Business Review

PROPERTY

Wharf Estates Limited
- Harbour City
- Times Square
- Plaza Hollywood

Wharf Estates Development Limited

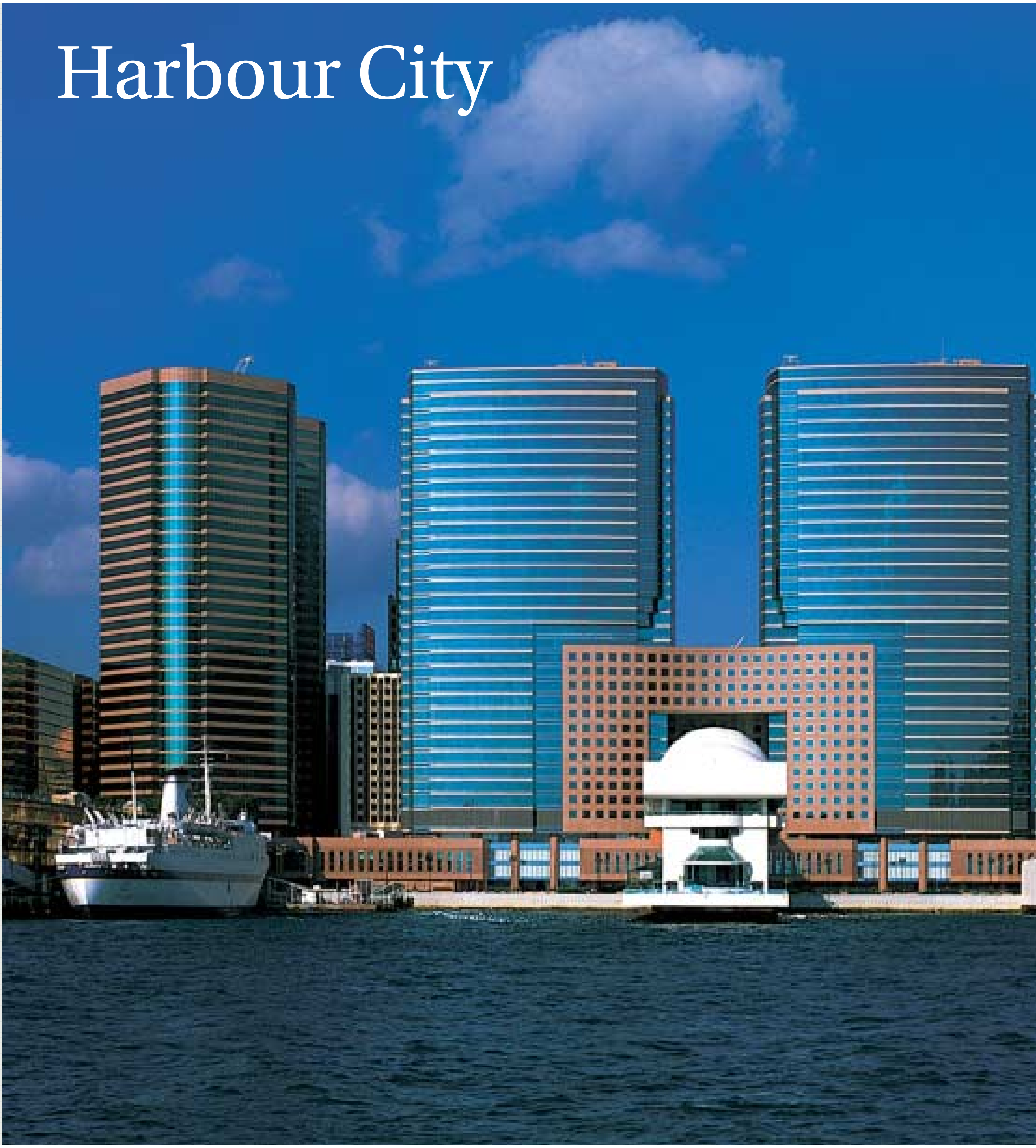
CME

Wharf Communications Limited
- i-CABLE
- Wharf T&T

CHINA

Wharf China Limited
- Wharf Estates China
- Marco Polo Hotels
- Modern Terminals

Harbour City



Harbour City – 8.4 million square feet of prime office, retail, serviced apartment, hotel and club space in the heart of Tsim Sha Tsui waterfront.

Harbour City

Balance Sheet (Extract)

as at December 31, 2004

	HK$M
Properties	41,820
Net current liabilities	(1,453)
Other non-current liabilities	(278)
Net business assets (before debts)	40,089

Gross Revenue

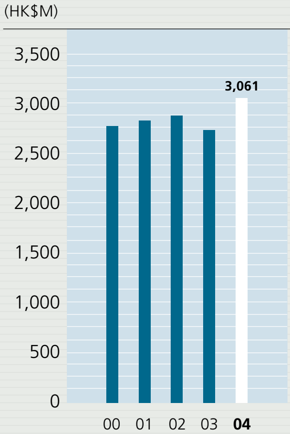
	2004 HK$M	2003 HK$M
Office – Gateway I & II	**628**	643
Office – Other Towers	**317**	338
Retail	**1,193**	1,032
Serviced Apartment	**193**	186
Hotel and Club	**730**	533
	3,061	2,732

Operating Profit

	2004 HK$M	2003 HK$M
Office – Gateway I & II	**526**	556
Office – Other Towers	**249**	264
Retail	**842**	768
Serviced Apartment	**120**	110
Hotel and Club	**252**	105
	1,989	1,803

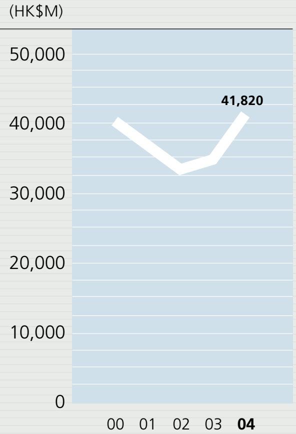
Gross Revenue

(HK$M)



Property Value

(HK$M)



Harbour City's office occupancy climbed steadily from 2003 year-end's 88% to 2004 year-end's 95%.

Office

Throughout 2004, the Tsim Sha Tsui office market was strongly driven by the economic growth in Pearl River Delta (PRD) and the swift economic recovery of Hong Kong. Across most commercial districts, keen demand from insurance and trading sector tenants resulted in increase in rental levels as well as capital valuation.

