WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

Interim Report to Shareholders 2002

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"Solid Recurrent Profits from Core"

HIGHLIGHTS OF GROUP RESULTS

- Unaudited Group profit of HK$1,202 million, +5.0% over last year.
- Earnings per share of HK$0.49, +4.3% over last year.
- Recurrent earning from main businesses HK$2,597 million, +8.8% (2001 : HK$2,386 million)

  Property investment 62% : HK$1,608 million, +8.6%, +HK$128 million
  Harbour City, including its hotels, and Times Square, representing 70% of the Group's business assets, reported an aggregate operating profit of HK$1,406 million, increase of HK$103 million or 8% from HK$1,303 million.

  Logistics 30% : HK$786 million, -2.8%, -HK$23 million
  Modern Terminals' profits were down by HK$59 million from 2001 because of Maersk's non-recurrent "one-off" net profit contribution in first half 2001 resulted from the relocation of container activities in Southeast Asia.

  Communications, Media and Entertainment 8% : HK$203 million, +109.3%, +HK$106 million
  i-CABLE reported 38% operating profit growth to HK$185 million while Wharf New T&T turnaround to profit of HK$3 million from loss of HK$44 million.

- Borrowing costs HK$383 million, -39.4%, -HK$249 million (2001: HK$632 million).
- Property development project and securities, including write down, reported a HK$291 million loss as compared to 2001 HK$56 million profit.
- Net asset value per share HK$22.27. Adjusted net asset value per share, basis previous average transaction prices of Modern Terminals and market value at June 30, 2002 of i-CABLE, is HK$27.16.
- Debt to total asset ratio at 23.7%. Debt to total asset ratio adjusted to 20.8% based on adjusted value of Modern Terminals and i-CABLE.

INTERIM DIVIDEND

The Board has declared an interim dividend of 28 cents (2001: 28 cents) per share in respect of the half-year period ended June 30, 2002, payable on Monday, November 4, 2002 to Shareholders on record as at October 21, 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended June 30, 2002

	Note	Unaudited 30/06/2002 HK$ Million	Unaudited 30/06/2001 HK$ Million
Turnover	2	**5,576**	5,803
Other net losses		**(1)**	(39)
		5,575	5,764
Direct costs and operating expenses		**(1,910)**	(2,247)
Selling and marketing expenses		**(225)**	(233)
Administrative and corporate expenses		**(254)**	(284)
Operating profit before depreciation, amortisation, interest and tax		**3,186**	3,000
Depreciation and amortisation		**(647)**	(527)
Operating profit	2	**2,539**	2,473
Borrowing costs	3	**(383)**	(632)
Net operating profit		**2,156**	1,841
Net other charges	4	**(247)**	–
Share of profits less losses of associates	5	**(112)**	(158)
Profit before taxation		**1,797**	1,683
Taxation	6(c)	**(285)**	(191)
Profit after taxation		**1,512**	1,492
Minority interests		**(310)**	(347)
Profit attributable to shareholders		**1,202**	1,145
Interim dividend proposed after the balance sheet date	7	**685**	685
Earnings per share			
Basic	8	**HK$0.49**	HK$0.47
Diluted	8	**HK$0.49**	HK$0.47

CONSOLIDATED BALANCE SHEET

As at June 30, 2002

	Note		Unaudited 30/06/2002 HK$ Million		Audited 31/12/2001 HK$ Million
Non-current assets					
Fixed assets					
Investment properties			**58,175**		57,147
Other properties, plant and equipment			**16,648**		17,298
			74,823		74,445
Goodwill			**408**		419
Long term deposits			**624**		468
Interest in associates			**4,178**		3,389
Long term investments			**1,372**		1,088
Deferred debtors			**474**		485
Deferred items			**469**		533
			82,348		80,827
Current assets					
Inventories		**2,620**		2,882	
Trade and other receivables	9	**875**		1,101	
Pledged deposits		**312**		288	
Listed debt securities		**544**		514	
Deposits and cash		**1,918**		2,852	
		6,269		7,637	
Current liabilities					
Trade and other payables	10	**(4,413)**		(5,125)	
Short term loans and overdrafts		**(2,031)**		(6,874)	
Taxation		**(398)**		(182)	
Dividend payable		**(1,223)**		–	
		(8,065)		(12,181)	
Net current liabilities			**(1,796)**		(4,544)
Total assets less current liabilities			**80,552**		76,283

CONSOLIDATED BALANCE SHEET (Continued)

As at June 30, 2002

	Note		Unaudited 30/06/2002 HK$ Million		Audited 31/12/2001 HK$ Million
Capital and reserves					
Share capital	11	2,448		2,447	
Reserves	12	52,065		52,198	
			54,513		54,645
Minority interests			3,658		3,730
Non-current liabilities					
Long term loans		21,552		17,019	
Deferred taxation		460		467	
Other deferred liabilities		369		422	
			22,381		17,908
Total equity and non-current liabilities			80,552		76,283

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2002

	Note	**Unaudited 30/06/2002 HK$ Million**	Unaudited 30/06/2001 HK$ Million (Restated)
Net cash inflow from operating activities		**2,239**	527
Net cash outflow relating to investing activities		**(2,589)**	(509)
Net cash outflow from financing activities		**(581)**	(82)
Decrease in cash and cash equivalents		**(931)**	(64)
Effect of foreign exchange rates		**(3)**	(2)
Cash and cash equivalents at January 1	1(c)	**2,852**	2,213
Cash and cash equivalents at June 30	1(c)	**1,918**	2,147
Analysis of the balance of cash and cash equivalents			
Deposits and cash		**1,918**	2,147

