Management Discussion & Analysis

(I) REVIEW OF 2004 RESULTS AND SEGMENTAL PERFORMANCE

REVIEW OF 2004 RESULTS

Profit Attributable to Shareholders

The Group reported a profit attributable to shareholders of HK$3,767 million for the year of 2004, an increase of HK$724 million or 24% over HK$3,043 million achieved in 2003. Earnings per share were HK$1.54, compared to HK$1.24 recorded in the previous year.

The solid profit growth was largely driven by the steady growth in retail rental income, recovery in the Group's hotel operations from the low base result in 2003, improved profitability of i-CABLE and reduction in borrowing costs.

Included in the results were non-recurrent provision write-backs of HK$108 million for the Group's certain properties and of HK$442 million for the Bellagio property project held by an associate. This was partially offset by Wharf T&T's write-down of HK$298 million for impairment of certain of its network assets. In 2003, there was total attributable impairment provision of HK$391 million, which comprised HK$306 million for properties and investments and HK$85 million for fixed assets, though a deemed profit of HK$312 million, arising from the distribution of i-CABLE shares as part of the Company's interim dividend for 2003, was reported.

Excluding the above-mentioned non-recurring items in both years, the Group's net profit would be HK$3,515 million in 2004, an increase of HK$393 million or 13% compared to HK$3,122 million in 2003.

Group Turnover

The Group turnover for the year was HK$11,953 million, an increase of HK$700 million or 6% over HK$11,253 million earned in 2003. The increase in turnover was chiefly attributable to the improvement in revenue from property investment by HK$370 million, of which the hotel revenue increasing by HK$197 million. The hotel revenue in 2003 was HK$533 million, which was at an extraordinary low level as a consequence of SARS' impact during the year, compared to the levels of HK$730 million in 2004 and HK$616 million in 2002. The Communications, Media and Entertainment (CME) segment also reported revenue growth by HK$266 million mainly derived from the enlarged subscribers and higher airtime sales of i-CABLE group.

Group Operating Profit

Group operating profit before borrowing costs for the year 2004 amounted to HK$5,252 million, increased by HK$202 million or 4% from HK$5,050 million in 2003, primarily due to the favourable results of property investment including hotels as explained above. The growth also resulted from the increase in operating profit of the Pay TV and reduction in operating loss of the Broadband business of i-CABLE.

SEGMENT PERFORMANCE

Property Investment

For 2004, the Property Investment segment grew its revenue by HK$370 million or 9% to HK$4,645 million over HK$4,275 million in 2003. Operating profit showed an increase of HK$202 million or 7% to HK$3,103 million. This segment had benefited from the record level of tourists from the mainland China and overseas markets and the steady economic rebound in Hong Kong. The better business environments also stimulated the retail leasing activities and supported the average rental reversionary growth in 2004. The improvement was partly attributable to the lower base result for the hotel business caused by the SARS incidence in 2003.

Wharf Estates Limited

Harbour City

Harbour City, a core property investment asset of Wharf Estates Limited, generated a turnover of HK$3,061 million for 2004, an increase of HK$329 million over 2003 mainly derived from improvement in retail rentals and hotel revenue.

2004 saw a healthy increase in retail rental of HK$161 million or 16% to HK$1,193 million. Benefited from the boom in tourism and recovery in domestic consumption, which enabled the Group to further enhance its tenant mix aggressively, high level of occupancy of around 98% was sustained throughout the whole year with average rental rate improved. The office area improved its occupancy steadily to 95% with higher average rental rate achieved by end of 2004 but recorded a decrease in rental revenue by HK$36 million or 4% to HK$945 million, reflecting the adverse reversionary cycle caused by unfavourable rental rates achieved in the past two years. The apartments reported a revenue increase of HK$7 million or 4% to HK$193 million resulted from improving occupancy rate, which reached 83% at end of 2004. Hotel revenue increased by HK$197 million or 37% to HK$730 million, backed by an average occupancy of 91% for 2004, significantly jumped from 67% for last year. Average hotel room rate also reported double-digit growth in 2004.

