

THE WHARF (HOLDINGS) LIMITED
Interim Report to Shareholders 2001



WHARF

Established 1886

www.wharfholdings.com

HIGHLIGHTS

“Value Creation on a Solid Foundation”

RESULTS

- Unaudited Group profit of HK\$1,145 million, an increase of 1.5 per cent over last year.
- Earnings per share of HK\$0.47.
- Interim dividend of 28 cents per share.
- Debt to total asset ratio at 23 per cent.
- The Group’s CME division continues to experience significant growth both in revenue and profit.

GROUP PROFILE

- Group anchored by Harbour City which represents about 50 per cent of Group assets, with other properties taking up another 25 per cent.
- Harbour City with 8.25 million square feet, and Times Square with 2 million square feet together make up the majority of the Group’s investment property.
- Group is completed by two other arms of CME (communications, media and entertainment) under Wharf Communications Investments Limited; and Logistics (container and sea/air terminals).

PROPERTY

- Group core office portfolio over 90 per cent occupied, with retail at over 98 per cent and serviced apartments over 85 per cent. Tower 6 of Gateway II attracting quality multinational tenants, and occupancy has reached some 40 per cent within a short period.

Gonzaga W J Li
Chairman and Chief Executive



- Following completion of development projects of Galaxia, Serenade Cove and Nelson Court, Wharf acquired Wheelock's interests of 15.6 per cent in the Yau Tong Consortium to replenish its land reserve. Major residential projects of Bellagio, Sorrento and Peak Portfolio are progressing on schedule.
- Despite a sluggish global economy, the three Marco Polo Hotels in Hong Kong maintained an occupancy of about 85 per cent, and management rights have been secured for "The Marco Polo, Beijing" expected to open in late 2001.

CME

● i-CABLE

- Group profits gained momentum as Pay TV operating profit tripled to HK\$185 million and Internet/Multimedia revenue quadrupled to HK\$132 million. Total turnover increased by 21 per cent to HK\$934 million. Net profit of HK\$77 million.
- Pay TV subscribers grew by 11 per cent year-on-year to 537,000 to consolidate market leadership. Anti-piracy measures initiated and will begin to make impact in second half.

- Broadband subscribers doubled in 6 months to exceed 100,000 representing an estimated 33 per cent market share. Subscriber and margin growth expected to accelerate in second half.

● New T&T

- Rapid and successful transformation from low-value IDD to high-value fixed-line business. Fixed-lines' installed base grew by 40,000 in the period to exceed 180,000 and revenue almost doubled to HK\$260 million.
- Total revenue grew by 43 per cent to HK\$463 million. Gross profit margin improved from 43 per cent to 50 per cent, delivering a gross profit of HK\$232 million. Net loss reduced from HK\$91 million in 2000 to HK\$44 million in 2001.
- Growth for installed base, revenue and EBITDA expected to accelerate in the second half to return New T&T's first net profit.

LOGISTICS

- Modern Terminals handled 1.53 million TEUs during the first half-year, representing a growth of 13 per cent over the same period last year.
- Despite some initial delays, the CT9 construction is now progressing satisfactorily. Additional investments being made in capacity enhancement to accommodate an additional 400,000 TEUs in existing terminals to cope with the rising throughput before CT9 comes on stream in the second half of 2003.
- Modern Terminals' development of container terminal business in Southern China gains momentum. The investment in Kaifeng Container Terminals is now contributing positively. Whilst continuing to manage Shekou Container Terminal 1, the construction of Shekou Container Terminal 2 has begun.

GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2001 amounted to HK\$1,145 million, an increase of 1.5 per cent as compared with HK\$1,128 million for the

corresponding period last year. Operating profit amounted to HK\$2,473 million (2000: HK\$2,442 million). Earnings per share were 47 cents.