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2002

	Unaudited 30/06/2002 HK$ Million	Unaudited 30/06/2001 HK$ Million
Total equity as at January 1	**54,645**	57,950
Net losses not recognised in the consolidated profit and loss account	**(128)**	(123)
Profit attributable to shareholders	**1,202**	1,145
Final dividend approved in respect of previous year	**(1,223)**	(1,223)
Investments revaluation reserves transferred to the profit and loss account on disposal of non-trading securities		
– by company / subsidiaries	**3**	103
– by associates	**–**	(4)
Investments revaluation reserves transferred to the profit and loss account on impairment of non-trading securities		
– by company / subsidiaries	**5**	–
Goodwill transferred to the profit and loss account on disposal of subsidiaries and associates	**–**	301
	(13)	322
Exercise of share options	**9**	–
Total equity as at June 30	**54,513**	58,149

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended December 31, 2001 except for the changes in accounting policies as described below.

(a) SSAP 1 (Revised) "Presentation of financial statements"

The consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity.

(b) SSAP 11 (Revised) "Foreign currency translation"

The profit and loss accounts of foreign enterprises are translated into Hong Kong dollars at the weighted average exchange rates during the period. This is a change in accounting policy from prior years where these were translated at the exchange rates ruling at the balance sheet date. The effect of such change is not material to the accounts.

(c) SSAP 15 (Revised) "Cash flow statement"

A revised classification of activities from which cash flows are derived has been made.

With effect from January 1, 2002, with the introduction of SSAP 15 (Revised) "Cash flow statements", the Group defines cash and cash equivalents as cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement. The accounting policy has been adopted retrospectively. In adjusting prior year's figures, cash and cash equivalents as at January 1, 2001 and 2002 were restated and increased by HK$2 million and HK$10 million respectively. In addition, certain presentational changes have been made on adoption of SSAP 15 (Revised).

1. BASIS OF PREPARATION OF THE ACCOUNTS (Continued)

(d) SSAP 34 "Employee benefits"

Defined benefit schemes provide benefits to the employees based on their final pay and number of years of service. In prior years, contributions to defined benefit schemes were charged against profit and loss account in the period in which they were payable to the schemes. The contributions were determined based on the value of the retirement schemes' assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations and were determined by a qualified actuary on the basis of triennial valuations using the attained age method. The assets of the scheme are held separately from those of the Group in independently administered funds.

On January 1, 2002, the Group adopted SSAP 34 "Employee benefits". In accordance with this standard, retirement benefit costs for defined benefit schemes are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The retirement benefit obligation is measured at the present value of the estimated future cash outflows by reference to the market yield on high quality corporate bonds which have a similar term as the related liabilities. Plan assets are measured at fair value. Actuarial gains and losses are recognised over the remaining service lives of employees. The effect of such change is not material to the accounts.

2. TURNOVER AND OPERATING PROFIT

(a) Segment information

	Segment Revenue		Segment Results	
	30/06/2002	30/06/2001	**30/06/2002**	30/06/2001
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Business segments		(Restated)		(Restated)
Property investment	**2,286**	2,226	**1,608**	1,480
Hong Kong	**1,880**	1,819	**1,489**	1,395
China	**105**	78	**24**	3
Hotels	**301**	329	**95**	82
Communications, media and entertainment ("CME")	**1,762**	1,463	**203**	97
Pay television	**877**	802	**154**	185
Internet and multimedia	**246**	132	**31**	(51)
i-CABLE	**1,123**	934	**185**	134
Telecommunications	**572**	463	**3**	(44)
Others	**67**	66	**15**	7
Logistics	**1,478**	1,552	**786**	809
Terminals	**1,260**	1,375	**709**	768
Other logistics business	**218**	177	**77**	41
	5,526	5,241	**2,597**	2,386
Property development	**99**	581	**3**	9
Investment and others	**186**	212	**65**	205
Inter-segment revenue *(Note)*	**(235)**	(231)	**–**	–
	5,576	5,803	**2,665**	2,600
Unallocated income and expenses			**(126)**	(127)
Operating profit			**2,539**	2,473
Borrowing costs			**(383)**	(632)
Net other charges				
Property development			**(204)**	–
Investment and others			**(43)**	–
Associates				
Property development			**(119)**	(167)
Investment and others			**7**	9
Profit before taxation			**1,797**	1,683

2. TURNOVER AND OPERATING PROFIT (Continued)

(a) Segment information (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	30/06/2002 HK$ Million	30/06/2001 HK$ Million (Restated)
Property investment	**90**	92
Hong Kong	**88**	89
Hotels	**2**	3
CME	**44**	39
Pay television	**18**	15
Internet and multimedia	**1**	–
i-CABLE	**19**	15
Telecommunications	**20**	14
Others	**5**	10
Logistics	**8**	8
Investment and others	**93**	92
	235	231

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.