Times Square

Times Square, another core investment property asset of Wharf Estates Limited, generated total revenue of HK$837 million, which was slightly lower than the previous year's level by HK$4 million. Despite a steady improvement in occupancy rate that reached 95% at the end of 2004, the rental revenue from the office area was HK$237 million, a decrease of HK$19 million or 7% over 2003. This decrease, which was mainly due to the adverse reversionary impacts of lower average rental rates achieved in the past two years, had been substantially compensated by the improvement of retail area rental by HK$15 million or 3% from HK$585 million for 2003 to HK$600 million, as a result of healthy growth in average rental rate and occupancy level sustained at high level of 96% throughout 2004.

Plaza Hollywood

Plaza Hollywood, under Wharf Estates Limited, reported revenue of HK$250 million for 2004, an increase of HK$12 million or 5% over 2003 mainly because of higher achieved average occupancy at about 98% with average rental rate being maintained at nearly the same level as last year.

At December 31, 2004, the aggregate property value of Harbour City, Times Square and Plaza Hollywood owned under Wharf Estates Limited was HK$59,980 million, based on the revaluation conducted by independent valuers. This portfolio generated total revenue and operating profit of HK$4,148 million and HK$2,875 million respectively for 2004, compared to HK$3,811 million and HK$2,683 million respectively reported in 2003.

Wharf Estates Development Limited

Wharf Estates Development Limited owned various residential, office and industrial investment properties located in Hong Kong. Owing to the encouraging performance of rental revenue of the Peak properties as supported by the persistent upsurge in luxurious residential property market and the lacklustre results of its office and industrial properties, the company's aggregate revenue and operating profit for 2004 remained flat over last year.

Wharf Estates China Limited

With its two major investment properties in mainland China, namely, Beijing Capital Times Square and Shanghai Times Square, reporting satisfactorily improved occupancy and rental rates, Wharf Estates China Limited recorded double-digit growth both in aggregate revenue and operating profit in 2004. During late 2004, the podium area of Chongqing Times Square, another investment property in mainland China, was completed for leasing.

Communications, Media and Entertainment ("CME")

Backed by continuous subscription growth in both Pay TV and Broadband business as well as the remarkable increase in commercial airtime sales of i-CABLE, the total revenue of the CME segment rose to HK$3,844 million, an increase of HK$266 million or 7% over HK$3,578 million achieved in 2003. The aggregate operating profit also recorded an increase of HK$24 million or 6% to current year's HK$456 million.

i-CABLE

Buoyed by an improving economy, the i-CABLE group reported another year of record profit and business growth despite intensified competition in its core market in 2004. i-CABLE's total revenue revealed an increase of HK$229 million or 11% to HK$2,372 million and an increase in its operating profit before unallocated items by HK$66 million or 18% to HK$425 million. The net profit of i-CABLE also increased by HK$64 million or 29% to HK$284 million, surpassing all previous records.

Pay TV

Pay TV subscribers grew by 47,000 or 7% year-on-year to 702,000 as at the end of 2004, attributable to exclusive broadcast of the popular EURO 2004 football tournament in summer and other programming and marketing initiatives during the rest of the year. Further buoyed by the remarkable increase in commercial airtime sales, the turnover of Pay TV for 2004 grew by HK$154 million or 9% to HK$1,888 million. Its operating profit recorded an increase of HK$25 million or 6% to reach HK$469 million. ARPU also recorded a year-on-year 2% growth to HK$225.

Internet and multimedia

Internet and multimedia revenue for 2004 increased by HK$72 million or 18% to HK$481 million. Its operating loss, on a full cost allocation basis for network cost, nearly halved to HK$44 million as compared to HK$85 million in 2003. The improvement was primarily due to year-on-year growth in Broadband subscribers of about 34,000 or 13% to 291,000 at the end of December 2004, largely resulting from picking up of subscription in the second half through successful service enhancement and introduction of bundled packages. ARPU also recorded a year-on-year 9% growth to HK$140 for subscribers renewing under higher price retention plans, but downward pressure resumed in the second half of 2004.

Telecommunications

Wharf T&T

The economic recovery did not put the FTNS market back on the growth curve and continuing over capacity drove competition even harder. In such circumstances, the company only managed to increase its telecommunication revenue by HK$17 million or 1% to HK$1,252 million. Its installed base of fixed lines grew by 42,000 lines to 475,000 lines with market share of 12% as at the end of December 2004. The company's revenue from fixed-line telephony services rose by 7% to HK$1,046 million, whilst IDD revenue declined by 19% to HK$206 million. The ratio between fixed lines and IDD improved to 5:1 for 2004, as compared to 4:1 for 2003. The operating profit, however, showed a decrease of HK$17 million or 31% to HK$37 million mainly due to higher depreciation charge.

