion in previous corresponding period. For the investing activities, the Group's capital expenditure amounted to HK$0.8 billion, which was almost matched by the repayments of advances from the associates undertaking the property developments of Bellagio and Sorrento.

Capital expenditure and commitments

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, 2004 are analysed as follows:

Business Unit/Company	Capital Expenditure for 1-6/2004 HK$ Million	Capital Commitments as at June 30, 2004 Authorised And Contracted for HK$ Million	Authorised But not Contracted for HK$ Million
Property investments/others			
China	20	140	998
Harbour City	38	82	213
Other properties	17	23	–
	75	245	1,211
Wharf T&T	118	105	74
	193	350	1,285
Modern Terminals (55.3% owned)	290	610	841
i-CABLE (67.1% owned)	291	548	208
	774	1,508	2,334
At December 31, 2003		1,099	1,419

The capital expenditure of i-CABLE and Wharf T&T mainly related to procurement of their network equipment while that of Modern Terminals was substantially incurred for the construction of Container Terminal 9. i-CABLE and Modern Terminals, 67.1% and 55.3% owned by the Group respectively, funded their own capital expenditure programmes. The capital commitments authorized and contracted for of the Group as at June 30, 2004 was HK$0.4 billion higher than that at December 31, 2003, which was mainly due to the commitment of programming rights of the i-CABLE group. The increase in the Group's capital commitments authorized but not contracted for of HK$0.9 billion was mainly due to planned container investments in mainland China by Modern Terminals pending regulatory approval.

In addition to the above, the Group had planned expenditures of approximately HK$1,774 million (31/12/2003: HK$2,455 million) related to the properties under development for sale in mainland China at the end of June 2004.

Major property projects undertaken by associates

Sales of the Sorrento and Bellagio projects undertaken by associates, 40%-owned and 33-1/3% owned by the Group, respectively, are continuing. For the period under review, 102 units of Sorrento and 101 units of Bellagio were sold. At June 30, 2004, the 1,272 Phase I units of Sorrento were all sold, with 809 units or 94% sold for Phase II. The sales of Bellagio accumulated to 1,686 units or 99% of the 1,704 Phases I and II units.

At June 30, 2004, the cash deposits in Sorrento's stakeholders account amounted to HK$0.3 billion, which would be sufficient to fully cover its outstanding construction cost for completion of the whole project. Construction works for Bellagio Phases III and IV are underway in accordance with schedule and the estimated outstanding cost for completion of these phases was approximately HK$0.7 billion. The two project companies did not have any external borrowings at June 30, 2004.

Gearing Ratios

As at June 30, 2004, the ratio of net debts to total assets decreased to 19.5% and the ratio of net debts to shareholders' equity decreased to 29.3%, compared to 21.4% and 32.9% at December 31, 2003, respectively. The Group's net debts decreased from HK$17.0 billion at December 31, 2003 to HK$15.4 billion at June 30, 2004, which was made up of HK$17.6 billion in debts less HK$2.2 billion in deposits and cash. Included in the Group's debts were loans of HK$1.6 billion borrowed by Modern Terminals, a non-wholly owned subsidiary (31/12/2003: HK$1.3 billion). The loan is without recourse to the Company and other subsidiaries of the Group.

Availability of committed and uncommitted facilities

Given the ample liquidity in the market, the Group had refinanced facilities amounting HK$8.2 billion, with tenors ranging from 1 to 7 years, on more favourable terms during the first six months of 2004. The refinancing exercise has further reduced the average borrowing margin and lengthened the Group's debt maturity profile in the first half of 2004.

The Group's available loan facilities and debt securities amounted to HK$24.9 billion. Debts totaling HK$17.6 billion were outstanding at June 30, 2004, against the available facilities as analysed below:

Debt Maturity	30/6/2004 Available Facility HK$ Billion	Total Debt HK$ Billion		Undrawn Facility HK$ Billion
Company and wholly-owned subsidiaries				
Committed facilities				
Repayable within 1 year	3.5	3.5	20%	–
Repayable between 1 to 2 years	2.4	2.4	14%	–
Repayable between 2 to 3 years	3.5	3.5	20%	–
Repayable between 3 to 4 years	0.7	0.7	4%	–
Repayable between 4 to 5 years	4.5	3.5	20%	1.0
Repayable after 5 years	3.9	1.5	9%	2.4
	18.5	15.1	87%	3.4
Uncommitted facilities	2.3	0.4	2%	1.9
	20.8	15.5	89%	5.3
Non wholly-owned subsidiaries – Committed and uncommitted				
Modern Terminals Limited	2.9	1.6	8%	1.3
i-CABLE Communications Limited	0.6	–	–	0.6
Others	0.6	0.5	3%	0.1
	24.9	17.6	100%	7.3
– Secured	0.7	0.5	3%	0.2
– Unsecured	24.2	17.1	97%	7.1
Total	24.9	17.6	100%	7.3

As at June 30, 2004, the banking facilities of the Group were secured by mortgages over certain investment properties with an aggregate carrying value of HK$3,732 million (31/12/2003: HK$3,732 million).

