THE WHARF (HOLDINGS) LIMITED

Interim Report to Shareholders 2005

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WHARF

Established 1886

HIGHLIGHTS OF THE GROUP RESULTS

- Unaudited profit attributable to shareholders amounted to HK$9,035 million, an increase of 442%.
- In compliance with the new Hong Kong Financial Reporting Standards ("HKFRSs"), the Group's investment properties were revalued with a net surplus after deferred tax of HK$7,112 million included in the profit attributable to shareholders. The value of the Group's investment property portfolio increased by 13% during the period under review.
- Excluding this net surplus from revaluation, the Group's profit attributable to shareholders was HK$1,923 million, an increase of HK$255 million or 15% (2004: HK$1,668 million).
- Earnings per share were HK$3.69 (2004: HK$0.68).
- Interim dividend: 36 cents per share.
- Turnover was HK$6,179 million, an increase of 8% (2004: HK$5,739 million).
- Operating profit before increase in fair value of investment properties was HK$2,908 million, a growth of 16% (2004: HK$2,503 million).
- Property Investment: Total revenue increased by 10% to HK$2,475 million. Operating profit increased by 12% to HK$1,728 million.
- Communications, Media and Entertainment: Total revenue increased by 3% to HK$1,990 million. Operating profit increased by 16% to HK$258 million.
- Logistics: Aggregate revenue increased by 15% to HK$1,736 million. Operating profit grew by 14% to HK$949 million.
- Net borrowing costs increased by HK$49 million to HK$180 million (2004: HK$131 million) principally due to the interest rate hikes. Average effective borrowing rate was 2.6% p.a. (2004: 1.6% p.a.).
- Consolidated net asset value as at June 30, 2005 was HK$25.66 per share (as at December 31, 2004: HK$22.45 per share).
- Debt ratios: as at June 30, 2005, the ratio of net debt to shareholders' equity and total equity was 21.7% and 20.5% respectively (as at December 31, 2004: 25.6% and 24.0% respectively).

GROUP RESULTS

The unaudited Group profit attributable to shareholders for the six months ended June 30, 2005 amounted to HK$9,035 million, an increase of 442%, compared to HK$1,668 million (as restated) achieved for the corresponding period last year. Earnings per share were HK$3.69 (2004: 68 cents).

INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended June 30, 2005 of 36 cents (2004: 32.75 cents) per share, payable on Thursday, October 20, 2005 to shareholders on record as at October 13, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT REVIEW

WHARF ESTATES LIMITED

Harbour City

Harbour City, a core property investment asset of Wharf Estates Limited, generated a turnover of HK$1,622 million during the period, an increase of HK$146 million or 9.9% as compared with the first half of 2004. Rental revenue from retail, office, apartments and hotel operations all reported growth for the period under review.

The aggregate property value of **Harbour City**, excluding the three hotels which are stated at cost less accumulated depreciation, was HK$43,768 million based on the valuation conducted by an independent valuer as at June 30, 2005, an increase of 14% from the value as at December 31, 2004.

Retail *(1,913,000 sq ft – Valuation HK$15,469 million)*

As a result of vigorous leasing activities and encouraging sales performance of its retail tenants, **Harbour City** reported total retail rental revenue of HK$637 million, an increase of HK$61 million or 11% over the same period in 2004.

Harbour City's retail occupancy was maintained at 99% during the six months under review. The retail market remained robust in light of continuous improvement in local sentiment and ongoing growth in tourist arrivals. For the six months under review, **Harbour City** tenants achieved an 18% increase in average sales per square foot compared to the same period last year. A number of celebrated brands such as Agatha, Hong Kong Records, ItsImagical, Jovell, Marc Jacobs, Michael Kors, Offermann, Patchi, Schiesser, Thomas Sabo, Woods of Windsor, Zara and more signed up to open outlets in **Harbour City**. All new leases and renewed tenancies recorded favourable rental growth. Food and beverage outlets at **Harbour City** also enjoyed healthy business growth during the period. New food and beverage outlets located at the recently renovated Marine Deck at Ocean Terminal have all been well received. A direct access to the Ground Floor of Ocean Terminal next to Star Ferry pier was added as another main entrance and the footfall in this area has been increasing steadily.

Office *(4,435,000 sq ft – Valuation HK$22,499 million)*

The office sector recorded 6% rental growth to reach HK$493 million, resulting from considerable growth in reversionary rentals.

Harbour City's office occupancy grew to 96.5% at the end of June 2005. The strong take-up in the overall office market combined with limited supply continued to drive office rental up during the period under review, resulting in positive rental reversion for most of the landlords in Hong Kong. Office rentals for new lettings at **Harbour City** have recorded strong growth. Of the 580,000 square feet of office area due for renewals in the first half of 2005, 510,000 square feet were renewed, representing a retention rate of 88%.

Hotel *(1,360,000 sq ft – Stated at Amortised Cost; Valuation HK$4,058 million)*

Hotel revenue increased by HK$43 million or 13% to reach HK$385 million during the first half of 2005, owing to double-digit growth in average hotel room rates.

The consolidated occupancy for the three Marco Polo Hotels at **Harbour City** stood at 88% – five percentage points higher than the overall industry average of 83% – thanks to their ideal locations at the heart of the Tsim Sha Tsui tourism hub and within **Harbour City**, the largest shopping, dining and entertaining complex in town.

Serviced Apartment *(670,000 sq ft – Valuation HK$5,800 million)*
The serviced apartment sector registered total revenue of HK$107 million, an increase of HK$15 million or 16% as compared with the same period a year ago. The increase was mainly due to higher occupancy and positive rental growth.

Demand for serviced apartment remained strong due to corporations' preference for hassle-free arrangements on furnished lettings and flexible leasing terms as well as the spillover effect resulting from hotel's buoyant occupancy rates. Gateway Apartments' average occupancy grew to 85% from the previous year's 75% amid keen competition.

Times Square

Times Square, another core investment property asset of Wharf Estates Limited, generated total revenue of HK$437 million, an increase of HK$32 million or 8% as compared to HK$405 million during the first half of 2004.

The aggregate property value of **Times Square** was HK$16,744 million based on the valuation conducted by an independent valuer as at June 30, 2005, an increase of 13% from the value as at December 31, 2004.

Retail *(936,000 sq ft – Valuation HK$10,462 million)*
Rental contribution from the retail area of **Times Square** increased by HK$18 million or 6% to HK$308 million, versus HK$290 million during the same period of last year. The increase was mainly due to substantial rental growth in new lettings and tenancy renewals during the period under review.

Located in Causeway Bay, Hong Kong's most popular shopping hub, the average occupancy of **Times Square** shopping complex was maintained at 99.6% during the period under review. On the back of continuous trade-mix enhancement and ongoing marketing and promotional efforts, most retail tenants registered double-digit year-on-year growth in sales performance. Recently recruited brands included Aquascutum, Coach, Longchamp, Madison's Ink, Nannini Eyewear, Orbis and Patrizia Pepe. The cosmetic cluster on Basement 2 was further strengthened with the commitment of Biotherm, Kose, Nippi and The Face Shop. The lifestyle hub on the 9th floor, featuring anchor tenants Il Colpo, Page One and Starbucks, was further enhanced with the addition of a host of quality retailers. Additionally, Zara has committed to take up a 14,000-square-foot space with the opening expected in October 2005, and the upmarket food and beverage operator Xiao Nan Guo will join the Food Forum in the same month.