INTERIM DIVIDEND

The Board has declared an interim dividend of 28 cents (2000: 28 cents) per share in respect of the financial year ending December 31, 2001, payable

on November 2, 2001 to Shareholders on record as at October 19, 2001.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended June 30, 2001

		Unaudited 30/06/2001 <i>HK\$ Million</i>	(Restated) Unaudited 30/06/2000 <i>HK\$ Million</i>
Turnover	2	5,803	5,769
Other net income/(losses)		(39)	189
		5,764	5,958
Direct costs and operating expenses		(2,247)	(2,527)
Selling and marketing expenses		(233)	(189)
Administrative and corporate expenses		(284)	(298)
Operating profit before depreciation, amortisation, interest and tax		3,000	2,944
Depreciation and amortisation		(527)	(502)
Operating profit	2	2,473	2,442
Borrowing costs	3	(632)	(844)
Share of profits less losses of associates		(158)	22
Profit before taxation		1,683	1,620
Taxation	4(c)	(191)	(172)
Profit after taxation		1,492	1,448
Minority interests		(347)	(320)
Profit attributable to shareholders		1,145	1,128
Proposed interim dividend	5	685	685
Earnings per share			
Basic	6	HK\$0.47	HK\$0.46
Diluted	6	HK\$0.47	HK\$0.46
Proposed interim dividend per share		HK\$0.28	HK\$0.28

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended June 30, 2001

	Unaudited 30/06/2001 <i>HK\$ Million</i>	(Restated) Unaudited 30/06/2000 <i>HK\$ Million</i>
Profit attributable to shareholders		
– as previously reported		1,120
– prior period adjustment		8
		<hr/>
Profit attributable to shareholders (2000: as restated)	1,145	1,128
Net losses not recognised in the consolidated profit and loss account	(123)	(1,041)
Investments revaluation reserve transferred to/(from) the profit and loss account on disposal of non-trading securities	103	(262)
Share of investments revaluation reserve of associates transferred from the profit and loss account on disposal of non-trading securities	(4)	–
Goodwill transferred to the profit and loss account on disposal of an associate	301	–
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Total recognised gains/(losses)	1,422	(175)
Net goodwill movement dealt with in reserves	–	96
	<hr/>	<hr/>
	1,422	(79)
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CONSOLIDATED BALANCE SHEET

As at June 30, 2001

		Unaudited 30/06/2001 <i>HK\$ Million</i>	(Restated) Audited 31/12/2000 <i>HK\$ Million</i>
	<i>Note</i>		
Non-current assets			
Fixed assets		77,418	77,237
Interest in associates		4,028	4,972
Long term investments		1,628	1,901
Long term deposits		156	–
Deferred debtors		482	433
Deferred items		564	570
Goodwill	7	430	–
		<u>84,706</u>	<u>85,113</u>
Current assets			
Inventories		2,830	3,257
Debtors	8	1,065	728
Pledged deposits		1,242	981
Deposits and cash		2,147	2,213
		<u>7,284</u>	<u>7,179</u>
Current liabilities			
Creditors	9	(4,719)	(6,570)
Short term loans and overdrafts		(2,616)	(5,846)
Taxation		(306)	(266)
		<u>(7,641)</u>	<u>(12,682)</u>
Net current liabilities		<u>(357)</u>	<u>(5,503)</u>
Total assets less current liabilities		<u>84,349</u>	<u>79,610</u>

CONSOLIDATED BALANCE SHEET (Cont'd)

As at June 30, 2001

		Unaudited	(Restated)
		30/06/2001	Audited
	<i>Note</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Capital and reserves			
Share capital	<i>10</i>	2,446	2,446
Reserves	<i>11</i>	55,018	54,281
Proposed dividend		685	1,223
		<u>58,149</u>	<u>57,950</u>
Minority interests		3,722	4,026
Non-current liabilities			
Long term loans		21,709	16,852
Other deferred liabilities		300	304
Deferred taxation		469	478
		<u>22,478</u>	<u>17,634</u>
Total equity and non-current liabilities		<u>84,349</u>	<u>79,610</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2001