2. TURNOVER AND OPERATING PROFIT (Continued)

(b) Operating profit is arrived at after charging:

	30/06/2002 HK$ Million	30/06/2001 HK$ Million
Depreciation		
– assets held for use under operating leases	**30**	22
– other assets	**496**	429
Amortisation of prepaid expenses and programming library	**110**	65
Amortisation of goodwill	**11**	11
Staff costs, including retirement scheme costs HK$58 million (2001: HK$58 million)	**991**	1,001
Auditors' remuneration	**4**	4
Cost of properties sold during the period	**88**	546
and crediting:		
Rental income less direct outgoings, including contingent rentals HK$26 million (2001: HK$40 million)	**1,536**	1,525
Interest income	**86**	110
Dividend income from listed securities	**24**	18
Dividend income from unlisted securities	**63**	10

3. BORROWING COSTS

	30/06/2002 HK$ Million	30/06/2001 HK$ Million
Interest on:		
Bank loans and overdrafts	**175**	402
Other loans repayable within five years	**147**	236
Other loans repayable after more than five years	**62**	92
Other borrowing costs	**64**	13
	448	743
Less: Amount capitalised	**(65)**	(111)
Net borrowing costs for the period	**383**	632

The Group's average borrowing cost for the period was 3.8% per annum (2001: 6.5% per annum).

4. NET OTHER CHARGES

Net other charges for the period under review comprise provisions of HK$204 million for properties under development and for sale and provisions of HK$43 million for impairment in value of investments.

5. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for both periods ended June 30, 2001 and 2002 principally comprises the attributable losses in respect of provisions for the impairment in value of the Bellagio development.

6. 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 16 per cent (2001: 16 per cent).

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

(c) Taxation in the consolidated profit and loss account represents:

	30/06/2002 HK$ Million	30/06/2001 HK$ Million
Hong Kong profits tax for the period	**235**	199
Underprovision for Hong Kong profits tax relating to prior years	**47**	–
Overseas taxation for the period	**8**	1
Deferred taxation	**(7)**	(9)
	283	191
Share of associates' Hong Kong profits tax for the period	**2**	–
	285	191

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

7. DIVIDENDS

(a) Dividends attributable to the period

	30/06/2002 HK$ Million	30/06/2001 HK$ Million
Interim dividend of 28 cents proposed after the balance sheet date (2001: 28 cents) per share	**685**	685

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved during the period

	30/06/2002 HK$ Million	30/06/2001 HK$ Million
Final dividend in respect of the previous financial year, approved during the period, of 50 cents (2001: 50 cents) per share	**1,223**	1,223

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the period of HK$1,202 million (2001: HK$1,145 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 million ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK$1,202 million (2001: HK$1,145 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 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, 2002 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2002.

9. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at June 30, 2002 as follows:

	30/06/2002 HK$ Million	31/12/2001 HK$ Million
0 – 30 days	**317**	442
31 – 60 days	**170**	157
61 – 90 days	**36**	41
Over 90 days	**45**	52
	568	692

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 receivable upon completion of the properties under development.

10. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at June 30, 2002 as follows:

	30/06/2002 HK$ Million	31/12/2001 HK$ Million
0 – 30 days	**153**	745
31 – 60 days	**65**	99
61 – 90 days	**71**	74
Over 90 days	**264**	311
	553	1,229

11. SHARE CAPITAL

	30/06/2002 No. of shares Million	31/12/2001 No. of shares Million	30/06/2002 HK$ Million	31/12/2001 HK$ Million
Authorised				
Ordinary shares of HK$1 each	**3,600**	3,600	**3,600**	3,600
Issued and fully paid				
Balance at January 1	**2,447**	2,446	**2,447**	2,446
Exercise of share options	**1**	1	**1**	1
Balance at June 30 / December 31	**2,448**	2,447	**2,448**	2,447

12. RESERVES

	Share premium HK$ Million	Capital redemption reserves HK$ Million	Investment properties revaluation reserves HK$ Million	Investments revaluation reserves HK$ Million	Other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
(a) Company and subsidiaries							
Balance at January 1, 2002	7,735	7	36,156	(10)	(235)	9,003	52,656
Dividends approved in respect of the previous year	–	–	–	–	–	(1,223)	(1,223)
Exercise of share options	8	–	–	–	–	–	8
Transferred to the profit and loss account on disposal of non-trading securities	–	–	–	3	–	–	3
Transferred to the profit and loss account on impairment of non-trading securities	–	–	–	5	–	–	5
Revaluation deficit – non-trading securities	–	–	–	(116)	–	–	(116)
Reclassification	–	–	(3)	–	3	–	–
Exchange reserves / others	–	–	–	–	(10)	–	(10)
Profit for the period	–	–	–	–	–	1,316	1,316
Balance at June 30, 2002	7,743	7	36,153	(118)	(242)	9,096	52,639
(b) Associates							
Balance at January 1, 2002	–	–	–	9	–	(467)	(458)
Revaluation deficit – non-trading securities	–	–	–	(2)	–	–	(2)
Loss absorbed for the period	–	–	–	–	–	(114)	(114)
Balance at June 30, 2002	–	–	–	7	–	(581)	(574)
Total reserves At June 30, 2002	7,743	7	36,153	(111)	(242)	8,515	52,065
At December 31, 2001	7,735	7	36,156	(1)	(235)	8,536	52,198

13. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the period ended June 30, 2002:

(a) Loans totalling HK$4,587 million (31/12/2001: HK$3,697 million) advanced by the Group to certain associates, in proportion of the Group's respective shareholdings thereof, involved in the Bellagio and Sorrento property developments projects (as described in more detail in (b) and (c) below) are 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 1994 and 1997 from complying with the relevant connected transaction requirements (as set out in further detail under (b) and (c) hereunder). The net interest earned by the Group from these loans during the period is not material in the context of these accounts.