Office *(1,033,000 sq ft – Valuation HK$6,282 million)*
The office sector recorded revenue growth of HK$14 million or 12% to HK$129 million, resulting from significant improvement in occupancy as compared with the same period last year.

Times Square's office occupancy was maintained at 94% at the end of June 2005. Total new commitment during the first half of 2005 reached 18,733 square feet. Of the 152,320 square feet of office area due for renewals in the first half of 2005, 114,947 square feet were renewed, representing a retention rate of 75%. Apart from newly recruited tenants including Club Tourism China and Zara, existing tenants such as Daido Kogyo, DHC, Lane Crawford and Nowaday International expanded during the period under review.

WHARF ESTATES DEVELOPMENT LIMITED

The Group also owns various development and investment properties located in Hong Kong through Wharf Estates Development Limited. Riding on the buoyancy of the luxury residential market, Peak Portfolio continued to perform well and recorded the highest rental growth among all the property assets of the company during the first half of 2005. Other investment properties also reported rental growth during the period under review as compared to the same period in 2004.

Plaza Hollywood *(562,000 sq ft – Valuation HK$3,790 million)*

Plaza Hollywood reported an increase of HK$8 million or 7% in total revenue to HK$130 million as compared to HK$122 million for the first half of 2004. The increase was mainly due to a higher average occupancy of 99% being achieved during the period as compared with the first half of 2004. The average rental rate was maintained at almost the same level as that of the corresponding period last year.

The aggregate property value of Plaza Hollywood was HK$3,790 million based on the valuation conducted by an independent valuer as at June 30, 2005, an increase of 13% from the value as at December 31, 2004.

Property Development

The property sales revenue and operating profit recorded by Wharf Estates Development Limited were insignificant as there was very little selling activity during the first half of 2005. The sales results of Sorrento and Bellagio residential units undertaken through associates were taken up as the Group's share of associates' profit rather than as the Group's turnover and operating profit.

Bellagio

Bellagio, in Sham Tseng on the western shore of New Territories overlooking the Tsing Ma Bridge, is a joint venture development equally-owned by Wharf, Wheelock and Wheelock Properties. Construction works are expected to be completed by the end of 2005. Pre-sales for Tower 2 and Tower 5 (Total: 844 units) were launched in September 2004 and met with favourable market responses. At the end of June 2005, cumulative sales reached 791 units (94% sold), realising proceeds of about HK$2.9 billion. Pre-sales for Towers 1 and 3 are expected to be launched in the third quarter of 2005.

Sorrento

Sorrento is an MTRC joint-venture project above the Kowloon Station, equally-owned by a five-member consortium comprising Wharf, Harbour Centre Development, Wheelock, Wheelock Properties and a wholly-owned subsidiary of Wheelock Properties. At the end of June 2005, cumulative sales of Phase II reached 844 units (99% sold), realising proceeds of about HK$5.8 billion.

COMMUNICATIONS, MEDIA AND ENTERTAINMENT ("CME")

The total revenue of the CME segment increased by 3% to HK$1,990 million versus HK$1,931 million achieved during the first half of 2004. Its operating profit increased by 16% to HK$258 million compared to the same period last year.

In June 2005, the Group acquired 107,623,761 and 17,619,827 shares of **i-CABLE** from subsidiaries of Wheelock and Company Limited and Wheelock Properties Limited respectively for a total consideration of HK$322.5 million and now holds 73.3% of **i-CABLE**.

i-CABLE

Underpinned by continuous subscription growth in both Pay TV and Broadband segments despite intensified competition, as well as deployment of effective bundling and other marketing strategies, **i-CABLE**'s total revenue was HK$1,223 million for the period under review, an increase of 6% as compared to HK$1,154 million in the first half of 2004. Operating profit before unallocated items increased by 9% to HK$226 million. Net profit attributable to shareholders of **i-CABLE** also increased by 5% to HK$155 million.

During the period under review, **i-CABLE** operated under intense competition. The main battlefield was bundled "triple play" service of television, voice and data. Nevertheless, bundled packages continued to spur growth for **i-CABLE**'s Broadband subscriptions in a keenly contested operating environment and proved to be competitive in sustaining the growth momentum, which has been ongoing since the middle of last year.

Pay TV

The turnover of Pay TV for the period under review was HK$948 million, an increase of 3% versus HK$920 million over the first half of 2004. Operating profit decreased 17% to HK$195 million due to higher operating costs incurred.

Despite fierce competition during the first half of 2005, the Pay TV division reported subscriber growth of 5% over the first half of 2004 with the implementation of a variety of new marketing and programming initiatives, including the rolling out of smaller subscription packages at a lower price point and so on. The number of Pay TV subscribers reached 718,000 at the end of June 2005, as compared to 682,000 during the same period a year ago. On the back of higher subscription, the Pay TV division registered 3% growth in turnover. The division continued to enhance its programming platform in a bid to stay ahead of competitors.

Internet and multimedia

Internet and multimedia revenue for the period increased by 20%, as compared with the same period last year to reach a new high of HK$279 million. A record operating profit of HK$31 million was generated from this segment, as compared to an operating loss of HK$27 million over the same period a year ago. The recovery was mainly driven by considerable subscriber growth.

The recovery trend for this core business continued in the first half of the year as a result of service upgrade, bundling strategies and continued introduction of value-added service. The total number of Broadband subscribers grew by 14% from a year ago to reach 301,000 at the end of June 2005. ARPU increased by HK$2 to HK$144 for the first half of 2005. The Broadband division continued to enhance its multimedia content service as an additional income source and its bundled packages have proven to be competitive in the marketplace.

Wharf T&T

Wharf T&T's revenue increased by 1% to HK$684 million. Its operating profit increased three times to reach HK$46 million.

Despite the difficult operating environment, **Wharf T&T** managed to deliver reasonable results in the first half to protect and grow its installed base. The business transformation process to a post-Type II regime progressed as planned. In the residential sector, the installed base continued to grow reasonably well as a result of sales force expansion and "triple play" bundling with **i-CABLE**'s Pay TV and Broadband Internet access service. In the business sector, the acceleration of network rollout to more buildings progressed as planned.

As at the end of June 2005, the fixed line installed base grew by 52,000, as compared with the same period last year, to reach 500,000 lines, representing an overall market share of 12%.

Fixed line revenue, which represented 80% of the total revenue during the first half of 2005, grew by 5% to HK$549 million while IDD revenue rose by 3% to HK$135 million. Total outgoing IDD volume, including both wholesale and retail, grew by 12% to 265 million minutes. As in 2004, 70% of total revenue came from the business sector in the first half of 2005.

WHARF CHINA LIMITED

Wharf Estates China Limited

Wharf Estates China Limited recorded satisfactory growth both in aggregate revenue and operating profit during the first half of 2005, as compared to the same period last year. It now owns three investment properties in mainland China, namely, Beijing Capital Times Square, Shanghai Times Square and the newly-launched retail podium of Chongqing Times Square. The two properties in Beijing and Shanghai reported improvement in occupancy during the period under review as compared with the corresponding period last year.