The combined turnover and operating profits of Wharf T&T and other telecommunication business was HK$1,286 million and HK$26 million, compared to HK$1,253 million and HK$35 million achieved respectively in last year.

Logistics

The Logistics segment with most of its contribution from Modern Terminals Limited ("Modern Terminals"), a 55.3%-owned subsidiary, reported an aggregate revenue of HK$3,347 million, represented an increase of HK$126 million or 4% as compared with HK$3,221 million in 2003. The operating profit also increased by HK$13 million or 1% to HK$1,840 million.

Modern Terminals

Modern Terminals recorded a 9% throughput growth in 2004. However, the company's total revenue grew by 3% only, given that the throughput growth was largely driven by lower-tariff feeder and transshipment volume. Furthermore, as a result of the increase in operating expenses on higher volume of throughput handled and higher depreciation charge on Container Terminal 9, which commenced operation in late 2003, the company's operating profit was slightly affected. Aided by the significantly higher profit contribution from Modern Terminal's earlier investments in mainland China through its associates and the lower charge in Profits Tax and deferred tax, its net profit after tax grew satisfactory as compared to last year.

Property Development

Wharf Estates Development Limited and Wharf Estates China Limited launched some minor properties for sale in Hong Kong and China respectively in 2004 and they reported an overall break-even result compared to a loss of HK$17 million in 2003. The sales of Sorrento and Bellagio residential units undertaken through associates continued in 2004 and their results were taken up as the Group's share of associates' profit other than as the Group's turnover and operating profit.

Borrowing Costs

Due to a persistently low interest rate environment accompanied by its declining net debt level, the Group's net borrowing costs as charged against the results decreased by HK$241 million or 50% to HK$239 million for 2004 from HK$480 million in the previous year. The charge was after capitalisation of HK$25 million on related assets for the year under review, compared to HK$54 million in the previous year. The Group's average borrowing cost was 1.56% p.a., reduced further from 2.66% p.a. in 2003.

Net Other Charges

The net other charges recognised in 2004 amounted to HK$190 million, which included Wharf T&T's write-down for impairment of its fixed assets by HK$298 million that was partly compensated by a write-back HK$108 million in respect of the Group's various properties.

The net other charges in 2003 comprised the deemed profit of HK$312 million arising from a distribution of 244.7 million i-CABLE shares by the Company as part of 2003 interim dividend, net impairment provision of HK$276 million for properties under development, impairment provision of HK$58 million for investments and write off of fixed assets of HK$85 million; all before deduction of minority interest.

Share of Profits less Losses of Associates and Jointly Controlled Entity

The share of profits less losses of associates and jointly controlled entity for 2004 was HK$746 million, an increase of HK$454 million over profit of HK$292 million in 2003. The increase was chiefly due to the inclusion of an attributable provision write-back of HK$442 million in respect of the Group's one-third interest in the Bellagio project. Based on the achieved selling price of the Bellagio Phases III and IV, which was launched in September 2004, and the prevailing residential property market conditions, the property provision of HK$1,327 million (HK$442 million attributable to the Group) previously made by the associate undertaking the project was considered no longer required and hence was fully written back in 2004.

Excluding the write-back of provision, the share of associates' and jointly controlled entity's profits less losses for 2004 would be HK$304 million, an increase of HK$12 million or 4%. The increase was mainly attributable to the better profit contribution from sales of Bellagio residential units at higher achieved selling price than previous years and the increasing profit contribution from container port business engaged by the associates of Modern Terminals in mainland China. The increase, however, was considerably offset by decrease in profit contribution from sales of Sorrento residential units, which had been substantially sold in 2003.

Profit before Taxation

The profit before taxation, which include the non-recurring items and provisions as stated above, increased by HK$814 million or 17% from HK$4,755 million for previous year to HK$5,569 million.

Taxation

The taxation charge for 2004 was HK$953 million, a slight increase of HK$1 million from HK$952 million recorded in last year. Excluding the effect of the 1.5% increase in profit tax rate on deferred tax liability that increased total tax charge by HK$99 million in last year, there was an increase in taxation of HK$100 million for 2004. Such increase was mainly attributable to higher taxable profits and tax provision for profits in respect of prior years in which deductibility of certain interest expenses was under dispute with the Inland Revenue Department.