(b) As disclosed in Note 14(b), the Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of an associate under an agreement to develop the Bellagio property.

The same parties have also severally guaranteed loans granted to a subsidiary of the above associate to finance the property development project. The amount attributable to the Company was HK$1,133 million (31/12/2001: HK$1,267 million).

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 1994.

(c) As disclosed in Note 14(c), the Company and a subsidiary, together with its controlling 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.

The same parties have also severally guaranteed loans granted to a subsidiary of the above associate to finance the property development project. The amount attributable to the Company and a subsidiary was HK$392 million (31/12/2001: HK$866 million).

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.

14. CONTINGENT LIABILITIES

As at June 30, 2002:

(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$22,822 million (31/12/2001: HK$29,849 million).

(b) The Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project by a subsidiary of another associate. Also, all the parties have severally guaranteed loans granted to a subsidiary of the associate to finance its property development project. The amount attributable to the Company was HK$1,133 million (31/12/2001: HK$1,267 million).

(c) The Company and a subsidiary together with its principal shareholder and two subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project by the subsidiary of an associate. Also, all the parties have severally guaranteed loans granted to a subsidiary of the associate to finance its property development project. The amount attributable to the Company and a subsidiary is HK$392 million (31/12/2001: HK$866 million).

(d) Forward exchange contracts amounting to HK$720 million (31/12/2001: HK$6,537 million) will mature in 2002.

15. COMMITMENTS

	30/06/2002 HK$ Million	31/12/2001 HK$ Million
(a) Capital commitments		
No provision has been made in the accounts for planned capital expenditure of	**4,108**	4,966
In respect of which contracts have been entered into for	**1,414**	1,858

(b) The Company's subsidiary, Modern Terminals Limited, together with certain other third parties, have entered into a Joint Development Agreement ("JDA") to jointly procure the construction of Container Terminal 9. The total cost of construction is estimated to be HK$4.8 billion and will be shared by respective parties at an agreed ratio as stipulated in the JDA. The financing of the construction cost is without recourse to the Company and other subsidiaries.

16. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for cash and cash equivalents in the condensed consolidated cash flow statement and the condensed consolidated statement of recognised gains and losses is replaced by the condensed consolidated statement of changes in equity in order to comply with SSAPs 15 (revised) and 1 (revised) respectively. In addition, the presentation of certain comparative figures in the segment reporting as disclosed in Note 2 to the accounts has been reclassified to conform to the current period's presentation which management consider gives a better indication of the results of the Group for the period.

17. REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended June 30, 2002 have been reviewed by the audit committee of the Company.

BUSINESS REVIEW AND PROSPECTS

HARBOUR CITY – 50 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Harbour City** generated HK$1.5 billion in total revenue.

Offices

Harbour City offices, excluding Tower 6 of Gateway II, maintained 90 per cent occupancy while average vacancy rates in Central and Tsimshatsui were approaching 10 and 15 per cent respectively. Overall activities were dominated by transactions below 10,000 square feet with keen upgrade demand coming from small/medium trading and manufacturing related tenants. The number of existing tenants showing needs for expansion increased.

Hotels and Service Apartments

The consolidated occupancy for the three Marco Polo Hotels at **Harbour City** stayed at 84 per cent, the same level recorded a year ago. Even though there was a double-digit increase in the number of visitor arrivals during the first half of 2002, the sizeable growth contributed by the China Mainland leisure segment had actually driven down yields to a certain extent. However, the performance of the corporate and business segment is expected to improve starting September as it moves towards the high season and as compared to last year after "911".

Gateway Apartments continued to perform well with average occupancy at 84 per cent while others in the market were mostly at 70-per cent level. More than 50 per cent of the tenants are multi-national corporate tenants and over half of the leases are for 12 months and above.

Retail

Harbour City's retail podium maintained its high occupancy at 98 per cent with around 700 retail and food outlets. This critical mass draws extremely heavy foot traffic, at average 130,000 per day, and **Harbour City** is considered by international brands and retail chains as a "must" in terms of retail presence while operating in the Hong Kong retail market. Following the opening of a 3,800-square-foot Prada store in August 2002, Yves Saint Laurent is going to launch its flagship store, with the size of 9,000 square feet, on Canton Road in late 2003. Other recently committed upmarket retailers include Bottega Veneta, Kate Spade, Sistyr Moon and Hysteric Mini. During the first six months of 2002, rental reversion stayed positive with double-digit rental increments recorded out of most renewals.

TIMES SQUARE – 20 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Times Square** generated HK$450 million in total revenue, about the same level when compared against the first half of 2001.

Offices

Times Square offices' average occupancy improved to 93 per cent. Anchor tenants including Shell Oil, AT&T, and Apple Computer have all renewed their tenancies. With these successful renewals accounting for more than half of the total expiring leases in 2002, **Times Square**'s office occupancy is expected to stay above the 93 per cent level for the remainder of the year.