	Unaudited 30/06/2001 <i>HK\$ Million</i>	(Restated) Unaudited 30/06/2000 <i>HK\$ Million</i>
Net cash inflow from operating activities	1,250	2,638
Net cash outflow from returns on investments and servicing of finance	(2,345)	(987)
Tax paid	(160)	(69)
Net cash outflow from investing activities	(27)	(2,259)
Net cash outflow before financing	(1,282)	(677)
Net cash inflow/(outflow) from financing	1,209	(4,154)
Decrease in cash and cash equivalents	(73)	(4,831)
Effect of foreign exchange rates	(2)	14
Cash and cash equivalents at January 1	2,211	6,404
Cash and cash equivalents at June 30	2,136	1,587
Analysis of the balance of cash and cash equivalents		
Deposits and cash	2,147	1,593
Bank loans, overdrafts and other loans	(11)	(6)
	2,136	1,587

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited consolidated interim 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, 2000 except the methods of accounting for goodwill/negative goodwill, planned maintenance, proposed dividend and segment reporting as described below.

(a) Goodwill/negative goodwill

In prior years, goodwill/negative goodwill arising on consolidation, representing the excess/shortfall of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, is taken to reserves in the year in which it arises. On disposal of a subsidiary or an associate, the attributable amount of goodwill/capital reserve is included in calculating the profit or loss on disposal.

With effect from January 1, 2001, with the introduction of SSAP 30 “Business Combinations”, the Group adopted an accounting policy to recognise goodwill as an asset and is amortised on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a subsidiary or an associate, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

By adoption of SSAP 30, goodwill of HK\$441 million was capitalised as assets in the balance sheet as at June 30, 2001 and HK\$11 million was amortised in the profit and loss account for the period ended June 30, 2001. The Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of positive/negative goodwill taken to reserves prior to January 1, 2001, and there is no financial effect to the Group for the prior periods. However, any impairment arising on such goodwill is required to be accounted for in accordance with the newly issued SSAP 31 “Impairment of Assets” retrospectively. As a result of this change, in adjusting prior years’ figures, revenue reserves as at January 1, 2000 were restated and decreased by HK\$204 million (the other capital reserves were increased by the corresponding amount) representing the goodwill written off to the prior year’s consolidated profit and loss account.

1. BASIS OF PREPARATION OF THE ACCOUNTS (Cont'd)

(b) Planned maintenance

In prior years, the Group operated a planned maintenance scheme for its hotels which projected future maintenance requirements over a period of years. Within this scheme actual costs and/or projected costs of ensuing four year periods as estimated by the Group were equalised by annual provisions in the profit and loss account. With effect from January 1, 2001, maintenance costs are expensed in the profit and loss account in the year in which they are incurred in accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets". The accounting policy has been adopted retrospectively. In adjusting prior years' figures, revenue reserves as at January 1, 2001 were restated and increased by HK\$120 million representing the reversal of the previous provision for planned maintenance.

As a result of the adoption of SSAP 28 and restating the prior years' results and reserves, the Group's profit for the period attributable to shareholders has increased by HK\$9 million (2000: HK\$8 million) and the Group's shareholders' funds at June 30, 2001 have increased by HK\$9 million (2000: HK\$11 million) as a net result of not making planned maintenance provision and writing off the actual maintenance costs incurred during the period.

(c) Proposed dividend

In prior years, dividend proposed after balance sheet date was accrued as liabilities at the balance sheet date. With effect from January 1, 2001, the dividend proposed after balance sheet date is shown as a separate component of shareholders' funds in accordance with the revised SSAP 9 "Events After the Balance Sheet Date" issued by the Hong Kong Society of Accountants. The new accounting policy has been adopted retrospectively. In adjusting prior years' figures, shareholders' funds as at January 1, 2001 were restated and increased by HK\$1,223 million representing the proposed final dividend for the year ended December 31, 2000.

As a result of the adoption of SSAP 9 and restating the prior years' reserves, the Group's shareholders' funds at June 30, 2001 have increased by HK\$685 million (2000: HK\$685 million).

(d) Segment reporting

A segment is distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Inter-segment pricing is based on similar terms as those available to other external parties.