Minority Interests

Minority interests were HK$849 million compared to HK$760 million in 2003. The increase arose mainly from better results achieved by the Group's non-wholly owned subsidiaries including Harbour Centre Development Limited and i-CABLE.

Included in the Group's profit attributable to the shareholders is profit of HK$1,178 million (2003: HK$1,051 million) contributed aggregately from three major non-wholly owned subsidiaries, namely, the 55.3%-owned Modern Terminals, 67.1%-owned i-CABLE and 66.8%-owned Harbour Centre Development Limited. Total dividends received from these subsidiaries amounted to HK$916 million for the year 2004 (2003: HK$891 million).

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

The Group's consolidated net asset value was HK$65,168 million or HK$26.63 per share at December 31, 2004, grew from HK$51,628 million or HK$21.09 per share at December 31, 2003, respectively. The increase of HK$13,540 million or 26% was primarily due to the net attributable appreciation of HK$11,183 million in the Group's investment and hotel property portfolios, on revaluation by independent valuers at December 31, 2004.

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 December 31, 2004	HK$26.63
Add adjustments for:-	
Modern Terminals	
– based on the previous average transaction prices	2.37
i-CABLE	
– based on market value at December 31, 2004 (@HK$2.90 p.s.)	1.11
Adjusted net asset value per share at December 31, 2004	HK$30.11

Net Cash Generated from the Group's Operating Activities

For the year under review, net cash generated from the Group's operating activities was HK$5.7 billion, an increase of HK$0.3 billion over HK$5.4 billion in 2003. The increase was largely due to the increase in operating profit and reduction in interest payment. Net cash outflow of HK$0.6 billion was recorded for investing activities, which comprised mainly the Group's capital expenditure aggregating HK$1.8 billion and net receipts of repayments of advances of HK$1.1 billion from the associates undertaking the property developments of Bellagio and Sorrento.

Capital Expenditure

The capital expenditure, including programming library, incurred by the Group's core businesses during the year and related capital commitments at the year-end date are analysed as follows:

		Capital Commitments as at December 31, 2004	
Business Unit/Company	**Capital Expenditure For 2004 HK$ Million**	**Authorised And Contracted for HK$ Million**	**Authorised But not Contracted for HK$ Million**
Property investments/others			
China	164	80	844
Harbour City	138	313	19
Other properties/others	123	272	-
	425	665	863
Wharf T&T	309	81	67
	734	746	930
Modern Terminals (55.3% owned)	571	472	422
i-CABLE (67.1% owned)	491	713	142
	1,796	1,931	1,494
At December 31, 2003	1,676	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 equity investment of HK$0.35 billion in Taicang port, Suzhou, mainland China and HK$0.22 billion for additions of plant and equipment and 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 authorised and contracted for capital commitments for the Group increased by HK$0.8 billion from HK$1.1 billion at December 31, 2003 to HK$1.9 billion at December 31, 2004, which was mainly due to the increase in i-CABLE group's commitment in programming rights.

In addition to the above, the Group had planned expenditure at the end of 2004 of approximately HK$1.8 billion (2003: HK$2.5 billion) mainly related to the properties under development for sale in mainland China.

Major Property and Investment Projects undertaken by Associates

Bellagio

Pre-sale of Bellagio residential units of Phases III and IV undertaken by an associate, 1/3 owned by the Group, was first launched in September 2004 with an encouraging market response. For the year under review, 684 units in Phase III and IV were pre-sold and 105 units of Phase I and II were sold. As at December 31, 2004, cumulative sales reached 1,690 units (or 99%) for Phases I and II and 684 units (or 40%) for Phases III and IV.

At December 31, 2004, the cash deposits in stakeholders' account from pre-sale of Bellagio Phases III and IV amounted to HK$0.6 billion, which would be sufficient to fully cover its outstanding construction costs for completion of the project. The project company did not have any external borrowings at December 31, 2004.

As the Phases III and IV are still at its development stage, a portion of the pre-sale profit was recognised according to the Group's accounting policy.

Sorrento

Sale of the Sorrento residential units undertaken by an associate, 40%-owned by the Group, is continuing. For the year under review, 120 units of Sorrento were sold. At December 31, 2004, the 1,272 Phase I units of Sorrento were all sold whereas 827 Phase II units or 97% were sold.