Harbour City's office occupancy climbed steadily from 2003 year-end's 88 per cent to 2004 year-end's 95 per cent (see table on page 13). Based on the latest transaction at Tower 6 of Gateway II at HK$30 per square foot, it is believed that there is room for further improvement in the office rental market in 2005. With 75 per cent retention rate for office tenancies that expired in 2004 and new letting commitments totalling about 750,000 square feet, there was a net take-up of 450,000 square feet during the year under review. Major leasing transactions in 2004 included AIA, Berytos, Hanjin Shipping, Intergroup, New Wave Logistics, Olympus, etc, totalling more than 170,000 square

Office Occupancy & Rental at Harbour City in 2004

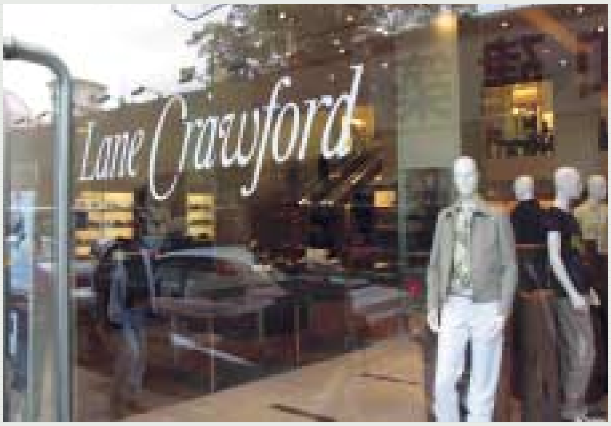
		Gateway II	Gateway I	Others
Total GFA (sq ft)		1,570,000	1,128,000	1,737,000
Occupancy at year end		95.6%	98.0%	95.0%
Rental (average spot rate)	**— Beginning of 2005**	HK$21	HK$19	HK$16
	— Beginning of 2004	HK$19	HK$16	HK$13

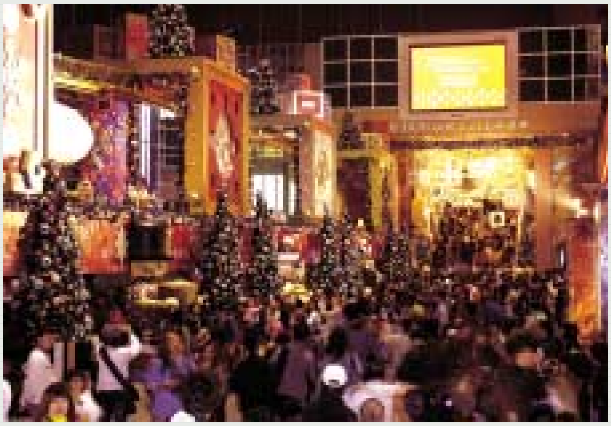
feet. Anchor tenants such as CPF East Asia, Japan Airlines, Kenfair, May Department Store and Zurich Insurance also renewed their leasing agreements during the year under review.

Tsim Sha Tsui is fast becoming Hong Kong's core Central Business District for companies associated with the Pearl River Delta and other mainland markets. Thanks to the second stage of the Closer Economic Partnership Arrangement (CEPA II) launched in August of 2004, Chinese private enterprises are encouraged to invest and set up offices in Hong Kong. Chinese small- to medium-sized companies can now make use of Hong Kong's well-established trading platform to enter the world market, creating further demand on the office market in the years to come. The current economic momentum will likely stimulate continuous upgrading needs, creating new demand for Grade A office space. That, coupled with the absence of major new supply in core districts, will see the office leasing market growing further in 2005.

In addition, Tsim Sha Tsui's proximity to major transportation links and Hong Kong's increasing reliance on the mainland market have made Tsim Sha Tsui a natural choice of office location for multinational, mainland and local enterprises. It is expected that multinational and domestic companies engaged in China businesses will become an increasingly important driver of Grade A office take-ups, following the trend within the financial sector and further facilitating the ripple effect of rental recovery from Central to Tsim Sha Tsui in the near future.

Tsim Sha Tsui is fast becoming Hong Kong's core Central Business District for companies associated with the mainland market. Rental levels of Harbour City offices are expected to continue to rise.





(left) *Widely regarded as the "Champs Elysées" of Hong Kong, Canton Road continued to witness a growing presence of top-tier retailers.*

(right) *Harbour City's festive mechanical decoration is a not-to-be-missed scenic spot during Christmas.*

Harbour City: Retail Tenant Mix (by Area and Rental)

as at December 31, 2004

	% by Area	% by Rental
Restaurant, Fast Food, F&B	24.4	10.0
Fashion	21.6	35.7
Department Stores, Confectionery Products	13.7	9.4
Leather Goods — Shoes, Bags & Related Trades	8.1	16.8
Children's Wear & Related Trades, Toys	7.7	4.8
Jewellery, Beauty and Accessories	5.5	9.9
Sports Wear	5.5	5.0
Electrical & Audio-visual Equipments	3.8	3.1
Others	9.7	5.3
	100.0	100.0

Retail

The launch of the Individual Traveller Scheme (ITS) in mid-2003 led to a strong influx of mainland tourists into Hong Kong. As recorded by the Hong Kong Tourism Board (HKTB), the mainland continued to top the chart of tourist arrivals in Hong Kong in 2004, reaching 12.25 million. This marked a new high from 2002's 6.82 million and 2003's 8.47 million, representing a growth of 80 per cent and 44.6 per cent respectively. This, together with an increase of tourist arrivals from all other major segments, gave rise to a surge in local confidence, resulting in a sharp upswing in Hong Kong's retail market.

Under this operating environment, **Harbour City** achieved an average occupancy of 98 per cent throughout 2004. All new leases and renewals recorded favourable rental growth. In December 2004, **Harbour City** tenants recorded an average of more than HK$1,000 in terms of sales per square foot, representing a new high since 1998. Apart from the sales growth enjoyed by tenants, leasing activities in **Harbour City** remained active. On-going re-merchandising in trade mix and promotional efforts continued to attract shoppers as well as quality and prestigious brand names to **Harbour City**. During the year, a number of international brand names such as Canali, cK Calvin Klein, Emporio Armani Accessories, FCUK, Marc by Marc Jacobs, Montegrappa, Mulberry, New Balance, Nike Women, Oregon Scientific, Plastiq, Replay, Swank Ladies, Tag Heuer, Vacheron Constantin, Vivienne Westwood and more signed up to open outlets in **Harbour City**.

Widely regarded as the "Champs Elysées" of Hong Kong, Canton Road continued to witness a growing presence of top-tier international retailers. From Gucci, Hugo Boss, Joyce, Lane Crawford, Louis Vuitton, Prada, Salvatore Ferragamo and YSL at **Harbour City** to Cartier, Celine, Dior, Dunhill, Ermenegildo Zegna, Escada, Fendi and Hermès located just across the street, the Canton Road area has become a not-to-be-missed attraction for tourists as well as affluent local shoppers.

Food and beverage outlets at **Harbour City** also enjoyed healthy business growth in 2004. Habitu The Pier, Nagoyaka Tei and The Stonegrill are new food and beverage outlets located at the newly-renovated Marine Deck at Ocean Terminal. These newcomers, together with Double Star Café, Panash, rice paper and Signature Cuisine, which also joined **Harbour City** during the year, further broadened the mall's culinary selection and have all been well-received since their openings. **Harbour City** will continue to channel efforts into widening its food and beverage spectrum by introducing additional specialty cuisines to satisfy palates of all kinds.

On-going trade-mix enhancement and promotional efforts continue to attract shoppers and quality retailers to Harbour City.