A wholly-owned subsidiary of Wharf Estates China Limited on July 28, 2005 acquired through public auction a 70,000-square-metre site in Chengdu for RMB778 million. This commercial/residential site is located south of Dong Da Jie（東大街）and north of Shui Jing Jie（水井街）in Jinjiang District（錦江區）, and has a permissible gross floor area of more than 440,000 square metres.

Modern Terminals Limited

During the period under review, the Logistics segment, with most of its contribution coming from Modern Terminals Limited ("**Modern Terminals**"), reported an aggregate revenue of HK$1,736 million, an increase of HK$221 million or 15% as compared with HK$1,515 million in the first half of 2004. The operating profit grew by HK$118 million or 14% to reach HK$949 million as compared to the same period last year.

On May 20, 2005, Swire Pacific Limited, one of **Modern Terminals**' shareholders, served a transfer notice to **Modern Terminals** for the disposal of its interests in **Modern Terminals**. Pursuant to the articles of association of **Modern Terminals**, the Company and another shareholder of **Modern Terminals** exercised their pre-emption rights in proportion to their respective shareholding interests to acquire Swire's shares at a purchase price of HK$214,006 per share in cash. The total consideration paid by the Company was HK$2,072 million. The transaction was completed on August 15, 2005 and **Modern Terminals**, formerly 55.3%-owned by the Group, has since become a 67.9%-owned subsidiary of the Group.

During the period under review, **Modern Terminals**' total revenue and operating profit increased by 16% and 15% respectively, as compared to the same period last year, arising from significant throughput growth. Coupled with an increase in profit contribution from **Modern Terminals**' investment in China through associates during the period under review, its net profit after tax grew by 15% as compared to the same period last year.

Despite fierce competition from terminals in South China, Kwai Chung's overall throughput still grew by 11% over 2004. **Modern Terminals**' throughput for the first half of 2005 increased by 27% or 524,000 TEUs against that of the same period of 2004. The increase was mainly driven by feeder, transshipment and intra-Asia volume. In terms of market share in Kwai Chung, **Modern Terminals** soared to 36.3%, compared to the 32% recorded during the same time a year ago. Underpinned by strong throughput growth in Shenzhen West during the period under review, **Modern Terminals**' earlier investments in China remained robust and gave rise to a higher profit contribution to the Group. Chiwan Container Terminals, in which **Modern Terminals** holds an effective stake of 8%, recorded a throughput growth of 37% to 1.26 million TEUs during the first half of 2005. Pursuant to the share equalisation for Shekou Container Terminals (Phase I and II) obtained in March 2005, **Modern Terminals** now in effect holds 10% and 9.8% in Shekou Container Terminal Phase I and II respectively. During the period under review, Shekou Container Terminals (Phase I and II) handled in total 927,000 TEUs, representing an increase of 15%, versus the same period a year ago.

In March 2005, the first phase of Dachan Bay project, in which **Modern Terminals** holds an effective stake of 65%, was approved by the National Development Reform Commission. A formal joint-venture agreement between **Modern Terminals** and Shenzhen Dachan Bay Port Investment and Development Company was signed in July 2005 for the first phase of the project, consisting of five berths, which will have an estimated capacity of 2.5 million TEUs. The operation is scheduled to commence by end of 2007.

FINANCIAL REVIEW

(I) RESULTS REVIEW

For the first half of 2005, the Group recorded unaudited profit attributable to shareholders of HK$9,035 million, an increase of HK$7,367 million or 442% over HK$1,668 million for the interim period in 2004. Earnings per share were HK$3.69, compared to HK$0.68 recorded in the same period of 2004.

For the purpose of preparing the financial statements for the period under review, the Group has adopted the new and revised HKFRSs, including all Hong Kong Accounting Standards and relevant Interpretations, which took effect on January 1, 2005. The resulting significant changes in accounting treatment and presentation are detailed in the below Note 1 to the accounts.

In compliance with the new HKFRSs, the Group revalued its investment properties as at June 30, 2005 and accounted for a net attributable surplus of HK$7,112 million, representing revaluation surplus of HK$8,691 million less related deferred tax and minority interest of HK$1,579 million, in its profit and loss account for the period under review. In prior years, property revaluation changes were dealt with in revaluation reserve. No revaluation of the investment property portfolio was carried out at June 30, 2004 and accordingly, there was no corresponding revaluation adjustment made for the same period last year. Excluding this revaluation net surplus from the results, the Group's net profit attributable to shareholders would be HK$1,923 million, an increase of HK$255 million or 15% over the interim results of HK$1,668 million in 2004.

The above increase in profit was primarily fuelled by the remarkable performance of the Group's Property Investment segment, which resumed to attain positive office rental revision and sustained its growth in retail rental income, and resilient growth in the operating profit of its Logistics segment during the period under review. Besides, the CME segment also recorded double-digit growth in its operating profit.

The Group's turnover for the period was HK$6,179 million, an increase of HK$440 million or 8% over HK$5,739 million earned in the same period last year. The strong increase in turnover was chiefly attributable to the increase in revenue from Property Investment and Logistics segments by HK$234 million and HK$221 million respectively. The CME segment also reported steady revenue growth.

The Group's operating profit before increase in fair value of investment properties for the period under review grew by HK$405 million or 16% to HK$2,908 million from HK$2,503 million for first half of 2004, which was attributable to the favourable results as reported by all its major business segments.

Performance of the Group's business segments is discussed in details under the Segment Review section.

Net borrowing costs as charged against the results increased by HK$49 million or 37% to HK$180 million for the first half of 2005 from HK$131 million in the last corresponding period. This was principally because of the interest rate hikes albeit the Group's borrowings had been slightly reduced. The charge was after capitalisation of HK$6 million on related assets for the period under review, compared to HK$12 million in the last corresponding period. The Group's average effective borrowing rate was 2.6% p.a., compared to 1.6% p.a. in the first half of 2004.

The share of profits less losses of associates and jointly controlled entity was HK$95 million, a decrease of HK$39 million against profit of HK$134 million in the first half 2004. The decrease was mainly due to lower profit contribution from sales of Sorrento residential units, which had already been substantially sold in previous years.

The taxation charge for the period was HK$2,027 million, an increase of HK$1,574 million or 347% from HK$453 million recorded in the last corresponding period. Excluding the deferred taxation of HK$1,544 million on the surplus arising from the revaluation of investment properties for the first half of 2005, the taxation charge would increase by HK$30 million over the last corresponding period.

Minority interests increased by HK$67 million to HK$452 million from HK$385 million in the previous corresponding period, due mainly to better results achieved by two non wholly-owned subsidiaries, namely, Harbour Centre Development Limited and Modern Terminals.

Included in the Group's profit attributable to the shareholders is profit of HK$659 million (6/2004: HK$553 million) contributed aggregately from three major non wholly-owned subsidiaries, namely, Modern Terminals which was 55.3%-owned during the period, the 73.3%-owned i-CABLE and the 66.8%-owned Harbour Centre Development Limited. Total dividend received from these subsidiaries amounted to HK$389 million during the period under review (6/2004: HK$500 million).