Retail

The **Times Square** retail podium with more than 230 shops and retail outlets continued to enjoy a respectable occupancy rate of 96 per cent during the first half of 2002, despite a major re-merchandising programme undergoing on 8/F and 9/F. Leveraging on the success of the Electronics World on the 7/F, more "niche" brands and specialty stores are being acquired in order to expand this theme up to the 8/F. Due to tremendous market demand, the 9/F has also been repackaged and named as the Kids Kingdom. In terms of leasing area, 38 per cent of expiring tenancies this year have been successfully re-merchandised with more active retailers. Improvement and refinement of the retail trade mix on other floors will continue through the second half of 2002. The opening of two new restaurants, Wasabi Sabi and Water Margin, at the Food Forum is well received by the market and plans are underway to bring in more exciting food and beverage outlets. Similar to **Harbour City** retail, positive rental reversion was also achieved by **Times Square**'s retail section during the first half of 2002.

MODERN TERMINALS – 10 PER CENT OF GROUP TOTAL BUSINESS ASSETS

For the first six months of 2002, **Modern Terminals** handled altogether 1.57 million TEUs in Kwai Chung, representing a drop of 7.1 per cent against the same period in 2001 due to the absence of Maersk's one-off shift of containers from South East Asia which took place in the first half of 2001. However, as a result of the continuation of **Modern Terminals**' re-engineering process, the falling income was partially offset by more than 3 per cent savings in operating costs. Average tariff turned out to be fairly stable during the first half of the year.

The first berth of Container Terminal 9 will become operational in 2003. **Modern Terminals**' participation in Shekou Container Terminal phase 2 was finally agreed among all shareholders and the joint venture documentation was signed on July 16, 2002. The terminal is scheduled to be ready for operation during the fourth quarter of 2003.

Capital expenditure for the first half of 2002 amounted to HK$151 million, including capitalised interest of HK$1.8 million for the construction of Container Terminal 9.

CME – 10 PER CENT OF GROUP TOTAL BUSINESS ASSETS

i-CABLE

In a weak economy and a competitive operating environment, **i-CABLE** continued to report growth in the first half of 2002. Turnover increased by 20 per cent to HK$1,123 million and net profit grew by 34 per cent to HK$103 million when compared with the same period last year.

Pay TV

Anti-piracy measures continued, and were enhanced, in the first half of this year ahead of World Cup. They have proven to be helpful in arresting the decline in ARPU and revenue to enable Pay TV subscription revenue to recover to its previous peak in the first quarter of 2001 by the first quarter of 2002. That momentum continued into the second quarter amidst the World Cup fever. While total subscribers grew to 600,000, first half ARPU recovered to HK$244 from HK$239 a year ago and monthly churn eased back to 1.5 per cent.

Beginning in April, new channels to target the international communities and special interest groups were introduced with positive market response received. The total number of channels on offer is expected to increase to over 50 before the end of the year. In "mainstream" programming, the World Cup Carnival from May 31 to June 30 broke all viewership, subscription and airtime sales records in the history of CABLE TV. Besides, these activities have also served to enhance the brand name of CABLE TV in Hong Kong. The new HK$150 million Digital News Centre was commissioned by the Chief Executive of the HKSAR in April 2002.

Internet & Multimedia

The Broadband subscriber base increased from 160,000 to 192,000 during the first six months of 2002, which represented more modest growth than in 2001. On the back of rising competition, ARPU declined to HK$213 from HK$225 a year ago.

By the end of June, over 1.78 million households in about 10,000 buildings throughout the territory were already covered by **i-CABLE**'s Broadband network, an infrastructure that can only be matched by the incumbent telephone operator. Furthermore, the very favourable incremental cost structure of this business provides **i-CABLE** a clear competitive edge.

Capital expenditure for **i-CABLE** during the first half of 2002 amounted to HK$352 million, mainly for digital set-top boxes for the Pay TV service, network construction, cable modems and related equipment for the Broadband service, and the Digital News Centre commissioned in April 2002. That included an amount of HK$52 million relating to staff costs was capitalised for network construction.

Wharf New T&T

In the middle of a very weak economy and a global meltdown within the industry, the overall telecommunications market in Hong Kong contracted during the period under review. **Wharf New T&T** was able to continue to gain market share and control costs to report a healthy growth in customers, business volume, revenue and operating margin, based on the solid foundation and headstart built steadily in earlier years.

Wharf New T&T's installed base of fixed lines grew to 270,000 as at June 30, 2002, for a market share of over 7 per cent. This represented a net gain of 33,000 in 6 months and 86,000 in 12 months. Turnover increased by 24 per cent to HK$572 million from the first half of 2001 and gross profit increased by 43 per cent to HK$331 million (for a gross profit margin of 58 per cent, vs. 50 per cent in 2001). Net operating expenses rose by 9 per cent to HK$190 million and EBITDA increased by 147 per cent to HK$141 million (for an EBITDA margin of 25 per cent, vs. 12 per cent in 2001). That produced a small net profit of HK$3 million, compared to a net loss of HK$44 million in 2001. Net cash outflow improved to HK$188 million, compared to HK$231 million in 2001.

Total revenue from business customers in the first half of 2002 increased to HK$454 million, representing an increase of 18 per cent compared to the first half of 2001, and accounted for about 79 per cent of **Wharf New T&T**'s total revenue. Total revenue from residential customers in the first half of 2002 increased to HK$118 million, representing an increase of 51 per cent compared to the first half of 2001, and accounted for about 21 per cent of total revenue for the company.

Capital expenditure for the first half of 2002 amounted to HK$244 million, mainly for telephony equipment and network construction. For network construction, an amount of HK$32 million relating to staff costs was capitalised and included in the capital expenditure.