Harbour City: Portfolio Information

	Area (sq ft)	Gross Revenue (HK$M)	Average Occupancy (%)	Year-end Valuation (HK$M)	Anchor Tenants
Office					
Gateway	2,698,000	628	90	13,797	AIA, CMG Asia, DuPont, GlaxoSmithKline, Hallmark, JAL, Karstadt Quelle, MGA Entertainment, MLC, Nike, Olympus, Prominent Apparel, Prudential, Sears, Sony
Other Towers	1,737,000	317	92	5,717	APL, Hasbro, Hitachi, Mattel, May Department Store, MGB Metro-Group, NYK Logistics, Simba-Toys, Zurich Life Insurance
Retail	1,913,000	1,193	98	13,444	agnès b., Broadway, Burberry, City'Super, Cova, G.O.D., Giga Sports, Gucci, Habitu The Pier, Hugo Boss, Joyce, Lane Crawford, Louis Vuitton, Marks & Spencer, Prada, Salvatore Ferragamo, Toys"R"Us, Ye Shanghai, Yves Saint Laurent
Serviced Apartment	670,000	193	78	5,100	
Hotel and Club	1,360,000	730	91	3,762	

(above) *Cruise Passenger Waiting Hall at Ocean Terminal, Harbour City.*

(below) *The Canton Road countdown party on Christmas Eve has become an annual mega event of the city.*

A powerhouse concept was also implemented to add excitement and stimulate spending. SportX, which opened in June upon completion of Ocean Terminal's revamp, not only houses a comprehensive range of sportswear labels, but also features a multi-purpose sports court, a putting area and a climbing wall. Other trade clusters in Ocean Terminal include the recently expanded KidX, Faces — the largest cosmetic centre in town, and LCX — which targets the young and trendy. An audio-visual avenue was also introduced in Ocean Centre, featuring Broadway, Chung Yuen, Fortress and a number of specialty shops.

As part of its on-going value creation exercise, **Harbour City** announced plans to turn a 45,000-square-foot carparking area located on the first floor of Ocean Centre into retail space at a cost of HK$145 million, further reflecting the view that there is a buoyant outlook for the sector. The renovation is expected to be completed by early 2006.

The competitive landscape amongst shopping malls is ever increasing. **Harbour City** will continue its efforts on trade-mix enhancement and image building. On-going marketing and promotional efforts are afoot to sustain the momentum and to ensure customers' loyalty.

HKTB estimated that Hong Kong would continue to witness healthy growth in tourist arrivals in year 2005. Tourists from the mainland will continue to rise due to the extension of the ITS to more cities. Additionally, with the introduction of Disneyland and the Hong Kong Wetland Park in 2005, family travel and business-cum-leisure trips to Hong Kong will be further boosted. In March 2005, HKTB forecasted a robust 23.4 million tourist arrivals to Hong Kong for 2005, a seven per cent increase compared to 2004's 21.8 million. As a tourist and entertainment hub, Tsim Sha Tsui will continue to benefit from a steady increase of tourists and affluent shoppers. It is expected that retail rentals will continue to be on an upward trend.

Serviced Apartment

While there was a growth in business visitors to Hong Kong for deals and trade fairs in 2004, rebounding home prices and improved local sentiment have turned some apartment tenant prospects toward home ownership.

Notwithstanding this, Gateway Apartments' occupancy grew sharply last year from January's average of 68 per cent to 83 per cent at year-end. In addition to a pick-up in occupancy rate, there was also a moderate growth in rental level during 2004. With its reputable brand name, excellent service and prime location with panoramic views overlooking the world-famous Victoria Harbour, Gateway Apartments continued to be a favourite among senior executives from multinational corporations. About 67 per cent of tenancies have a duration of 12 months and above, while another 15 per cent have a duration of six to 12 months; the remaining 18 per cent are committed for periods of less than six months.

Gateway Apartments' occupancy grew sharply last year from January's average of 68% to 83% at year-end.

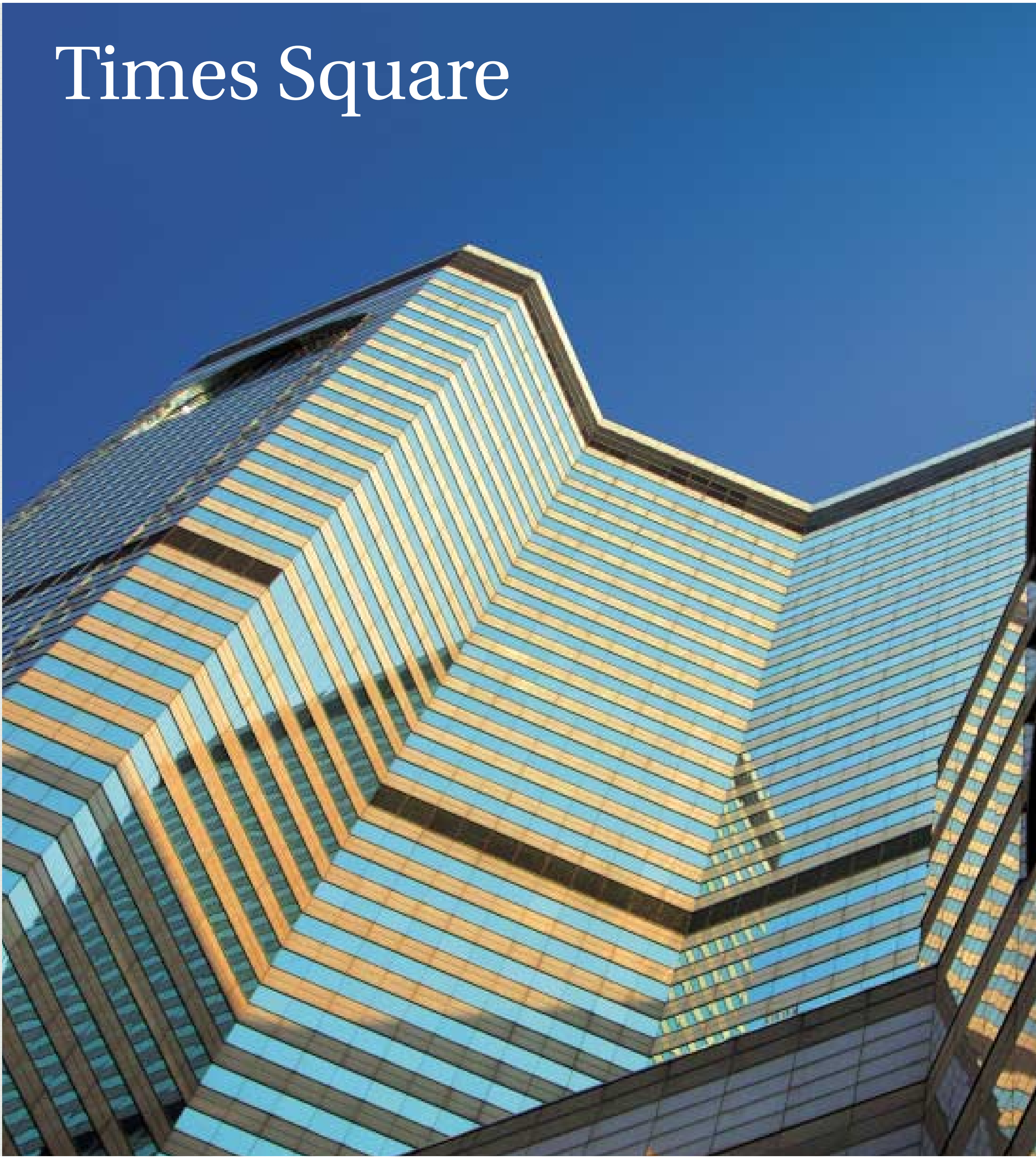
Hotel

The operating environment for the hotel industry remains promising in light of the encouraging tourist arrivals of 21.8 million recorded in 2004 by the HKTB. There was an overall growth of 40.4 per cent when compared with 2003, when Hong Kong was adversely affected by SARS in the second quarter.