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Equity

In compliance with the new and revised HKFRSs, the Group's equity attributable to shareholders as at January 1, 2005 was restated to HK$54,949 million from HK$65,168 million previously reported, decreased by HK$10,219 million. For each Company's share, the consolidated equity attributable to shareholders hence dropped by HK$4.18 to HK$22.45 from HK$26.63. The reduction resulted mainly from the provision for deferred tax of HK$7,380 million on investment properties revaluation surplus, reversal of revaluation reserve for hotel properties of HK$2,629 million and provision for accumulated depreciation for hotel properties of HK$221 million. Details of these adjustments are given in Note 1 to the accounts.

As at June 30, 2005, the Group's consolidated net asset value was HK$62,811 million or HK$25.66 per share, grew from restated amount of HK$54,949 million or HK$22.45 per share at December 31, 2004, respectively. The increase of HK$7,862 million was primarily due to the attributable appreciation in value by HK$7,112 million (net of deferred tax) in the Groups' investment properties portfolio ascertained upon revaluation by an independent valuer at June 30, 2005.

The Group's total equity, including minority interests, was HK$66,478 million as at June 30, 2005, increased by 13% over HK$58,624 million as at December 31, 2004.

Supplemental Information

To better reflect the underlying net asset value attributable to shareholders, the following objective-based adjustments are given below:

	Per share
Book net asset value at June 30, 2005	HK$25.66
Add adjustments for:–	
Modern Terminals	
– based on the latest transaction price	2.82
Hotel properties	
– based on the valuation conducted by an independent valuer	1.30
i-CABLE	
– based on market value at June 30, 2005 (@HK$2.575 p.s.)	0.99
Adjusted net asset value attributable to shareholders per share at June 30, 2005	HK$30.77

Net Cash Generated from the Group's Operating Activities

For the period under review, the Group's net cash inflow generated from operating activities amounted to HK$2.8 billion. The Group's Investment Properties and Logistics business continue to provide strong steady operating cash inflow. Net cash used in investing activities amounted to HK$1.1 billion, which was mainly related to capital expenditure and investments in certain subsidiaries, including the consideration of HK$324 million paid for acquisition of 6.2% additional interest in i-CABLE in June 2005.

Capital Expenditure

The capital expenditure, including programming library, incurred by the Group's core businesses during the period under review and related capital commitments at June 30, 2005 are analysed as follows:

		Capital Commitments as at June 30, 2005	
Business Unit/Company	**Capital Expenditure for 1-6/2005 HK$ Million**	**Authorised and Contracted for HK$ Million**	**Authorised but not Contracted for HK$ Million**
Property Investments/others			
China	32	52	936
Harbour City	47	275	27
Other properties/others	219	151	–
	298	478	963
Wharf T&T	125	128	89
	423	606	1,052
Modern Terminals (55.3%-owned)*	87	632	1,359
i-CABLE (73.3%-owned)	155	607	166
	665	1,845	2,577
For first half 2004	774		
At December 31, 2004		1,931	1,494

**Holding in Modern Terminals increased to 67.9% in August 2005.*

The capital expenditure of i-CABLE and Wharf T&T was 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, 73.3%- and 55.3%-owned by the Group, respectively, funded their own capital expenditure programmes. Certain refurbishment and renovation expenditure was also incurred for enhancing the quality and value of the Group's investment properties.

In addition to the above, the Group had planned expenditure at the end of June 2005 of approximately HK$1.6 billion (31/12/2004: HK$1.8 billion) mainly related to the properties under development for sale in mainland China.

Debts and Gearing

The Group's net debt reduced from HK$14.1 billion at December 31, 2004 to HK$13.6 billion at June 30, 2005, which was made up of HK$15.9 billion in debts less HK$2.3 billion in deposits and cash. Included in the Group's debts were loans of HK$1.3 billion borrowed by a non wholly-owned subsidiary, Modern Terminals (31/12/2004: HK$1.6 billion borrowed by Modern Terminals). The loan is without recourse to the Company and other subsidiaries of the Group.

As at June 30, 2005, the ratio of net debt to shareholders' equity and total equity was 21.7% and 20.5%, compared favourably to 25.6% and 24.0% at December 31, 2004, respectively.

Availability of committed and uncommitted facilities

With the improvement in its recurrent operating cash inflow and ample liquidity in the market, the Group has cancelled some of its loan facilities with higher interest margins and/or shorter maturity in the first half of 2005. Meanwhile, this enabled the Group to further reduce its average borrowing margin and lengthened its average debt maturity.

The Group's available loan facilities and debt securities amounted to HK$22.3 billion. Debts totalling HK$15.9 billion were outstanding at June 30, 2005, against the available facilities as analysed below:

	30/6/2005			
	Available Facility HK$ Billion	Total Debts HK$ Billion		Undrawn Facility HK$ Billion
Company/wholly-owned subsidiaries				
Committed facilities	15.7	13.2	83%	2.5
Uncommitted facilities	2.4	1.2	8%	1.2
	18.1	14.4	91%	3.7
Non wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	3.1	1.3	8%	1.8
– i-CABLE Communications Limited	0.7	–	–%	0.7
– Others	0.4	0.2	1%	0.2
	22.3	15.9	100%	6.4

Analysis by currency	
Hong Kong dollar	13.4
United States dollar (swapped into HK Dollars)	2.5
	15.9

As at June 30, 2005, only HK$61 million debt of the Group was secured by mortgage over a property under development with carrying value of HK$296 million (31/12/2004: HK$271 million).

The Group's debts are primarily denominated in Hong Kong and US dollars and all US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts.

The use of derivative financial instruments is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily 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, 2005, the Group also maintained a portfolio of available for sale investments, primarily in blue-chip securities, with a market value of HK$1.6 billion.

(III) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs including all Hong Kong Accounting Standards and relevant Interpretations which are effective for accounting periods beginning on or after January 1, 2005. The resulting significant changes in accounting treatment and presentation are detailed in the below Note 1 to the accounts.

(IV) HUMAN RESOURCES

The Group has approximately 12,238 employees, as compared with 10,904 at the end of 2004. The increase of 1,334 employees mainly resulted from the recruitment by i-CABLE and Wharf T&T for their Customer Services maintained in mainland China. 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, 2005 amounted to HK$1,086 million, compared to HK$1,048 million in the first half of 2004.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, the Company has complied with all those code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which became applicable to the Company in respect of the period under review, except for one code provision with respect to the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial number thereof being independent Non-executive Directors.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended June 30, 2005

	Note	**Unaudited 30/06/2005 HK$ Million**	Unaudited 30/06/2004 HK$ Million (restated)
Turnover	2	**6,179**	5,739
Direct costs and operating expenses		**(2,089)**	(1,975)
Selling and marketing expenses		**(290)**	(271)
Administrative and corporate expenses		**(285)**	(280)
Operating profit before depreciation, amortisation, interest and tax		**3,515**	3,213
Depreciation and amortisation		**(607)**	(710)
Operating profit before increase in fair value of investment properties	2	**2,908**	2,503
Increase in fair value of investment properties		**8,691**	–
Operating profit after increase in fair value of investment properties		**11,599**	2,503
Borrowing costs	3	**(180)**	(131)
Share of profits less losses of associates	4	**102**	134
Share of losses of a jointly controlled entity		**(7)**	–
Profit before taxation		**11,514**	2,506
Taxation	5(d)	**(2,027)**	(453)
Profit for the period		**9,487**	2,053
Attributable to:			
Shareholders		**9,035**	1,668
Minority interests		**452**	385
		9,487	2,053
Interim dividend declared after the balance sheet date	6	**881**	802
Earnings per share			
Basic	7	**HK$3.69**	HK$0.68
Diluted	7	**HK$3.69**	HK$0.68
Interim dividend per share	6	**36.00 cents**	32.75 cents