GROUP

As projected, Group financial position benefited largely from the falling interest rates and total borrowing costs during the period under review amounted to HK$448 million (2001: HK$743 million) with interest capitalised at HK$65 million (2001: HK$111 million). The amount of borrowing costs expensed was HK$383 million, down by 39 per cent from the HK$632 million recorded for the same period a year ago. Debt to total assets remained steady at around 23.7 per cent as of the end of June 2002.

COMMENTARY ON INTERIM RESULTS

1. REVIEW OF 2002 INTERIM RESULTS AND SEGMENTAL PERFORMANCE

The Group reported a profit attributable to shareholders of HK$1,202 million for the six months ended June 30, 2002, compared to HK$1,145 million for the same period in 2001, an increase of 5%. Earnings per share were HK$0.49, compared to HK$0.47 for the previous corresponding period. The healthy profit growth was achieved in a weak economy and a keen competitive environment, reflecting the comparative resilience of the Group's core business assets.

Turnover and revenue

The Group's turnover for the period was HK$5,576 million, decreased by HK$227 million or 4% from HK$5,803 million for the previous corresponding period mainly due to a reduction in property sales by HK$482 million.

The Property Investment segment with its two core assets, Harbour City and Times Square, reported an encouraging revenue growth of 3% to HK$2,286 million as a result of the improvement in occupancy at Gateway Towers 3, 5 and 6, Gateway Apartments and Shanghai Times Square. Harbour City and Times Square, representing 70% of the Group's business assets, generated total revenue of HK$1,928 million in the first half of 2002, an increase of HK$26 million or 1% from HK$1,902 million in the first half of 2001.

In spite of the difficult economic environment and market conditions, the Group has continued to report consistent growth in its CME (Communications, Media and Entertainment) business segment, which achieved total revenue of HK$1,762 million, an increase of HK$299 million or 20%, as a result of increase in revenue from Pay TV, Internet multimedia and telecommunication services. Pay TV turnover increased by HK$75 million or 9% to HK$877 million mainly due to an increase in advertising revenue and growth in subscribers to 600,000, spurred by the 2002 FIFA World Cup and the effectiveness of the anti-piracy measures. Internet and multimedia turnover grew by HK$114 million or 86% to HK$246 million as Broadband subscribers almost doubled year on year to 192,000. The combined impact of the continued growth in revenue of Pay TV and Internet and multimedia increased i-CABLE's group revenue by HK$189 million or 20% to HK$1,123 million. Wharf New T&T, another CME business segment, increased its telecommunication revenue by HK$109 million or 24% to HK$572 million as revenue from fixed-line telephony services increased by HK$131 million or 43% to HK$433 million which accounted for 76% of its total revenue.

The total revenue of Logistics segment with its core asset Modern Terminals Limited ("MTL") was HK$1,478 million, a decrease of HK$74 million or 5% as compared with HK$1,552 million for the previous period. The revenue reduction was mainly due to the decline of 7.1% in throughput volume handled by MTL in the absence of Maersk's non-recurrent "one-off" revenue contribution for the exceptional flow of cargo when Maersk used Hong Kong as a short term transitionary transshipment centre in the first half of 2001 to accommodate their relocation move from Singapore to Malaysia.

Operating profit

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for the period was HK$3,186 million, representing an increase of HK$186 million, or 6% from HK$3,000 million for the previous corresponding period. Depreciation and amortisation for the period was HK$647 million (including the amortisation of goodwill HK$11 million), an increase of 23% over the previous period mainly due to an increase in depreciation for i-CABLE and Wharf New T&T on their expanding capital expenditure on network and equipment and an increase in amortisation of the programming library of i-CABLE.

Operating profit before borrowing costs for the period was HK$2,539 million, increased by 3% from HK$2,473 million for the previous period.

Operating profit of Property Investment segment increased by 9% to HK$1,608 million. Harbour City, including its hotels, and Times Square, representing 70% of the Group's business assets, reported an aggregate operating profit of HK$1,406 million in the first half of 2002, increase of HK$103 million or 8% from HK$1,303 million in the previous period.

The Property Development segment recorded a minimal contribution to the Group.

CME's operating results recorded a significant growth of HK$106 million to HK$203 million, more than double the HK$97 million for the previous period. i-CABLE group improved its operating profit by HK$51 million or 38% to HK$185 million, principally due to the net combined results of its Pay TV and Broadband businesses. Though there was a reported 9% growth in revenue, the operating profit of the Pay TV service decreased by HK$31 million or 17% primarily due to the increase in non-recurring programming costs related to the 2002 FIFA World Cup. On the back of subscriber growth and high operating leverage, the operating result of the Internet and multimedia segment turned from a loss of HK$51 million in the first half of 2001 to a profit of HK$31 million in the first half of 2002. Wharf New T&T also recorded a turnaround profit of HK$3 million from loss of HK$44 million for the previous period.

The operating profit of MTL reduced by HK$59 million mainly due to the absence of Maersk's non-recurrent "one-off" net revenue contribution as explained in the previous section.

Borrowing costs

Net borrowing costs charged for the period were HK$383 million, decreased substantially from HK$632 million incurred in the previous corresponding period as a result of market interest rate cuts as well as the Group's success in its refinancing activities to reduce interest margins. The charge was after capitalisation of HK$65 million for the current period compared to HK$111 million in the previous period. The Group's average borrowing cost in the first half of 2002 was 3.8% per annum, reduced from 6.5% per annum in the first half of 2001.