Led by this strong recovery, the three hotels at **Harbour City** together recorded a 43 per cent increase in revenue compared to a year ago. The consolidated occupancy for the three Marco Polo hotels at **Harbour City** increased significantly from 67 per cent in 2003 to 91 per cent for the year under review. The average occupancy rates for The Marco Polo Hongkong Hotel, The Marco Polo Gateway and The Marco Polo Prince in 2004 were 88 per cent, 93 per cent and 94 per cent respectively.

The consolidated occupancy for the three Marco Polo hotels increased significantly from 67% in 2003 to 91% in 2004.

Times Square



Times Square – a landmark property in Causeway Bay, Hong Kong's busiest shopping district.

Times Square

Balance Sheet (Extract)

as at December 31, 2004

	HK$M
Properties	14,800
Net current liabilities	(237)
Other non-current liabilities	(249)
Net business assets (before debts)	14,314

Gross Revenue

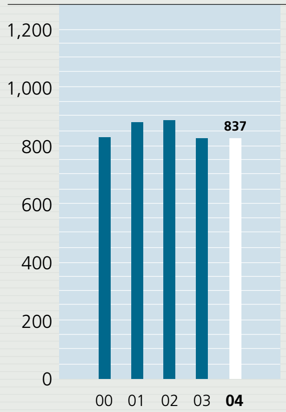
	2004 HK$M	2003 HK$M
Office	**237**	256
Retail	**600**	585
	837	841

Operating Profit

	2004 HK$M	2003 HK$M
Office	**187**	206
Retail	**508**	497
	695	703

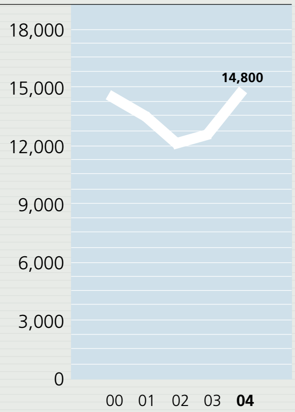
Gross Revenue

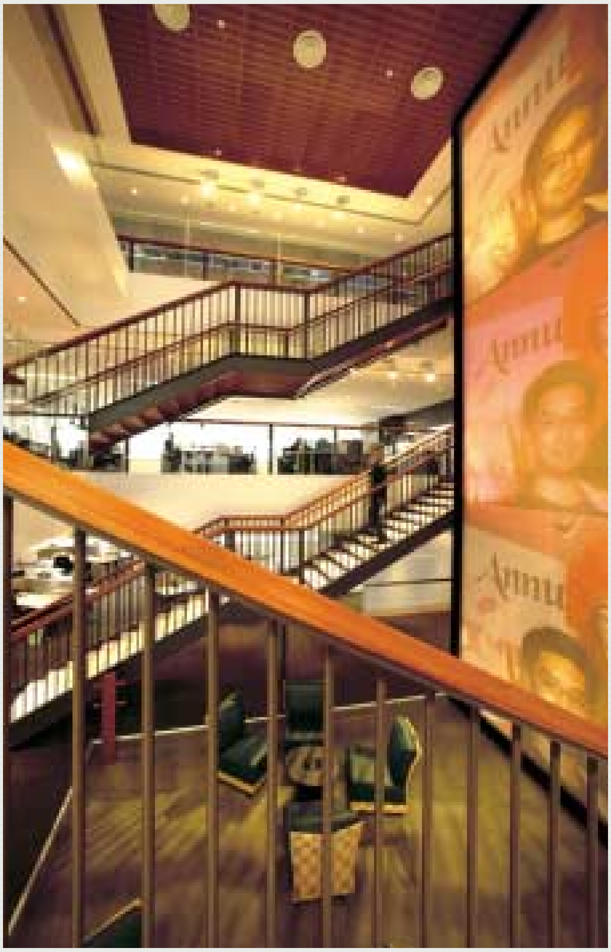
(HK$M)



Property Value

(HK$M)





Times Square is a preferred office location for multinationals. MLC, a member of National Australia Bank, the largest financial service institution listed on the Australian Stock Exchange, joined Times Square in August, 2004.

Office

As a landmark property in Causeway Bay, **Times Square** is a preferred location for multinationals engaged in the service and consumer goods industries. The occupancy rate of **Times Square** offices reached 95 per cent at the end of 2004. Total floor area committed in 2004 was 210,370 square feet, almost doubled that for 2003 (113,090 square feet).

Times Square: Portfolio Information

	Area (sq ft)	Gross Revenue (HK$M)	Average Occupancy (%)	Year-end Valuation (HK$M)	Anchor Tenants
Office	1,033,000	237	87	5,517	AIA, AT&T, Boston Consulting, Coca-Cola, Disney, L'Oreal, Lucent, MLC, NCR, Royal Bank of Scotland PLC, Shell
Retail	936,000	600	96	9,283	Bally, Broadway, City'Super, D-mop, FCUK, Fortress, Gucci, i.t, Lane Crawford, Mango, Marks & Spencer, Max Mara, PageOne Bookshop, Salvatore Ferragamo, UA Cinema

New tenants signed up in 2004 included Avex Asia Ltd, Bay-in Resources, DHC (Hong Kong) Ltd, DTS, Experian Asia Pacific Pty Ltd., Flint Hills, Macromedia, Proudfoot (Netherlands), Sisley and United Engineers Development. Apart from new leases, some existing tenants also expanded their offices due to an increase in business activities in 2004. These included AIA, Hitachi, Lane Crawford, L'Oreal, Market Catalyst and Panalpina. During the year under review, approximately 73 per cent of all expiring leases were renewed and favourable rental growth has been recorded.

With its superb location, professional management, state-of-the-art facilities and competitive rental package, **Times Square** at Causeway Bay remains a preferred office location on the island side. It is expected that the limited supply of Grade A offices in Central in the next few years will help push up the rental rates in Causeway Bay during 2005.

(above) *Times Square is a landmark property in Causeway Bay with professional management and state-of-the-art facilities.*

(left) *Times Square's office occupancy reached 95% at 2004 year-end.*

Times Square's retail occupancy maintained at about 96% in 2004. Most retail tenants enjoyed satisfactory improvement in sales per square foot during the year.

Retail

With the upswing of the retail market, **Times Square**'s retail occupancy maintained at about 96 per cent and favourable rental growth was recorded during the year. A host of popular international brands including Anna Sui, Billabong, Bose, D-mop, FCUK, Guy Laroche, Lacoste, Lafuma, Lloyd, New Balance, Oregon Scientific, OZOC, Red Dragon, S.T. Dupont, Tommy Hilfiger and The North Face opened shops at **Times Square** during the year under review. Four exciting new restaurants - California Pizza Kitchen, Chung's Cuisine, Oceanna and Super Star Seafood Restaurant have met with an enthusiastic market response since opening in 2004.

Most retail tenants enjoyed satisfactory improvement in sales per square foot including anchor tenants such as City'Super, Marks and Spencer, Lane Crawford and others. Supported by buoyant consumer sentiment, City'Super expanded its operation in 2004 by taking up new space. The popular PageOne Bookshop was consequently relocated to the ninth floor. Not only was this an extension of the themed-floor concept, but traffic improvement has also been observed following the strategic move.

Times Square stands to benefit from growing tourist arrivals and buoyant consumer sentiment.

Refurbishment on Basement 2 was completed in August with the addition of quality brands including Chow Tai Fook, DHC, Dr. Ci:Labo, J's Duet, Laneige, Leonidas, Mac Look, Nici and Tissot. The enhanced tenant mix proved to be a huge success with most retailers on Basement 2 recording double-digit growth in their sales performance compared with the same period last year. Anchor food and beverage outlets Crystal Jade La Mian Xiao Long Bao, Genki Sushi and Watami were constantly seen with long queues of patrons.