CONSOLIDATED BALANCE SHEET

As at June 30, 2005

	Note	**Unaudited 30/06/2005 HK$ Million**	Audited 31/12/2004 HK$ Million (restated)
Non-current assets			
Fixed assets			
Investment properties		**75,043**	66,262
Other properties, plant and equipment		**11,090**	11,186
		86,133	77,448
Leasehold lands		**1,452**	1,468
Goodwill		**297**	297
Long term deposits		**156**	156
Interest in associates		**1,517**	1,583
Interest in a jointly controlled entity		**341**	348
Available for sale investments		**1,668**	1,654
Long term receivables		**416**	426
Programming library		**121**	127
Defined benefit pension scheme assets		**29**	31
Deferred tax assets		**147**	118
Financial derivative assets		**101**	–
		92,378	83,656
Current assets			
Inventories		**3,084**	3,025
Trade and other receivables	8	**1,013**	1,248
Financial derivative assets		**12**	–
Deposits and cash		**2,151**	2,209
		6,260	6,482
Current liabilities			
Trade and other payables	9	**(3,906)**	(4,618)
Short term loans and overdrafts		**(2,174)**	(3,236)
Taxation payable		**(984)**	(750)
		(7,064)	(8,604)
Net current liabilities		**(804)**	(2,122)
Total assets less current liabilities		**91,574**	81,534

CONSOLIDATED BALANCE SHEET (continued)

As at June 30, 2005

	Note	**Unaudited 30/06/2005 HK$ Million**	Audited 31/12/2004 HK$ Million (restated)
Non-current liabilities			
Long term loans		**(13,765)**	(13,206)
Deferred taxation		**(11,069)**	(9,447)
Other deferred liabilities		**(257)**	(257)
Financial derivative liabilities		**(5)**	–
		(25,096)	(22,910)
NET ASSETS		**66,478**	58,624
Capital and reserves			
Share capital	10	**2,447**	2,447
Reserves	11	**60,364**	52,502
Shareholders' equity		**62,811**	54,949
Minority interests		**3,667**	3,675
TOTAL EQUITY		**66,478**	58,624

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2005

	Unaudited 30/06/2005 HK$ Million	Unaudited 30/06/2004 HK$ Million (restated)
Total equity as at January 1 as previously restated		
Shareholders' equity	**65,168**	51,628
Minority interests (previously presented separately from liabilities and equity at December 31)	**4,355**	4,021
	69,523	55,649
Prior year adjustment arising from changes in accounting policies (Note 1):	**(10,899)**	(8,680)
Total equity as restated	**58,624**	46,969
Net losses not recognised in the consolidated profit and loss account	**(463)**	(81)
Investments revaluation reserves transferred to the profit and loss account on disposal of non-trading investments	**(2)**	(22)
Profit for the period as previously stated		2,070
Prior year adjustment for hotel properties (Note 1c)		(17)
Profit for the period (2004: as restated)	**9,487**	2,053
Total recognised gain for the period		
Shareholders' equity	**8,743**	1,575
Minority interests	**279**	375
	9,022	1,950
Final dividend approved in respect of previous year	**(881)**	(685)
Dividend to minority interests	**(287)**	(378)
Total equity as at June 30	**66,478**	47,856
Attributable to:		
Shareholders' equity	**62,811**	44,446
Minority interests	**3,667**	3,410
	66,478	47,856

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2005

	Unaudited 30/06/2005 HK$ Million	Unaudited 30/06/2004 HK$ Million
Net cash inflow from operating activities	**2,752**	2,631
Net cash (outflow)/inflow relating to investing activities	**(1,052)**	25
Net cash outflow from financing activities	**(1,758)**	(2,145)
(Decrease)/increase in cash and cash equivalents	**(58)**	511
Cash and cash equivalents at January 1	**2,209**	1,512
Cash and cash equivalents at June 30	**2,151**	2,023
Analysis of the balance of cash and cash equivalents		
Deposits and cash	**2,151**	2,023

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited interim consolidated accounts have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosable provisions of Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those described in the annual accounts for the year ended December 31, 2004 except for those changes following the Group's adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRS"), including HKASs and relevant Interpretations ("HKAS-INTs" and "HK-INTs") which took effect on January 1, 2005. The changes in accounting policies, which have significant impacts on the Group's accounts are summarised as follows:

a. HKAS 40 "Investment property"

In prior years, investment properties other than those with unexpired lease term of 20 years or less were stated at fair value. Changes in the value of investment properties were dealt with as movements in the investment properties revaluation reserves. Deficits arising on revaluation on a portfolio basis were set off against previous revaluation surpluses and thereafter charged to the profit and loss account. Investment properties with unexpired lease term of 20 years or less were stated at carrying value less accumulated depreciation and impairment provision, if any.

With effect from January 1, 2005, upon the adoption of HKAS 40, all the Group's investment properties, including those with unexpired lease term of 20 years or less, are stated at fair values with all the changes in fair value recognised directly in the consolidated profit and loss account. This new accounting policy has been applied retrospectively. Revenue reserves as at January 1, 2005 and January 1, 2004 were increased by HK$42,870 million and HK$32,109 million respectively, representing the transfers of accumulated attributable revaluation surplus previously recorded in the investment properties revaluation reserves. The shareholders' equity as at January 1, 2005 increased by HK$11 million, because of an adjustment for restating certain investment properties with unexpired lease term of 20 years or less at fair value under HKAS 40.

The effect of the change has increased the profit attributable to shareholders and minority interests for the period ended June 30, 2005 by HK$8,647 million and HK$44 million, respectively. This change has no impact in the Group's results for the period ended June 30, 2004 as no revaluation of the Group's investment properties was done at June 30, 2004.

b. HKAS-INT 21 "Income taxes – recovery of revalued non-depreciable assets"

In previous years, deferred taxation was recognised on revaluation changes of the Group's investment properties on the basis that the recovery of the carrying amount of the investment properties would be through sales and no deferred taxation was provided on the revaluation changes of the properties located in Hong Kong, as the capital gain tax rate was nil.

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

b. HKAS-INT 21 "Income taxes – recovery of revalued non-depreciable assets" (continued)

With effect from January 1, 2005, HKAS-INT 21 required deferred taxation to be recognised on any revaluation changes on investment properties on the basis that the recovery of the carrying amount of the investment properties would be through use and calculated at the applicable profits tax rate and charged to profit and loss account. This new accounting policy has been applied retrospectively. Shareholders' equity as at January 1, 2005 and January 1, 2004 had been restated and decreased by HK$7,380 million and HK$5,545 million respectively whereas minority interest as at January 1, 2005 and January 1, 2004 had been restated and decreased by HK$48 million and HK$39 million respectively. The adjustment represented deferred tax liabilities of the revaluation of the Group's investment properties.