Remaining items

Net operating profit for the period is HK$2,156 million, an increase of HK$315 million or 17% as compared to the first half of 2001.

Other net charges in the period under review amounted to HK$247 million while there was no such item in the previous corresponding period. The charges mainly include provisions of HK$204 million for impairment in value of properties under development and for sale and HK$43 million for impairment in value of investments, respectively.

The share of losses of associates was HK$112 million compared to HK$158 million in the first half of 2001. The attributable losses in both periods were mainly the result of an associate making provisions for impairment in value of a property development, namely, Bellagio.

The Group's profit before taxation was HK$1,797 million, increased HK$114 million from HK$1,683 million for the previous period.

The taxation charge for the period under review was HK$285 million compared to HK$191 million reported in the previous period, primarily resulting from the increase in the Group's net operating profit and the inclusion of an additional provision of HK$47 million in relation to previous years' assessments.

Minority interests were HK$310 million compared to HK$347 million for the previous period.

Further information on the segmental details is provided in the Note 2 to the Accounts on pages 9 and 10.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2002, the Group's shareholders' funds totalled HK$54,513 million, a decrease from HK$54,645 million at December 31, 2001. On that basis, the consolidated net asset value of the Group at that date was HK$22.27 per share, compared to net asset value of HK$22.33 per share at the end of 2001.

Supplemental Information

To better reflect the underlying net asset value of the Group, the following objective-base adjustments are given below:

	Per share
Net asset value at June 30, 2002 per accounts	HK$22.27
Add adjustments for:	
Modern Terminals – based on the previous average transaction prices	2.27
i-CABLE – based on market value at June 30, 2002	2.62
Adjusted net asset value per share at June 30, 2002	HK$27.16

For the period under review, net cash generated from the Group's operating activities amounted to HK$2.2 billion. Included in investing activities was capital expenditure incurred during the period of HK$927 million. This expenditure comprised HK$352 million incurred by i-CABLE group mainly for digital set-top boxes for the Pay TV service, network construction, cable modems and related equipment for the Broadband service, and the Digital News Centre commissioned in April 2002. There was also HK$244 million incurred by Wharf New T&T for telephony equipment and network. Other capital expenditure included HK$151 million incurred by Modern Terminals for CT9 construction and HK$180 million for various property construction and renovation programmes.

Included in capital expenditure were capitalised costs primarily relating to staff costs for network construction of HK$52 million (2001: HK$57 million) incurred by i-CABLE and of HK$32 million (2001: HK$26 million) incurred by Wharf New T&T. There was no non-cash revenue in the form of telecommunications capacity and services capitalised by Wharf New T&T as plant and equipment assets, with corresponding credit to deferred income account, for the period under review, as compared to HK$71 million for the full year 2001. Other capitalised costs mainly included programming cost capitalised by i-CABLE as deferred items for the period amounted to HK$45 million (2001: HK$59 million). All capitalised costs/deferred income items are amortised/recognised in accordance with the Group's accounting policies.

Other investing activities included the net purchase of non-trading investment securities totalling HK$439 million, additional advances to associates in proportion to the Group's respective shareholdings thereof in the amount of HK$899 million for property development, mainly for Bellagio and Sorrento.

As at June 30, 2002, the ratio of net debt to total assets marginally increased to 23.7% from 23.4% at December 31, 2001. The Group's net debt increased from HK$19.8 billion at December 31, 2001 to HK$20.2 billion at June 30, 2002, which was made up of HK$23.6 billion in debts less HK$3.4 billion in deposits, debt securities and cash. Included in the Group's net debts were loans of HK$1,073 million borrowed by a non-wholly owned subsidiary, Modern Terminals Limited. These loans are without recourse to the Company and other subsidiaries of the Group.

High liquidity continued to sustain in the banking market during the six months ended June 30, 2002. Capitalising on this opportunity, the Group arranged an aggregate of HK$2.1 billion loan facilities to refinance a number of its loan facilities with substantial reduction in interest costs and on more favourable terms such as longer maturities, more lenient covenants and the inclusion of revolving conditions. Amongst these financing activities, the Group arranged the issue of Retail Bonds totalling HK$600 million via a wholly-owned subsidiary. The result was satisfactory and the Bonds were fully subscribed for. This was the first ever retail bond issued by private corporation in Hong Kong.

Excluding the project loans for Sorrento and Bellagio, which are undertaken by associates, the Group's available committed loan facilities and debt securities amounted to HK$27.9 billion and uncommitted facilities amounted to HK$2.5 billion. The available committed facilities were HK$6.3 billion lower than that as at December 31, 2001, which was mainly due to the cancellation of two facilities with higher cost amounting to HK$4.5 billion and HK$1.4 billion respectively. Various facilities with favourable terms are under discussion and a facility of HK$4.5 billion will be completed in September 2002. Total debt in the amount of HK$23.6 billion were drawn down at June 30, 2002, the maturity profile of which is analysed as follows:

Debt Maturity	HK$ Billion	
Repayable within 1 year	2.0	8%
Repayable between 1 to 2 years	9.5	41%
Repayable between 2 to 3 years	6.2	26%
Repayable between 3 to 4 years	1.8	8%
Repayable between 4 to 5 years	4.1	17%
– Secured	5.0	21%
– Unsecured	18.6	79%
Total	23.6	100%

As at June 30, 2002, the banking facilities of the Group were secured by mortgages over certain investment properties with an aggregate carrying value of HK$19,214 million. At December 31, 2001, banking facilities were secured by mortgages over investment properties with an aggregate carrying value of HK$19,171 million.