At December 31, 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. The project company did not have any external borrowings at December 31, 2004.

Western Kowloon Cultural District Project ("WKCD")

A consortium comprising the Group (40%), Sino Land Company Limited (40%) and Chinese Estates Holdings Limited (20%) has been formed and submitted a proposal to the Hong Kong SAR Government in respect of the WKCD.

On November 10, 2004, the Government announced that three bidders had been short-listed, including the above-mentioned consortium. Public consultation exercises on WKCD are in progress. At present, there is no firm commitment made by the Group.

Gearing Ratios

As at December 31, 2004, the ratio of net debt to total assets decreased to 15.4%, while the ratio of net debt to shareholders' equity also decreased to 21.6%, compared to 21.4% and 32.9% at December 31, 2003, respectively. The Group's net debt dropped substantially from HK$17.0 billion at December 31, 2003 to HK$14.1 billion at December 31, 2004, which was made up of HK$16.4 billion in debts less HK$2.3 billion in deposits and cash. Included in the Group's debts were loans of HK$1.6 billion borrowed by a non-wholly owned subsidiary, Modern Terminals (2003: HK$1.3 billion borrowed by Modern Terminals). These loans are without recourse to the Company and other subsidiaries of the Group.

Availability of Committed and Uncommitted Facilities

During 2004, the Group had prepaid and cancelled some of its loan facilities with higher interest margins and/or shorter maturity. To take advantage of the ample liquidity in the local banking market, the Group managed to obtain new banking facilities amounting to HK$9.8 billion, with tenors ranging from 1 to 7 years, on more favorable terms.

The Group's available loan facilities and debt securities amounted to HK$22.8 billion. Debts totaling HK$16.4 billion were outstanding at December 31, 2004, against the available facilities as analysed below:

	31/12/2004			
Debt Maturity	**Available Facility HK$ Billion**	**Total Debts HK$ Billion**		**Undrawn Facility HK$ Billion**
Company and wholly owned subsidiaries				
Committed facilities				
Repayable within 1 year	1.8	1.3	8%	0.5
Repayable between 1 to 2 years	1.9	1.9	12%	-
Repayable between 2 to 3 years	2.9	2.9	18%	-
Repayable between 3 to 4 years	2.2	1.9	12%	0.3
Repayable between 4 to 5 years	2.8	2.8	17%	-
Repayable after 5 years	4.4	1.9	12%	2.5
	16.0	12.7	79%	3.3
Uncommitted facilities	2.6	1.6	9%	1.0
	18.6	14.3	88%	4.3
Non wholly-owned subsidiaries				
- Committed and uncommitted				
Modern Terminals Limited	2.9	1.6	9%	1.3
i-CABLE Communications Limited	0.6	-	-%	0.6
Others	0.7	0.5	3%	0.2
	22.8	16.4	100%	6.4
- Secured	-	-	-%	-
- Unsecured	22.8	16.4	100%	6.4
Total	22.8	16.4	100%	6.4

As at December 31, 2004, a HK$34 million debt of the Group was secured by mortgage over a property under development with carrying value of HK$271 million. At December 31, 2003, debts amounted to HK$414 million was secured by mortgages over certain investment properties with an aggregate carrying value of HK$3,732 million.

An analysis of the Group's total debts by currency at December 31, 2004 is shown as below:

	HK$ Billion
Hong Kong dollar	12.8
United States dollar (swapped into Hong Kong dollars)	3.6
	16.4

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 December 31, 2004, the Group also maintained a portfolio of long-term investments, primarily in blue-chip securities, with a market value of HK$1.6 billion.

(III) FUTURE CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively, "new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended December 31, 2004 and is in the process of making an assessment of the impact of these new HKFRSs. The Group has so far concluded that the adoption of Hong Kong Accounting Standards ("HKAS") 40 "Investment property", Accounting Interpretation 23 "The appropriate policies for hotel properties" and Accounting Interpretation 21 "Income taxes - recovery of revalued non-depreciable assets" would have a significant impact on its accounts as detailed in the note 36 to the consolidated accounts.

The Group is continuing its assessment of the impact of the new HKFRSs and other significant changes may be identified as a result of this assessment.

(IV) EMPLOYEES

The Group has approximately 10,904 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 year 2004 amounted to HK$2,145 million, compared to HK$1,999 million of 2003.