As a result of this change, deferred tax charge for the period ended June 30, 2005 increased by HK$1,544 million. This change has no impact on the Group's results for the period ended June 30, 2004 as no revaluation of the Group's investment properties was done at June 30, 2004.

c. HK-INT 2 "The appropriate accounting policies for hotel properties"

In prior years, the Group's hotel and club properties were stated at their open market value based on an annual professional valuation. No depreciation was provided on hotel and club properties with 20 years or more as they were maintained in continuous state of sound repair and given the estimated life of the hotel properties and their residual values, any depreciation would be immaterial.

With effect from January 1, 2005, upon the adoption of HK-INT 2, hotel and club properties are stated at cost less accumulated depreciation and impairment provision. The effect of adopting the new accounting policy has been applied retrospectively. Shareholders' equity as at January 1, 2005 and January 1, 2004 were restated and decreased by HK$2,850 million and HK$2,527 million respectively whereas minority interest as at January 1, 2005 and January 1, 2004 were restated and decreased by HK$632 million and HK$569 million respectively.

The change has increased depreciation charge and reduced the profit attributable to shareholders and minority interests for the period ended June 30, 2005 by HK$12 million and HK$5 million, respectively (Period ended June 30, 2004: HK$12 million and HK$5 million respectively).

d. HKAS 17 "Leases"

In prior years, the Group's leasehold land and buildings for own use were accounted for as finance leases and were stated at cost less accumulated depreciation, except for hotel properties which were stated at revalued amounts.

With effect from January 1, 2005, upon the adoption of HKAS 17, the Group's leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be split reliably from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation. The operating leasehold land will no longer be revalued. Instead, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised on a straight-line basis over its unexpired lease term. The new accounting policy has been applied retrospectively, which has resulted in reclassification of certain leasehold interest in land previously included in "fixed assets" as "leasehold land" in the amount of HK$1,468 million as at January 1, 2005 with the comparative restated to conform to the current period's presentation. This change has no significant impact on the Group's results and equity.

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

e. HKFRS 3 "Business Combinations"

In prior years, positive goodwill, being the excess of the cost of a business combination over the net fair value of net assets acquired, arising on or after January 1, 2001 was capitalised and amortised on a straight line basis over the shorter of its useful life and 20 years and was subject to impairment testing when there were indications of impairment, except goodwill which arose prior to January 1, 2001 and written off to capital reserves in accordance with the transitional provisions set out the Statement of Standard Accounting Practice 30 "Business combinations".

With effect from January 1, 2005, in accordance with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating units to which the goodwill has been allocated exceeds its recoverable amount. Negative goodwill, being the fair value of the net assets acquired in a business combination which exceeds the consideration paid, is recognised immediately in the profit and loss account as it arises.

This change in accounting policy has been adopted prospectively from January 1, 2005, and the cessation on amortisation of goodwill has increased the Group's profit after taxation for the six months ended June 30, 2005 by HK$25 million. In addition, the Group's negative goodwill of HK$303 million previously credited to other capital reserves has been transferred to revenue reserves. The Group has furthermore transferred goodwill that arose prior to January 1, 2001 and eliminated against other capital reserves totaling HK$3,415 million to revenue reserves since such goodwill is not allowed to be restated in the balance sheet or included in the calculation of the results on disposal of relevant subsidiaries/associates. The net effect of the above transfers has reduced revenue reserve and increased other capital reserves by the same amount of HK$3,112 million without impact on the Group's equity.

f. HKAS 32 "Financial instruments: Disclosure and Presentation", and HKAS 39 "Financial instruments: Recognition and Measurement"

The application of HKAS 32 and 39 has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. The principal effects of the change on the Group are summarised as below:

i. Classification and measurement of financial assets and financial liabilities

From January 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss" including trading securities, "loans and receivables", "held-to-maturity financial assets" or "available-for-sale financial assets" including non-trading investments. Financial assets at fair value through profit or loss are initially recognised and remeasured at fair value through the profit and loss account. Other financial assets are generally measured at amortised cost using the effective interest method. Available-for-sale financial assets are carried at fair value with any unrealised gains and losses recognised in equity.

Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" and "other financial liabilities" carried at amortised cost using the effective interest method.

The change has resulted in reclassifications of certain financial assets and liabilities together with the corresponding comparatives and has no significant impacts on the Group's results and equity.

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

f. HKAS 32 "Financial instruments: Disclosure and Presentation", and HKAS 39 "Financial instruments: Recognition and Measurement" (continued)

ii. Derivatives and hedging

From January 1, 2005 onwards, all derivatives are initially recognised at fair value on the date of entering the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

In accordance with HKAS 39, there are three types of hedge relationships, including fair value hedges, cash flow hedges and net investment hedges.

– ***Fair value hedges***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges together with any changes in the fair value of the corresponding hedged asset or liability are recorded in the profit and loss account.

– ***Cash flow hedges***

Changes in the fair value of derivatives held as hedging instruments that are designated and qualify as cash flow hedges are recognised in equity to the extent that the hedge is effective. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any related cumulative gain or loss existing in equity is recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the related cumulative gain or loss in equity is immediately transferred to the profit and loss account.

– ***Net investment hedges***

Changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in the profit and loss account. On disposal of a foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to the profit and loss account for the period in which the disposal takes place.

At December 31, 2004, the Group's derivative financial instruments, mainly comprising interest rate and currency swaps, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. The notional amounts of derivatives were previously recorded off balance sheet. Interest flows arising on the derivatives were previously accounted for on an accrual basis.

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

f. HKAS 32 "Financial instruments: Disclosure and Presentation", and HKAS 39 "Financial instruments: Recognition and Measurement" (continued)

ii. Derivatives and hedging (continued)

The Group has applied the relevant transitional provisions of HKAS 39 and adopted hedge accounting in accordance with the standard with effect from January 1, 2005 onwards. As a result of the change, the fair values of the Group's financial derivative assets totalling HK$113 million (comprising non-current assets of HK$101 million and current assets of HK$12 million) and non-current financial derivative liabilities totalling HK$5 million have been recognised, whereas the hedged borrowings have been increased by HK$96 million and are reflected in the balance sheet at June 30, 2005. This change has no significant impact in the Group's results and equity.

g. Presentational changes

The application of the new HKFRSs has also resulted in changes in the presentation of the accounts retrospectively with comparatives restated to conform to the current period's presentation, in particular of below:

i. In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from January 1, 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet as an element of total equity, separately from the equity attributable to the shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated profit and loss account as an allocation of the attributable profit between the minority interests and the shareholders of the Company.

ii. In prior years, shares of associates/jointly controlled entities' tax was presented as a component of taxation in the profit and loss account. On adoption of the HKAS 1, share of associates/jointly controlled entities' tax are presented net of the share of associates/jointly controlled entities' profit.