Ideally located in the most popular shopping hub Causeway Bay, **Times Square** is expected to record growth in 2005 in terms of both sales revenue and rental rates driven by growing tourist arrivals and buoyant consumer sentiments.

Times Square: Retail Tenant Mix (by Area and Rental)
as at December 31, 2004

	% by Area	% by Rental
Restaurant, Fast Food, F&B	27.1	14.3
Department Stores, Confectionery Products	21.2	15.0
Fashion	16.9	29.6
Electrical & Audio-visual Equipments	14.8	10.5
Jewellery, Beauty and Accessories	8.2	17.2
Sports Wear	6.5	8.7
Others	5.3	4.7
	100.0	100.0

Plaza Hollywood

Thanks to its convenient location, its successful trade mix and an improvement in local sentiment, Plaza Hollywood recorded double-digit growth in both foot and vehicle traffic in 2004. The average occupancy rate maintained at about 98 per cent with most retailers recording more than 10 per cent year-on-year growth in average sales per square foot during the year under review. Anchor tenant Hong Kong Best Denki expanded during 2004 and became the largest electrical store in Kowloon East. On-going trade-mix enhancement continued to draw shoppers as well as quality retailers to Plaza Hollywood. Crowd-pleasers like Dining Room, G. Sushi and Strawberry Forever Dessert Café opened new outlets in Plaza Hollywood, widening the mall's food and beverage choices.

Plaza Hollywood recorded double-digit growth in both foot and vehicle traffic in 2004.

Wharf Estates Development Limited

Balance Sheet (Extract)
as at December 31, 2004

	HK$M
Properties	6,463
Interest in Sorrento and Bellagio	1,234*
Property inventory and development	1,426
Second mortgage debtors	45
Net current liabilities	(112)
Net non-current liabilities	(83)
Net business assets (before debts)	8,973

* *Include 1/3 interest in Bellagio and 40% interest in Sorrento, of which 20% held through Harbour Centre Development Limited, a 67%-owned subsidiary*

Due to the improved economic outlook and market sentiment, 2004 recorded the highest volume of property transactions since 1997. The total number of purchase and sales transactions increased by more than 40 per cent compared to 2003, the majority of which were residential properties.

Bellagio

Bellagio, a joint-venture development equally owned by Wharf, Wheelock and Wheelock Properties Ltd, is located in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge. Phase I and II, providing a total of 1,704 residential units, were completed in late 2002. Cumulative sales reached 1,690 units (99 per cent sold), realising proceeds of about HK$4.1 billion.

Construction of Phase III and IV, comprising a total of 1,641 residential units, commenced in March 2003 with target completion in the first quarter of 2006. Pre-sales for Tower 2 and Tower 5 (Total: 844 units) were launched in early September 2004 and met with favourable market responses. At the end of December 2004, cumulative sales reached 684 units (81 per cent sold), realising proceeds of about HK$2.5 billion. Pre-sales for Towers 1 and 3 are expected to be launched in 2005.

Pre-sales for Bellagio Towers 1 and 3 are planned for 2005.

Sorrento

Located above the Kowloon Station, Sorrento is a joint-venture project between MTRC and a five-member consortium equally owned by Wharf, Harbour Centre Development, Wheelock, Wheelock Properties Ltd and a wholly-owned subsidiary of Wheelock Properties Ltd. Pre-sales for Phase II (Towers 1 and 2, total: 854 units) commenced in November 2002. At the end of December 2004, cumulative sales reached 827 units (97 per cent sold), realising proceeds of about HK$5.6 billion.

Wharf Peak Portfolio

A sharp upswing in Hong Kong's economy, particularly the swift recovery of the finance sector, and the corresponding improved local sentiment, helped boost the luxury residential market. Mountain Court and Chelsea Court recorded 83 per cent and 100 per cent occupancy respectively as at the end of 2004. No. 1 Plantation Road, providing 48 deluxe apartments, was 81 per cent let at the end of 2004. The average rental rate also recorded a favourable gain during the period under review.

Redevelopment of No. 3-5 Gough Hill Path, comprising five deluxe houses, has started. Superstructure works commenced in August 2004 and completion is targeted for the third quarter of 2006. Pre-sales are expected to take place in the fourth quarter of 2005.

(above) *Cumulative sales of Sorrento Phase II reached 827 units at the end of 2004.*

(below) *Mountain Court recorded 83% occupancy at the end of 2004.*

Property List

	Project Nature	GFA (sq ft)	% Owned	Status
World Trade Square	Office/Retail	395,000	100%	For Lease
No. 1 Plantation Road	Residential	97,000	100%	For Lease
Mountain Court	Residential	49,900	100%	For Lease
Chelsea Court	Residential	43,000	100%	For Lease
Various units of Strawberry Hill	Residential	37,000	100%	For Lease
77 Peak Road	Residential	32,000	100%	For Lease
Sorrento Phase I & II	Residential	2,531,000#	33%*	For Sale
Bellagio Phase I/II	Residential	1,525,300#	33%	For Sale
Bellagio Phase III/IV	Residential	1,591,800##	33%	For Pre-sale
No. 60 Victoria Road	Residential	48,800	67%*	Under Construction
No. 3-5 Gough Hill Path	Residential	24,700	100%	Under Construction
Cable TV Tower South	Retail/Hotel	596,000	100%	Under Design Planning
Kowloon Godown	Residential/Hotel	1,078,000	100%	Under Planning Submission
Yau Tong Godown	Retail/Residential	244,000	100%	Under Planning Submission
Yau Tong JV Project	Retail/Residential	9,041,000	15.6%	Under Planning Submission

\# *Substantially sold*
\## *Partly pre-sold*
* *Effective ownership*

i-CABLE Communications Limited

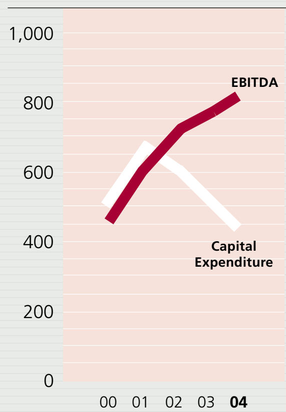
Balance Sheet (Extract)

as at December 31, 2004

	HK$M
Non-current assets	2,297
Net current liabilities	(360)
Non-current liabilities	(109)
Net assets	1,828
Capital and reserves	
Share capital	2,019
Reserves	(191)
	1,828

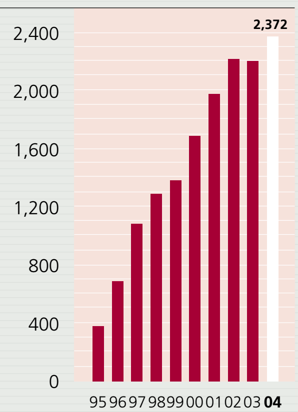
EBITDA and CAPEX Historical Trend

(HK$M)



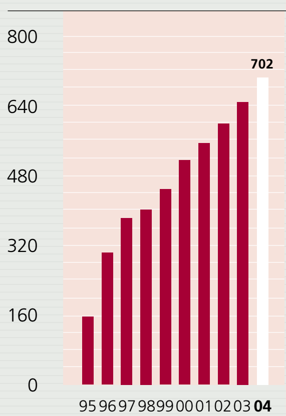
Total Turnover

(HK$M)



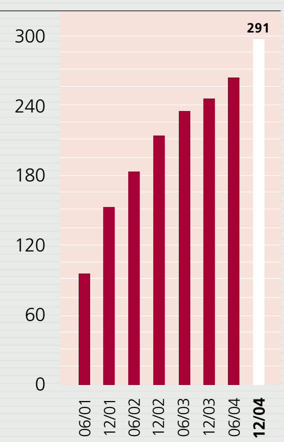
Pay TV Subscribers

(in thousands)



Broadband Subscribers

(in thousands)



With 22 new channels launched in 2004, CABLE TV now offers a total of 92 channels.

