

COMMENTARY ON INTERIM RESULTS

1. REVIEW OF 2001 INTERIM RESULTS

The Group reported a profit attributable to shareholders of HK\$1,145 million for the period ended June 30, 2001, compared to HK\$1,128 million for the same period in 2000, an increase of 1.5 per cent. Earnings per share were HK\$0.47 compared to HK\$0.46 for the previous period.

Turnover for the period was HK\$5,803 million, as compared with HK\$5,769 million recorded in the corresponding period in 2000. The Group continued to report sustained growth in its CME (Communications, Media and Entertainment) business segment, which achieved a total revenue of HK\$1,463 million in the first half of 2001, a year-on-year increase of HK\$294 million or 25 per cent, as a result of increase in revenue from Pay TV, Internet multimedia and telecommunication services. The continued growth in Pay TV and Internet related subscribers of i-CABLE increased its group revenue by 21 per cent to HK\$934 million. New T&T increased its telecommunication revenue by 43 per cent to HK\$463 million as revenue from fixed-line telephony services almost doubled to HK\$260 million and accounted for 56 per cent of its total revenue. The Property Investment segment also managed to report revenue growth of eight per cent to HK\$1,911 million under the recent lacklustre market conditions. The Logistics segment reported moderate revenue growth of one per cent to HK\$1,598 million mainly due to increase in throughput from the terminals operation. Lower sales proceeds from property trading has deterred the Group's total revenue growth for the period.

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for the period under review was HK\$3,000 million, representing an increase of HK\$56 million, or two per cent from HK\$2,944 million in first half of 2000. Depreciation and amortisation for the period was HK\$527 million (including the amortisation of goodwill HK\$11 million), increased slightly by five per cent over the comparative period.

Operating profit for the period was HK\$2,473 million, increased by one per cent from HK\$2,442 million in first half of 2000 as a result of mixed performance among the Group's business segments. CME's operating results recorded a turnaround to profit of HK\$97 million from loss of HK\$102 million incurred in first half of 2000 as i-CABLE achieved a triple growth in its Pay TV operating profit to HK\$185 million while New T&T reduced its operating losses by HK\$47 million. The operating profits of both the Property Investment and Logistics segments marginally increased. Adversely affected by the thin profit from sales of trading properties and lack of profit on disposal of investments in the period under review while there was profit on disposal of investments of HK\$189 million in previous period, the Group's total operating profit only increased marginally by one per cent over the comparative period.

Net borrowing costs charged for the period were HK\$632 million, decreased substantially from HK\$844 million incurred in the first half of 2000 as a result of the reduction of the Group's average borrowings and interest rate cuts. The charge was after capitalisation of HK\$111 million for the current period under review, compared to HK\$147 million in previous period.

The share of loss in associates was HK\$158 million, compared to a profit of HK\$22 million recorded in the previous period. The loss in the current period under review was mainly related to the impairment provision made by an associate in respect of a property development.

Taxation charge for the period under review was HK\$191 million compared to HK\$172 million in the last corresponding period.

Minority interests were HK\$347 million, compared to HK\$320 million in last period.

Further information on the segmental details is provided in the Note 2 to the Accounts on pages 11 and 12.

2. LIQUIDITY AND FINANCIAL RESOURCES

For the period under review, net cash generated from the Group's operating activities amounted to HK\$1.3 billion. Other investment activities included HK\$1.1 billion in expenditures mainly on purchases of fixed assets and the purchase of the additional interest of 4.5 per cent in Modern Terminals Limited, and receipt of HK\$1.1 billion mainly from disposal of the 26.7 per cent interest in The Cross-Harbour (Holdings) Limited and repayment of loans from an associate.

As at June 30, 2001, the ratio of net debt to total assets was 23 per cent compared to that of 22 per cent at the end of 2000. The Group's net debt increased from HK\$19.5 billion at the end of 2000 to HK\$20.8 billion at June 30, 2001, which was made up of HK\$24.3 billion in debts less HK\$3.5 billion in deposits and cash. Included in the Group's debts were loans of HK\$1,640 million borrowed by non-wholly owned subsidiaries, Modern Terminals Limited and Harbour Centre Development Limited, which are non-recourse to the Company and other subsidiaries of the Group.

High liquidity was sustained in the banking market during the first six months of 2001. Capitalising on this opportunity, the Group arranged an aggregate of HK\$6.5 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 inclusion of revolving condition. In addition, HK\$3.4 billion project loan facility related to the development of Sorrento (Kowloon Station Package II), in which the Group has 40 per cent interest, has been completed to replace the previous facility of HK\$2.2 billion at a lower interest margin.