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

h. Summary of the effect of changes in the accounting policies

i. Effect on opening balance of total equity at January 1, 2005 and January 1, 2004 (as adjusted)

	Shareholders' equity				
	Revenue reserves HK$ Million	Other reserves HK$ Million	Total HK$ Million	Minority interests HK$ Million	Total equity HK$ Million
At January 1, 2005					
Prior year adjustment					
HKAS 40	**42,881**	**(42,870)**	**11**	**–**	**11**
HKAS-INT 21	**(7,380)**	**–**	**(7,380)**	**(48)**	**(7,428)**
HK-INT 2	**(221)**	**(2,629)**	**(2,850)**	**(632)**	**(3,482)**
	35,280	**(45,499)**	**(10,219)**	**(680)**	**(10,899)**
Opening adjustment					
HKFRS 3	**(3,112)**	**3,112**	**–**	**–**	**–**
Total increase/(decrease) in equity	**32,168**	**(42,387)**	**(10,219)**	**(680)**	**(10,899)**
At January 1, 2004					
Prior year adjustment					
HKAS 40	32,109	(32,109)	–	–	–
HKAS-INT 21	(5,545)	–	(5,545)	(39)	(5,584)
HK-INT 2	(194)	(2,333)	(2,527)	(569)	(3,096)
Total increase/(decrease) in equity	26,370	(34,442)	(8,072)	(608)	(8,680)

ii. Effect on profit after taxation for the six months ended June 30, 2005

	Attributable to shareholders HK$ Million	Minority interests HK$ Million	Total HK$ Million
HKAS 40	8,647	44	8,691
HKAS-INT 21	(1,535)	(9)	(1,544)
HK-INT 2	(12)	(5)	(17)
HKFRS 3	25	–	25
Total increase in profit after taxation	7,125	30	7,155

2. TURNOVER AND OPERATING PROFITS

a. Segment Information

i. Business segments

	Segment Revenue 30/06/2005 HK$ Million	Segment Revenue 30/06/2004 HK$ Million	Segment Results 30/06/2005 HK$ Million	Segment Results 30/06/2004 HK$ Million (restated)
Property investment	**2,475**	2,241	**1,728**	1,537
Hong Kong	**1,946**	1,793	**1,561**	1,406
China	**144**	106	**49**	35
Hotels	**385**	342	**118**	96
Communications, media and entertainment ("CME")	**1,990**	1,931	**258**	223
Pay television	**948**	920	**195**	235
Internet and multimedia	**279**	232	**31**	(27)
i-CABLE (before unallocated items)	**1,227**	1,152	**226**	208
Telecommunications	**684**	674	**46**	11
Others	**79**	105	**(14)**	4
Logistics	**1,736**	1,515	**949**	831
Terminals	**1,555**	1,335	**891**	774
Others	**181**	180	**58**	57
	6,201	5,687	**2,935**	2,591
Property development	**4**	73	**(6)**	12
Investment and others	**109**	118	**83**	20
Inter-segment revenue (Note)	**(135)**	(139)	**–**	–
	6,179	5,739	**3,012**	2,623
Unallocated income and expenses			**(104)**	(120)
Operating profit before increase in fair value of investment properties			**2,908**	2,503
Increase in fair value of investment properties			**8,691**	–
Operating profit after increase in fair value of investment properties			**11,599**	2,503
Borrowing costs			**(180)**	(131)
Associates				
Property development			**45**	101
Terminals			**55**	33
Others			**2**	–
Jointly controlled entity				
Terminals			**(7)**	–
Profit before taxation			**11,514**	2,506

2. TURNOVER AND OPERATING PROFITS (continued)

a. Segment Information (continued)

i. Business segments (continued)

Note: Inter-segment revenue eliminated on consolidation included:

	30/06/2005 HK$ Million	30/06/2004 HK$ Million
Property investment	**40**	40
CME	**94**	95
Logistics	**–**	1
Investment and others	**1**	3
	135	139

ii. Geographical segments

During the period, more than 90 per cent of the operations of the Group in terms of the above items was in Hong Kong.

b. Operating profit is arrived at after:

	30/06/2005 HK$ Million	30/06/2004 HK$ Million (restated)
Charging:–		
Depreciation		
– assets held for use under operating leases	**37**	40
– other assets	**516**	546
	553	586
Amortisation of prepaid expenses, programming library and leasehold lands	**54**	99
Amortisation of goodwill	**–**	25
Total depreciation and amortisation	**607**	710
Staff costs, including retirement scheme costs HK$43 million (2004: HK$38 million)	**1,086**	1,048
Auditors' remuneration		
Audit services	**4**	4
Other services	**1**	1
Cost of properties sold during the period	**3**	53
And crediting:–		
Rental income less direct outgoings, including contingent rentals HK$100 million (2004: HK$73 million)	**1,697**	1,517
Interest income	**25**	23
Dividend income from listed investments	**39**	38
Dividend income from unlisted investments	**50**	49

3. BORROWING COSTS

	30/06/2005 HK$ Million	30/06/2004 HK$ Million
Interest on:		
Bank loans and overdrafts	**75**	41
Other loans repayable within five years	**112**	51
Other loans repayable over five years	**7**	–
Other borrowing costs	**(8)**	51
	186	143
Less: Amount capitalised	**(6)**	(12)
Net borrowing costs for the period	**180**	131

The Group's average borrowing cost for the period was 2.6% per annum (2004: 1.6% per annum).

4. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits of associates mainly included attributable profits on disposal of Sorrento and Bellagio residential units and terminals operation.

5. TAXATION

a. The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5% (2004: 17.5%).

b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.

c. Tax underprovision in respect of prior years is principally attributable to the deductibility of certain interest expenses was under dispute with the Inland Revenue Department.

5. TAXATION (continued)

d. Taxation in the consolidated profit and loss account represents:

	30/06/2005 HK$ Million	30/06/2004 HK$ Million
Current tax		
Hong Kong profits tax	**372**	339
Underprovision in respect of prior years (note c)	**61**	66
	433	405
Overseas taxation	**1**	1
Overprovision in respect of prior years	**–**	(9)
	1	(8)
Deferred tax		
Change in value of investment properties	**1,544**	–
Origination and reversal of temporary differences	**49**	56
	1,593	56
	2,027	453

e. None of the taxation payable in the balance sheet is expected to be settled after more than one year.

f. Share of associates' tax for the six months ended June 30, 2005 of HK$4 million (2004: HK$12 million) is included in the share of profits less losses of associates.

6. DIVIDENDS

a. Dividends attributable to the period

	30/06/2005 HK$ Million	30/06/2004 HK$ Million
Proposed after the balance sheet date:–		
36 cents (2004: 32.75 cents) per share	**881**	802

The above interim dividends were proposed after the balance sheet dates and have not been recognised as liabilities at the respective balance sheet dates.

6. DIVIDENDS (continued)

b. Dividends attributable to the previous financial year but approved during the period

	30/06/2005 HK$ Million	30/06/2004 HK$ Million
Final dividend in respect of the previous financial year, approved during the period, of 36 cents (2004: 28 cents) per share	**881**	685

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the period of HK$9,035 million (2004: HK$1,668 million as restated) and the weighted average of 2,447 million ordinary shares (2004: 2,447 million ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK$9,035 million (2004: HK$1,668 million as restated) and the weighted average of 2,447 million ordinary shares (2004: 2,447 million ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the period ended June 30, 2005 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2005.

8. TRADE AND OTHER RECEIVABLES

	30/06/2005 HK$ Million	31/12/2004 HK$ Million
Trade debtors		
0 – 30 days	**250**	159
31 – 60 days	**264**	328
61 – 90 days	**44**	124
Over 90 days	**52**	32
	610	643
Other debtors	**403**	605
	1,013	1,248

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are due to receive upon completion of the properties under development.