Buoyed by an improving economy, consolidated net profit of the listed **i-CABLE** rose by 29 per cent in 2004, surpassing all previous records, despite intensified competition in its core markets. Respectable subscription growth in both Pay TV and Broadband sectors through strong programming and effective marketing initiatives enabled **i-CABLE** to weather pressures from competition with a degree of success. The timely introduction of the company's own triple-play service (viz, broadband, television and voice) during the last quarter of the year, further enhanced its competitiveness.

At the same time as the core businesses reported healthy growth, **i-CABLE**'s content service has been reaching out, both within the domestic market and beyond Hong Kong, beyond residential homes and commercial places. These developments, which leveraged on the company's content production and aggregation capabilities, have begun to add new dimensions to its potential market. The company's content has now reached the mainland, the Americas and passengers on flights and will soon be available in Southeast Asia.

Pay TV

Spurred on by strong programming, subscription growth and airtime sales growth, performance of this core business continued to be robust.

Pay TV subscribers grew by seven per cent year-on-year to 702,000 at the end of 2004, attributable to the exclusive broadcast of the popular EURO 2004 football tournament in the summer and other programming and marketing initiatives during the rest of the year.

During the year under review, **i-CABLE** continued to expand its programming platform with the introduction of more channels and packages, with a view to enhancing its attractiveness to viewers. Important acquisition in 2004 included English Premier League telecasting rights, which gave rise to **i-CABLE**'s revamp of the sports platform in August. Further enhancing the programme offering of the company's Pay TV service, a total of 22 new channels were launched, including the EPL Channel, Soccer Betting Channel and NBA TV, allowing viewers 24-hour access to the most popular basketball tournament in Hong Kong, etc. for inclusion in the Basic Package or for premium subscription. CABLE TV now offers a total of 92 channels with 48 channels included in the basic package. Apart from launching new channels, a Digitised Sports Centre particularly catering for the upcoming FIFA World Cup 06 was also in full operation during 2004.

During mid-year, **i-CABLE** substantially completed its migration to the digital transmission platform, which enabled the deployment of more efficient countermeasures against the perennial problem of piracy.

i-CABLE's introduction of its own triple-play service further enhanced its competitiveness.

i-CABLE's Pay TV subscribers grew by 7% year-on-year to 702,000 at the end of 2004.

Throughout 2004, the company has also made efforts to expand its business beyond the conventional residential and commercial markets. Leveraging on its content production capability, **i-CABLE** is now the sole supplier of local news service to Hong Kong's flag carrier, Cathay Pacific Airways, with an in-flight channel on its planes. The company has also reached an agreement with KCRC to be the sole content provider and exclusive commercial-airtime sales agent for television service on board its trains.

2004 saw remarkable growth of the commercial airtime sales business, with total revenue growing 54 per cent over 2003. Such growth was driven by the company's on-target multi-channel advertising approach and more successful penetration among advertisers.

i-CABLE will continue to explore other media exposure for new business opportunities both within and outside of Hong Kong while at the same time, continuing to expand its market share in the local Pay TV market through programme enhancement and innovative marketing. The company is confident that with its proprietary content, inclusive of the English Premier League and the FIFA World Cup 06 attraction, it can prevail over the competition.

Broadband subscribers reached 291,000 at the end of 2004.

Broadband and Internet Service

The core Broadband Internet access business is back on a growth track despite increasing commoditisation in the market as a result of keen competition. Broadband subscribers grew by 13 per cent to 291,000 at the end of 2004 as subscription picked up in the second half through successful service enhancement and the introduction of new bundled packages. ARPU for the full year recorded a nine per cent growth to HK$140 but downward pressure resumed in the second half of the year.

During the year under review, the company's timely introduction of its triple-play offers, which followed the launch of VoIP service, further enhanced its competitiveness. Furthermore, **i-CABLE**'s leading content-provision position was further enhanced with the conclusion of additional carriage agreements with mobile operators to open up mobile content opportunities in the mainland.

Wharf T&T

The economic recovery did not put the FTNS market back on the growth curve. Continuing over-capacity for what has become largely a commodity drove competition even harder. With customer "liquidity" diminishing further, the battle for market share intensified but changes in market share slowed down.

In response to the new Type II regime, the company embarked on a major business transformation in the third quarter of 2004. In the residential sector, the company rolled out Digital HomeLine over **i-CABLE**'s HFC network. In the business sector, a new network rollout and sales strategy was adopted. Migration of existing customer lines away from Type II also started in earnest in both the residential and business sectors. Though the need to transform affected performance in the short term, it has helped pave the way for a more rewarding business model in the longer term.

Wharf T&T has achieved the milestone of free cash flow during the year.

Balance Sheet (Extract)

as at December 31, 2004

	HK$M
Fixed assets	2,808
Net current liabilities	(200)
Other non-current liabilities	(25)
Net business assets (before debts)	2,583

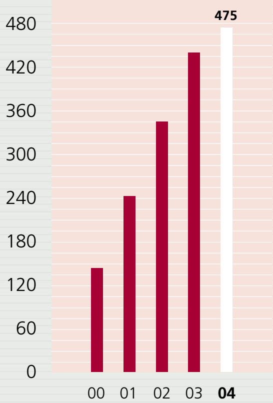
Results Summary

	2004 HK$M	2003 HK$M	**Change %**
Turnover	**1,252**	1,235	1
Cost of Sales	**(488)**	(472)	-3
Gross Profit	**764**	763	0
Operating Expenses	**(377)**	(376)	0
EBITDA	**387**	387	0
ITD&A	**(350)**	(333)	-5
Operating profit	**37#**	54*	-31

** Before non-recurring fixed assets write off of HK$85 million*
 # Before non-recurring fixed assets write off of HK$298 million

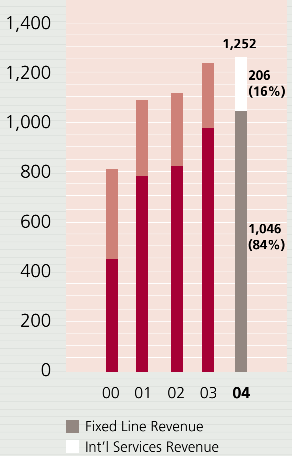
Fixed Line Growth

(in thousands)

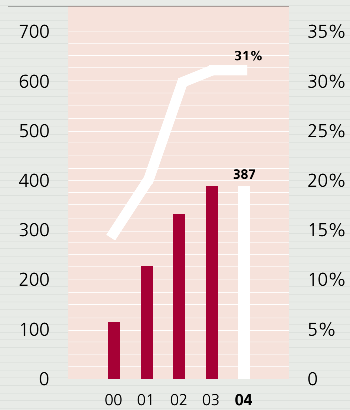


Total Revenue

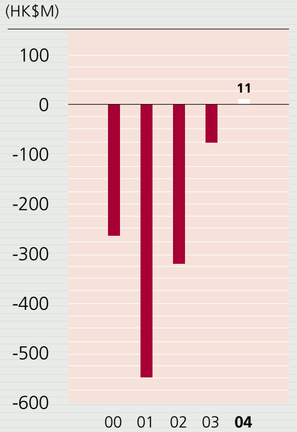
(HK$M)



EBITDA & EBITDA Margin
(HK$M)



Free Cash Flow
(HK$M)



Wharf T&T has achieved the milestone of free cash flow during the year. The fixed line installed base grew by 42,000 or 10 per cent year-on-year to reach 475,000, representing an overall market share of 12 per cent. Of this installed base, 319,000 lines were for business service and 156,000 lines for residential service. Business lines increased by 26,000 or nine per cent during the year under review while residential lines grew by 16,000 or 11 per cent. The company's market share for business lines and residential lines was 18 per cent and seven per cent respectively.