An analysis of the Group's total debts by currency at June 30, 2002 is shown below:

	HK$ Billion
Hong Kong dollar	16.0
United States dollar (swapped into Hong Kong dollars)	7.0
Renminbi	0.6
	23.6

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

The use of financial derivative products is strictly controlled. The majority of the derivative products entered into by the Group were used for management of the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong and US dollars, to facilitate the Group's business and investment activities. As at June 30, 2002, the Group also maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK$1.3 billion.

3. EMPLOYEES

The Group has approximately 9,290 employees. Employees are remunerated according to nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the six months ended June 30, 2002 amounted to HK$991 million, compared to HK$1,001 million in the first half of 2001.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at any time during the six-month period ended June 30, 2002. Nevertheless, the matter regarding a tenancy agreement between a non wholly-owned subsidiary of the Company and a wholly-owned subsidiary of Wheelock and Company Limited ("Wheelock") as announced on May 17, 2002, being a matter involving conflict of interest for Wheelock, the Company's substantial shareholder, was not approved by a meeting of the Company's Directors in accordance with the provisions of paragraph 11 of the above mentioned Code of Best Practice, but instead was duly approved by Resolutions in Writing of the Board of Directors of the Company.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2002, Directors of the Company had the following personal beneficial interests in the securities of the Company and of a subsidiary of the Company, namely, i-CABLE Communications Limited ("i-CABLE"):

	Quantity Held
The Company – Ordinary Shares	
Mr Gonzaga W J Li	686,549
Mr Robert H Burns	17,000
Mr Stephen T H Ng	650,057
Mr T Y Ng	178,016
i-CABLE – Ordinary Shares	
Mr Stephen T H Ng	750,000

As at June 30, 2002, Directors of the Company had the following personal interests in options to subscribe for shares of the Company granted under the Executive Share Incentive Scheme (the "Scheme") of the Company:

Name of Director		Date granted (Day/Month/Year)	No. of shares represented by unexercised options outstanding as at 01/01/2002	No. of shares represented by options exercised during the financial period	No. of shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
Mr Gonzaga W J Li:	(i)	22/06/1993	210,000	–	210,000	17/06/1997 to 16/06/2003	19.00	1.00
Mr Quinn Y K Law:	(i)	22/06/1993	100,000	–	100,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr Stephen T H Ng:	(i)	16/04/1992	500,000	(500,000)	–	13/04/1995 to 12/04/2002	12.00	1.00
	(ii)	22/06/1993	200,000	–	200,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr T Y Ng:	(i)	22/06/1993	100,000	–	100,000	17/06/1996 to 16/06/2003	19.00	1.00

During the period under review, Mr Stephen T H Ng exercised options under the Scheme to subscribe for a total of 500,000 ordinary shares of the Company at an exercise price of HK$12.00 per share.

Save as disclosed above, as recorded in the register kept by the Company under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SDI Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

(i) there were no interests held as at June 30, 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and

(ii) there existed during the financial period no rights to subscribe for equity or debt securities of the Company which were held by any 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 10% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at June 30, 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

	Names	No. of Ordinary Shares
(i)	Diplock Holdings Limited	1,050,087,051
(ii)	WF Investment Partners Limited	1,069,456,184
(iii)	Wheelock and Company Limited	1,241,430,213
(iv)	Bermuda Trust (Guernsey) Limited	1,241,430,213

Note:

For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) above is entirely duplicated or included in the shareholdings stated against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), and that the shareholdings stated against parties (iii) and (iv) above represent the same block of shares; all of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at June 30, 2002.

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.

SHARE OPTION SCHEME

Details of share options granted to Directors of the Company under the Company's Executive Share Incentive Scheme are set out in the above section headed "Directors' interests in shares".

Particulars, and movements during the financial period, of the Company's outstanding share options, which were granted to 21 employees (including all those Directors who were granted share options) working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, were as follows:

	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2002	No. of ordinary shares represented by options exercised during the financial period	No. of ordinary shares represented by unexercised options outstanding as at 30/06/2002	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK$)	Consideration paid for the options granted (HK$)
(i)	16/04/1992	680,000	(680,000)	–	13/04/1995 to 12/04/2002	12.00	1.00
(ii)	22/06/1993	1,823,000	(42,000)	1,781,000	17/06/1996 to 16/06/2003	19.00	1.00
(iii)	01/08/1996	330,000	–	330,000	01/08/2002 to 31/07/2003	25.00	1.00
(iv)	01/08/1996	440,000	–	440,000	01/08/2005 to 31/07/2006	25.00	1.00
		3,273,000	(722,000)	2,551,000			

The weighted average closing price of the ordinary shares of the Company immediately before the dates of all exercises by employees of the Company's share options during the financial period was HK$17.84 per share.

No share option was cancelled or lapsed during the financial period. Apart from the Directors and employees mentioned above, no option was granted to any other categories of participants as stated in rule 17.07 of the Listing Rules.

BOOK CLOSURE

The Register of Members will be closed from Thursday, October 17, 2002 to Monday, October 21, 2002, 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 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Wednesday, October 16, 2002.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 22, 2002