9. TRADE AND OTHER PAYABLES

	30/06/2005 HK$ Million	31/12/2004 HK$ Million
Trade creditors		
0 – 30 days	**143**	229
31 – 60 days	**69**	132
61 – 90 days	**90**	93
Over 90 days	**139**	193
	441	647
Other creditors and provisions	**3,465**	3,971
	3,906	4,618

10. SHARE CAPITAL

	30/06/2005 No. of share Million	31/12/2004 No. of share Million	30/06/2005 HK$ Million	31/12/2004 HK$ Million
Authorised				
Ordinary shares of HK$1 each	**3,600**	3,600	**3,600**	3,600
Issued and fully paid				
Ordinary shares of HK$1 each	**2,447**	2,447	**2,447**	2,447

11. CAPITAL AND RESERVES

	Shareholders' equity									
	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserves HK$ Million	Investment properties revaluation reserves HK$ Million	Investment revaluation reserves HK$ Million	Other capital reserves HK$ Million	Revenues reserves HK$ Million	Total HK$ Million	Minority interest HK$ Million	Total equity HK$ Million
a. Company and Subsidiaries										
Balance at January 1, 2005										
– as previously reported	2,447	7,742	7	42,870	439	(358)	11,975	65,122	4,355	69,477
Prior year adjustment for (Note 1):										
Investment properties and related deferred tax	–	–	–	(42,870)	–	–	35,501	(7,369)	(48)	(7,417)
Hotel and clubs	–	–	–	–	–	(2,629)	(221)	(2,850)	(632)	(3,482)
As restated	2,447	7,742	7	–	439	(2,987)	47,255	54,903	3,675	58,578
Opening adjustment										
Goodwill (Note 1e)	–	–	–	–	–	3,112	(3,112)	–	–	–
	2,447	7,742	7	–	439	125	44,143	54,903	3,675	58,578
Revaluation deficit										
– non-trading investments	–	–	–	–	(4)	–	–	(4)	–	(4)
Others	–	–	–	–	–	(138)	(148)	(286)	(173)	(459)
Profit for the period	–	–	–	–	–	–	8,940	8,940	452	9,392
Dividends approved in respect of the previous year	–	–	–	–	–	–	(881)	(881)	–	(881)
Dividend paid to minority interest	–	–	–	–	–	–	–	–	(287)	(287)
Balance at June 30, 2005	2,447	7,742	7	–	435	(13)	52,054	62,672	3,667	66,339
b. Associates/Jointly Controlled Entities										
Balance at January 1, 2005	–	–	–	–	2	–	44	46	–	46
Profit for the period	–	–	–	–	–	–	95	95	–	95
Transfer to profit and loss account on disposal of non-trading investments	–	–	–	–	(2)	–	–	(2)	–	(2)
Balance at June 30, 2005	–	–	–	–	–	–	139	139	–	139
Total reserves										
At June 30, 2005	**2,447**	**7,742**	**7**	**–**	**435**	**(13)**	**52,193**	**62,811**	**3,667**	**66,478**
At December 31, 2004 (Restated)	2,447	7,742	7	–	441	(2,987)	47,299	54,949	3,675	58,624

12. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Company and the Group have not been a party to any material related party transactions during the period ended June 30, 2005:

a. Loan totalling HK$1,331 million (31/12/2004: HK$1,494 million) advanced by the Group to certain associate involved in the Bellagio property developments project is considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loan during the period is not material in the context of these accounts.

b. As disclosed in Note 13(b), the Company and a subsidiary, together with its principal shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of the associate under an agreement to develop the Sorrento property project.

Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

c. In respect of the period ended June 30, 2005, the Group purchased 125.2 million shares in i-CABLE for HK$0.3 billion from two subsidiaries of its principal shareholder. The transactions are considered to be related party transaction and also constitute connected transactions as defined under the Listing Rules.

13. CONTINGENT LIABILITIES

As at June 30, 2005:

a. There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdraft, short term loan and credit facilities, bonds and notes of up to HK$22,142 million (31/12/2004: HK$23,128 million).

b. The Company and a subsidiary together with its principal shareholder and two of its subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for the Sorrento property development project by the subsidiary of an associate.

c. Forward exchange contracts amounting to HK$4,137 million (31/12/2004: HK$4,238 million).

14. COMMITMENTS

	30/06/2005 HK$ Million	31/12/2004 HK$ Million
a. Capital commitments		
Planned capital expenditure:		
Authorised and contracted for	**1,845**	1,931
Authorised but not contracted for	**2,577**	1,494
	4,422	3,425
b. Other commitments		
Planned expenditure mainly related to properties under development for sale		
Authorised and contracted for	**639**	332
Authorised but not contracted for	**1,027**	1,497
	1,666	1,829

15. REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended June 30, 2005 have been reviewed with no disagreement by the Audit Committee of the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2005, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company and of two subsidiaries of the Company, namely, i-CABLE Communications Limited ("i-CABLE") and Modern Terminals Limited ("Modern Terminals"), and the percentages which the shares represented to the issued share capitals of the Company, i-CABLE and Modern Terminals respectively are also set out below:

	No. of Ordinary Shares (Percentage of Issued Capital)	Nature of Interest
The Company		
Mr Gonzaga W J Li	686,549 (0.0281%)	Personal interest
Mr Stephen T H Ng	650,057 (0.0266%)	Personal interest
Mr T Y Ng	178,016 (0.0073%)	Personal interest
i-CABLE		
Mr Gonzaga W J Li	68,654 (0.0034%)	Personal interest
Mr Stephen T H Ng	1,065,005 (0.0527%)	Personal interest
Mr Erik B Christensen	2,500 (0.0001%)	Personal interest
Mr T Y Ng	17,801 (0.0009%)	Personal interest
Modern Terminals		
Mr Hans Michael Jebsen	3,787 (4.925%)	Corporate interest

Note: The 3,787 shares regarding "Corporate Interest" in which Mr Hans Michael Jebsen was taken to be interested as stated above was the interest held by a corporation in general meetings of which Mr Jebsen was either entitled to exercise (or was taken under Part XV of the Securities and Futures Ordinance (the "SFO") to be able to exercise) or control the exercise of one-third or more of the voting power.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of 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, 2005 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 as at June 30, 2005, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") 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	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	1,222,896,080	(49.97%)
(viii)	HSBC Trustee (Guernsey) Limited	1,222,896,080	(49.97%)
(ix)	J.P. Morgan Chase & Co.	146,448,525	(5.98%)

Notes: (1) 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).

(2) Due to the amalgamation of Bermuda Trust (Guernsey) Limited with HSBC Trustee (Guernsey) Limited into one company known as HSBC Trustee (Guernsey) Limited with effect from January 1, 2005, the name of Bermuda Trust (Guernsey) Limited, which appeared in the Register prior to January 1, 2005, has been accordingly amended to become HSBC Trustee (Guernsey) Limited.

All the interests stated above represented long positions and as at June 30, 2005, there were no short position interests recorded in the 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), all working under 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 Thursday, October 6, 2005 to Thursday, October 13, 2005, 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 Wednesday, October 5, 2005.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 30, 2005

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 Erik B Christensen, Mr Quinn Y K Law, Ms Doreen Y F Lee and Mr T Y Ng, together with six independent Non-executive Directors, namely, Mr Paul M P Chan, Professor Edward K Y Chen, Dr Raymond K F Ch'ien, Hon Vincent K Fang, Mr Hans Michael Jebsen and Mr James E Thompson.