Total outgoing IDD volume in 2004 increased by 23 per cent to 466 million minutes compared to the year before. With the establishment of EC Telecom Limited, a wholly-owned subsidiary focusing on IDD with a much more competitive cost structure, IDD007 retail activities subsided to preserve margin and protect the legacy customer base.

Business Market

As a group, business customers accounted for 76 per cent of **Wharf T&T**'s total revenue in 2004.

Among the various carrier and wholesale sectors, **Wharf T&T** remained dominant in non-captive ETS hosting with a 95 per cent market share. A combination of service quality, pricing and account management enabled **Wharf T&T** to become more successful in the high-value data business of the international carrier sector. Significant progress was also achieved in the development of the wholesale/refiling IDD business. This business sector continued to demonstrate rapid growth during the year.

During the period, the company continued to successfully penetrate corporate and multi-national sectors through its superb services and innovative solutions. New premium customers included ATOS Origin, Statestreet Bank, Wang Tai, etc. New products including Supertone and Multipoint Video Conferencing services helped the company create reasons for change in this sector. As for the business Internet access market, the installed base of our Broadband Webtone service recorded significant growth during the year under review. In a bid to further strengthen the bond with **Wharf T&T**'s customer base, a new Customer Contact Management Centre (CCMC) was established in 2004.

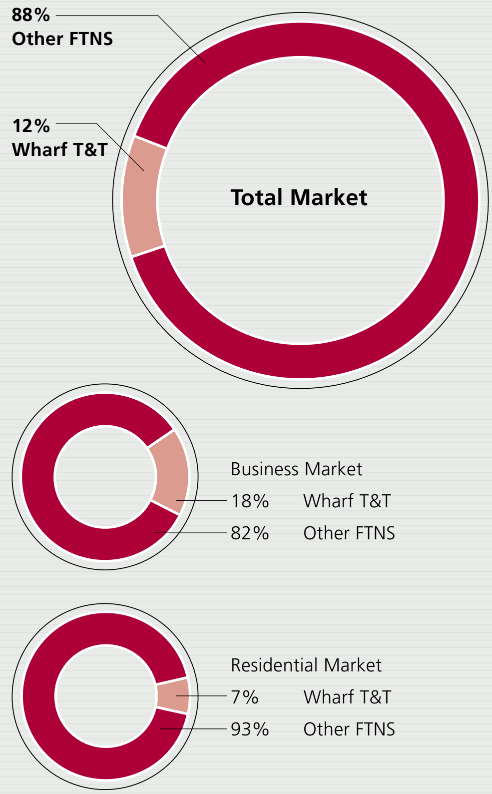
Consumer Market

As a group, residential customers accounted for 24 per cent of **Wharf T&T**'s total revenue in 2004.

Riding on the strategic repositioning of the company, Digital HomeLine (DHL) was rolled out with aggressive selling through various channels including direct sales, telesales and bundled offers via **i-CABLE** and CABLE TV. Simultaneously, a conversion programme was rolled out to migrate existing HomeLine customers, served via Type II Interconnection, to DHL over the HFC network. The prospect of DHL hinges on timely reduction of acquisition cost, rebuilding of the sales force and resolving certain technical glitches within the first quarter of 2005.

During the year under review, despite exchanges of winback programmes offered by the major players, IDD margins improved, which was attributable to the legacy customer base.

Fixed Line Market Share



Wharf T&T's business customers accounted for 76% of its total revenue in 2004.

Wharf Estates China Limited

Balance Sheet (Extract)

as at December 31, 2004

	HK$M
Investment properties	4,605
Other properties and fixed assets	876
	5,481
Property inventory and development	1,489
Net current liabilities	(371)
Other non-current liabilities	(641)
Net business assets (before debts)	5,958

Wharf China continued to develop and manage high-quality investment properties in major cosmopolitan cities in China through its reputable brand "**Times Square**".

Beijing Capital Times Square is a retail and office complex with about 1.3 million square feet in gross floor area (GFA). It is strategically located in the Xiden area, at the intersection of West Changan Avenue and Xuanwu Men Nei Avenue. Although the Central Government has implemented austerity measures since early 2004 to slow down economic growth, the complex maintained an office average occupancy rate of 91 per cent throughout 2004, a six per cent increase from 2003's 85 per cent.

The 1.2 million-square-foot Shanghai Times Square is a retail, office and apartment complex on Huai Hai Zhong Road, at the very heart of Shanghai's CBD. It has excellent accessibility with convenient links to major highways and a nearby underground railway station. Similar to Beijing Capital Times Square, in spite of the impact of Central Government's austerity measures on the Shanghai economy, occupancy rates of the office, residential and retail portions in 2004 improved to 96 per cent, 86 per cent and 81 per cent respectively.

Chongqing Times Square, with about 1.6 million square feet of GFA, is located at the City's central retail area, Liberation Statue Square, between Zou Rong Road and Min Zu Road. It is a retail, office and

Both Shanghai Times Square (left) *and Beijing Capital Times Square* (right) *recorded growth in office occupancy in 2004.*

apartment complex comprising four residential towers atop the retail/commercial podium. Residential Towers A, B and C were completed and sold in April 2003. Tower D with a total of 302 units was completed in November 2004, and 227 apartment units (75 per cent) have already been sold. The retail portion progressed according to plan and budget with the opening of a 570,000-square-foot department store taking place in December 2004.

Wuhan Times Square, the Group's fourth **Times Square** project, is located at Yan Jiang Da Dao fronting the Yangtze River in Hankou, Wuhan. With about 2.4 million square feet of GFA, it is planned to be primarily a residential and office-apartment complex. Superstructure works have commenced and target completion for the entire development is in the fourth quarter of 2007.

The Group's fifth **Times Square** project Dalian Times Square is located along Ren Min Road in the Zhongshan District of Dalian. It will be developed into a 1.9 million-square-foot retail/apartment complex. Foundation works are scheduled to start in the first quarter of 2005 and completion for the whole project is targeted for the fourth quarter of 2007.

In Shanghai, foundation works for the commercial development located at 1717 Nan Jing Xi Road in the Jingan District of Shanghai have commenced. The 1.6 million-square-foot complex comprises a Grade A office tower with cutting-edge specifications and state-of-the-art facilities plus a retail annex boasting a walking linkage to a major subway station. Completion for the whole development is targeted for 2008.