The debt maturity profile of the Group as at June 30, 2001 is analysed as follows:

Debt Maturity	<i>HK\$ Billion</i>	
Repayable within 1 year	2.6	11%
Repayable between 1 to 2 years	4.8	20%
Repayable between 2 to 3 years	8.5	35%
Repayable between 3 to 4 years	5.5	22%
Repayable between 4 to 5 years	0.2	1%
Repayable after 5 years	2.7	11%
– Secured	4.9	20%
– Unsecured	19.4	80%
Total	24.3	100%

An analysis of the Group's total borrowings by currency at June 30, 2001 is shown as below:

	<i>HK\$ Billion</i>
Hong Kong Dollar	19.4
United States Dollar	4.3
Other currencies	0.6
	24.3

As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

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, 2001, the Group maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK\$1.5 billion, a decrease of HK\$0.3 billion from the end of 2000.

As at June 30, 2001, the banking facilities of the Group were secured by mortgages over certain investment properties with carrying value of HK\$20,430 million. At December 31, 2000, the banking facilities were secured by mortgages over investment properties of HK\$20,413 million and land and buildings of HK\$910 million.

The consolidated net asset value of the Group as at June 30, 2001 was HK\$58.1 billion or HK\$23.77 per share compared to HK\$23.69 per share at December 31, 2000.

3. EMPLOYEES

The Group has approximately 9,000 employees. They are remunerated according to the nature of the job and market trends, with built-in merit components incorporated in annual increments to reward and motivate individual performance. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for the six months ended June 30, 2001 were HK\$1,001 million, compared to HK\$917 million in the first half of 2000.

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 months ended June 30, 2001.

DIRECTORS' INTERESTS IN SHARES

At June 30, 2001, Directors of the Company had the following beneficial interests in the securities of the Company and of two subsidiaries of the Company, namely, i-CABLE Communications Limited (“i-CABLE”) and Wharf International Finance Limited (“Wharf International Finance”):

	Quantity Held	Nature of Interest
The Company – Ordinary Shares		
Mr Gonzaga W J Li	686,549	Personal interest
Mr Robert H Burns	17,000	Personal interest
Mr Stephen T H Ng	230,057	Personal interest
Mr T Y Ng	128,016	Personal interest
i-CABLE – Ordinary Shares		
Mr Stephen T H Ng	750,000	Personal interest
Wharf International Finance		
– US\$ Guaranteed Series A Notes due 2007		
Mr Ian H Melrose	US\$300,000	Personal interest

As at June 30, 2001, 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 of the Company:

Name of Directors	No. of ordinary shares	Date granted	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of option	Consideration paid for the options granted
Mr Gonzaga W J Li:	(i) 210,000	June 22, 1993	17/6/1997 to 16/6/2003	HK\$19.00	HK\$1
Mr Quinn Y K Law:	(i) 100,000	June 22, 1993	17/6/1996 to 16/6/2003	HK\$19.00	HK\$1
Mr Stephen T H Ng:	(i) 200,000	Aug. 13, 1991	13/8/1994 to 12/8/2001	HK\$9.50	HK\$1
	(ii) 500,000	Apr. 16, 1992	13/4/1995 to 12/4/2002	HK\$12.00	HK\$1
	(iii) 200,000	June 22, 1993	17/6/1996 to 16/6/2003	HK\$19.00	HK\$1
Mr T Y Ng:	(i) 250,000	Apr. 16, 1992	13/4/1995 to 12/4/2002	HK\$12.00	HK\$1
	(ii) 100,000	June 22, 1993	17/6/1996 to 16/6/2003	HK\$19.00	HK\$1

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 that Ordinance or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests held as at June 30, 2001 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) during the financial period, there existed 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 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 the 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, 2001 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Deakin Limited	416,859,122
(ii) Diplock Holdings Limited	633,227,929
(iii) WF Investment Partners Limited	1,069,456,184
(iv) Wheelock and Company Limited	1,241,430,213
(v) Bermuda Trust (Guernsey) Limited	1,241,430,213

Note:

For the avoidance of doubts 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) and (ii) above are entirely duplicated or included in the shareholdings stated against party (iii) above, with the same duplication of the shareholdings in respect of (iii) in (iv) and that the shareholdings stated against parties (iv) and (v) 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, 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial period under review.

BOOK CLOSURE

The Register of Members will be closed from Tuesday, October 16, 2001 to Friday, October 19, 2001, both days inclusive, during which period no transfer of shares of the Company can be effected. 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 Monday, October 15, 2001.

By Order of the Board

Wilson W S Chan

Secretary

Hong Kong, August 27, 2001