An analysis of the Group's total debts by currency at June 30, 2004 is shown as below:

	HK$ Billion
Hong Kong dollar	12.5
United States dollar (swapped into Hong Kong dollars)	5.0
Renminbi	0.1
	17.6

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, 2004, the Group also maintained a portfolio of long-term investments, primarily in blue-chip securities, with a market value of HK$1.2 billion.

(III) Employees

The Group has approximately 10,551 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, 2004 amounted to HK$1,048 million, compared to HK$989 million in the first half of 2003.

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, at any time during the six-month period ended June 30, 2004. Nevertheless, the following two matters, being matters involving conflict of interest for a Director or the substantial shareholder of the Company, were not approved by meetings of the Company's Directors in accordance with the provisions of paragraph 11 of the above mentioned Code of Best Practice, but instead were duly approved by Resolutions in Writing of the Board of Directors of the Company:

(i) the sale by the Group of a 39.08% effective interest in City Super Limited at a consideration of HK$15.2 million to a company which is indirectly wholly-owned by a trust the settlor of which is the Chairman of the Company, as announced on April 16, 2004; and

(ii) the acquisition by the Group of a 30% equity interest in Kim Realty Investment Pte Ltd at a consideration of S$2.04 million from a subsidiary of the Company's substantial shareholder, namely, Wheelock and Company Limited, as announced on June 11, 2004.

Directors' Interests in Shares

At June 30, 2004, Directors of the Company had the following personal beneficial interests, all being long position, in the ordinary shares of the Company and of a subsidiary of the Company, namely, i-CABLE Communications Limited ("i-CABLE"), and the percentages which the shares represented to the issued share capital of the Company and i-CABLE respectively:

	Number of Shares (percentage of issued capital)	
The Company		
Mr Gonzaga W J Li	686,549	(0.0281%)
Mr Stephen T H Ng	650,057	(0.0266%)
Mr Erik B Christensen	25,000	(0.0010%)
Mr T Y Ng	178,016	(0.0073%)
i-CABLE		
Mr Gonzaga W J Li	68,654	(0.0034%)
Mr Stephen T H Ng	1,065,005	(0.0527%)
Mr Erik B Christensen	2,500	(0.0001%)
Mr T Y Ng	17,801	(0.0009%)

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 Issuers:

(i) there were no interests, both long and short positions, held as at June 30, 2004 by any of the Directors or Chief Executive of the Company in shares, underlying shares or 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 any shares, underlying shares or 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, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at June 30, 2004 as recorded in the register kept by the Company under section 336 of the SFO and the percentages which the shares represented to the issued share capital of the Company:

	Names	**No. of Ordinary Shares (percentage of issued capital)**	
(i)	Lynchpin Limited	171,974,029	(7.03%)
(ii)	Star Attraction Limited	171,974,029	(7.03%)
(iii)	Wheelock Properties Limited (formerly known as New Asia Realty and Trust Company, Limited)	173,652,029	(7.10%)
(iv)	Myers Investments Limited	173,652,029	(7.10%)
(v)	Wheelock Corporate Services Limited	173,652,029	(7.10%)
(vi)	WF Investment Partners Limited	1,051,765,051	(42.97%)
(vii)	Wheelock and Company Limited	1,223,739,080	(50.00%)
(viii)	Bermuda Trust (Guernsey) Limited	1,223,739,080	(50.00%)
(ix)	J.P. Morgan Chase & Co.	147,092,286	(6.01%)

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 (viii) 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) and (vii) in (viii).

All the interests stated above represented long positions and as at June 30, 2004, there were no short positions recorded in the said register.

Share Option Scheme

Throughout the period under review, there were outstanding certain share options previously granted on August 1, 1996 under the Company's Executive Share Incentive Scheme to 12 employees (being participants with options not exceeding the respective individual limits) working under the employment contracts which are regarded as "continuous contracts" for the purposes of the Employment Ordinance. Such options were exercisable during the period from August 1, 2005 to July 31, 2006, and on full exercise would require the Company to allot 400,000 new shares to the grantees at an exercise price of HK$25.00 per share.

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

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.

Book Closure

The Register of Members will be closed from Tuesday, October 5, 2004 to Tuesday, October 12, 2004, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, October 4, 2004.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 19, 2004

As at the date of this interim report, the Board of Directors of the Company comprises Mr. Peter K. C. Woo, Mr. Gonzaga W. J. Li, Mr. Stephen T. H. Ng, Mr. David J. Lawrence, Professor Edward K. Y. Chen, Mr. Paul M. F. Cheng, Dr. Raymond K. F. Ch'ien, Mr. Erik B. Christensen, Mr. Vincent K. Fang, Mr. Hans Michael Jebsen, Mr. Christopher P. Langley, Mr. Quinn Y. K. Law, Ms. Doreen Y. F. Lee, Mr. T. Y. Ng and Mr. James E. Thompson.