The Group's other property projects in Shanghai, including Shanghai Wellington Garden and Shanghai Parc Royal are progressing according to schedule.

Wuhan Times Square is targeted for completion by the fourth quarter of 2007.

China Property List

	Project Nature	GFA (sq ft)	Status	Completion
Beijing Capital Times Square	Office/Retail	1,295,000	For Lease	1999
Shanghai Times Square	Office/Retail/Residential	1,211,000	For Lease	1999
Chongqing Times Square	Office/Retail/Residential#	1,570,000*	For Lease / Sale	2004
Shanghai Wellington Garden	Residential#	562,000	Under Construction	2006
Wuhan Times Square	Retail/Residential#	2,408,400	Under Construction	2007
1717 Nan Jing Xi Road	Office/Retail	1,589,300	Under Construction	2008
Dalian Times Square	Retail/Residential	1,866,000	Under Planning	2007
Shanghai Parc Royal	Residential#	802,000	Under Planning	2007
Shanghai Jingan Garden	Residential#	970,000	Under Planning	2008

** Partly sold*
 # Residential includes office-apartments

Marco Polo Hotel Group

The Marco Polo Hotel Group will open a second deluxe hotel in the Chaoyang District of Beijing in 2006.

The Marco Polo Hotel Group currently boasts a portfolio of nine hotels throughout Asia, including those under construction. During the year under review, the Marco Polo Hotel in Saigon, Vietnam was named one of the best hotels in the city.

Following the opening of the Marco Polo Beijing in December 2001, the Marco Polo Hotel Group will operate a second deluxe hotel in Beijing, which is scheduled to open in 2006. It is ideally located in the Chaoyang district of Beijing and is in close proximity to the Olympic Green. It has convenient access to various public transportation, including Subway Line No. 5 and the Olympic Subway Lines. It is also within 20-minute driving distance from the Beijing Capital International Airport.

This 17-storey hotel will provide 320 rooms and suites, with the inclusion of a Marco Polo's Continental Club. There will be a specially-designed executive floor to provide deluxe accommodation and service for discerning travellers. A wide variety of food and beverage outlets will be featured, highlights of which will include the signature Café Marco, a Chinese restaurant featuring regional specialties and the Lobby Lounge. Additionally, its well-appointed conference and banquet facilities will be perfect for meetings, seminars and social events while the recreation centre will feature a comprehensive range of facilities.

The Marco Polo Hotel in Saigon was named one of the best hotels in the city during the year under review.

Modern Terminals

Driven by continually strong export growth, the South China region registered an overall increase of 19 per cent or 3.96 million TEUs in total volume of containers handled. Throughput in Shenzhen recorded 31 per cent growth while Kwai Chung recorded 11 per cent growth compared with the year before. Shenzhen Terminals' market share grew to 45 per cent while Kwai Chung's market share declined slightly to 55 per cent as at the end of December 2004.

Modern Terminals' total throughput for 2004 increased by 9.1 per cent or 362,000 TEUs against that of 2003. This was mainly driven by feeder, transshipment and intra-Asia volume. During the year under review, operating cost increased because of the increased volume of activities and higher depreciation charges incurred due to the introduction of CT9. Despite the continuous improvement in productivity, the increase in operating cost slightly affected the company's operating profit.

With continuous investment in hardware, software and human resources, **Modern Terminals**' productivity continued to improve in 2004. With the delivery of four CT9 berths to **Modern Terminals**, its operations in Kwai Chung now consist of 7.5 berths, spreading over Container Terminals 1, 2, 5 and 9, with a total handling capacity of 5.5 million TEUs. TEUs per headcount, one of the main productivity benchmarks, improved to 3,630 from 3,365 a year ago. At the end of 2004, **Modern Terminals**' market share remained at about one-third of the total market in Kwai Chung.

Balance Sheet (Extract)

as at December 31, 2004

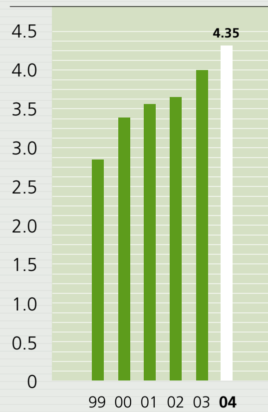
	HK$M
Fixed assets	4,982
Interest in associates / jointly controlled entity	676
Net current liabilities	(548)
Other non-current liabilities	(366)
Net business assets (before debts)	4,744

Note: The Group's investment cost in 55.34% of Modern Terminals is HK$3,709 million.

Modern Terminals' total throughput rose 9.1% to 4.35 million TEUs in 2004.

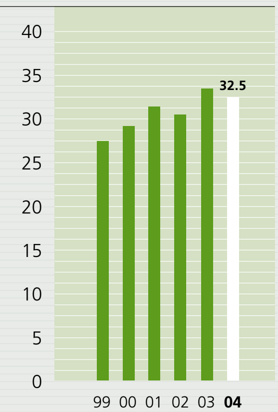
Throughput

(Million TEUs)



Market Share

(%)



In March 2005, 33 years after its operations began, **Modern Terminals** celebrated the milestone of the 50 millionth TEU passing through its facilities. Boasting advanced equipment and sophisticated logistics system, **Modern Terminals** is poised to achieve better operational synergy with the completion of berth consolidation and terminal area expansion following the delivery of CT9.

With 7.5 berths spreading over Container Terminals 1, 2, 5 and 9 in Kwai Chung, Modern Terminals has a total handling capacity of 5.5 million TEUs.

Other Investments

Chiwan Container Terminals, in which **Modern Terminals** effectively holds an eight per cent equity stake, recorded a throughput growth of 880,000 TEUs (an increase of 60 per cent) to 2.35 million TEUs.

Berth 4 of Shekou Container Terminals (Phase II), in which **Modern Terminals** effectively holds a 9.8 per cent equity stake, commenced operation in February 2004. Together with Berth 3 which commenced operation in the third quarter of 2003, Shekou Container Terminals (Phase II) handled 1.07 million TEUs, an increase of 3.6 times or 841,000 TEUs when compared with the previous year.

All ongoing projects in China including the Taicang project in Suzhou are progressing smoothly and on schedule. Taicang, a joint-venture development with the Suzhou government, will become the pioneer project leading off **Modern Terminals**' expansion in the Yantze River Delta.

Modern Terminals also entered into a joint-venture agreement with China Shipping to explore investment opportunities related to the Yang Shan project near Shanghai. A joint working team had been established and a feasibility study on Yang Shan Deepwater Port Project is now underway.

The market outlook for 2005 remains positive, with expectation of strong double-digit growth in the overall Pearl River Delta area. Kwai Chung will also benefit and marginal growth in terms of volume is expected in 2005.

(above) *At the end of 2004, Modern Terminals' market share stood at about one-third of the total market in Kwai Chung.*

(below) *Shekou Container Terminals (Phase II) handled 1.07 million TEUs in 2004.*

Key Operating and Financial Highlights

	2004	2003	2002	2001	2000	1999
Container Handling Capacity (TEUs in millions)	**5.09**	4.36	4.20	4.03	3.70	3.40
Throughput (TEUs in millions)	**4.35**	3.99	3.61	3.52	3.36	2.82
Headcount	**1,199**	1,186	1,176	1,179	1,184	1,294
TEUs per Headcount	**3,630**	3,365	3,072	2,985	2,840	2,177
Market Share	**32.5%**	33.1%	30.3%	31.1%	28.9%	27.2%