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26 "Segment Reporting". In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

2. TURNOVER AND OPERATING PROFIT

(a) Segment information

<i>Business segment</i>	Segment Revenue		Segment Results	
	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
Property investment	1,911	1,767	1,339	1,325
Property development	581	862	9	75
CME (<i>Note i</i>)	1,463	1,169	97	(102)
Pay television	802	744	185	61
Telecommunication	463	324	(44)	(91)
Internet, multimedia and others	198	101	(44)	(72)
Logistics	1,598	1,581	846	843
Terminals	1,421	1,407	806	803
Others	177	174	40	40
Hotels	344	351	82	83
Other revenue	137	232	–	–
	<u>6,034</u>	<u>5,962</u>	<u>2,373</u>	<u>2,224</u>
Inter-segment revenue (<i>Note ii</i>)	<u>(231)</u>	<u>(193)</u>	<u>–</u>	<u>–</u>
	<u>5,803</u>	<u>5,769</u>	<u>2,373</u>	<u>2,224</u>
Unallocated income and expenses			<u>100</u>	<u>218</u>
Operating profit			<u>2,473</u>	<u>2,442</u>

2. TURNOVER AND OPERATING PROFIT (Cont'd)

Notes:

- i. CME annotates Communications, Media and Entertainment.
- ii. Inter-segment revenue eliminated on consolidation includes:

	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
Property investment	148	116
CME	39	33
Pay television	15	12
Telecommunication	14	9
Internet, multimedia and others	10	12
Logistics	8	9
Hotels	19	18
Other revenue	17	17
	<u>231</u>	<u>193</u>

Geographical segment

During the period, more than 90 per cent of the operations of the Group in terms of both turnover and operating profit was in Hong Kong.

2. TURNOVER AND OPERATING PROFIT (Cont'd)

(b) Operating profit is arrived at after charging:

	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
Depreciation	451	440
Amortisation of deferred expenses	65	62
Amortisation of goodwill	11	–
Staff costs	1,001	917
Auditors' remuneration	4	4
Cost of properties sold during the period	546	772
Loss on disposal of investments	58	–
	<u> </u>	<u> </u>
And crediting:		
Rental income less direct outgoings	1,525	1,423
Interest income	110	151
Dividend income from listed securities	18	74
Dividend income from unlisted securities	10	10
Profit on disposal of investments	–	189
	<u> </u>	<u> </u>

3. BORROWING COSTS

	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
Interest on:–		
Bank loans and overdrafts	402	677
Other loans repayable within five years	236	202
Other loans repayable after more than five years	92	98
Other borrowing costs	13	14
	<u> </u>	<u> </u>
	743	991
Less: Amount capitalised	(111)	(147)
	<u> </u>	<u> </u>
Net borrowing costs for the period	632	844
	<u> </u>	<u> </u>

4. 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 (2000: 16 per cent).
- (b) Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- (c) The taxation charge represents:

	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
The Company and its subsidiaries		
Hong Kong profits tax for the period	199	179
Overseas taxation for the period	1	1
Deferred taxation	(9)	(9)
	<hr/>	<hr/>
	191	171
Share of associates' Hong Kong profits tax	–	1
	<hr/>	<hr/>
	191	172
	<hr/>	<hr/>

5. PROPOSED INTERIM DIVIDENDS

	30/06/2001 <i>HK\$ Million</i>	30/06/2000 <i>HK\$ Million</i>
Interim dividend of 28 cents (2000: 28 cents) per share	<hr/> 685	<hr/> 685

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the period of HK\$1,145 million (2000: HK\$1,128 million as restated) and the weighted average of 2,446 million (2000: 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\$1,145 million (2000: HK\$1,128 million as restated) and the weighted average of 2,446 million (2000: 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, 2001 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2001.

7. GOODWILL

	30/06/2001	31/12/2000
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Balance at January 1, 2001	–	–
Addition through acquisition of a subsidiary	441	–
Amortisation	(11)	–
	<hr/>	<hr/>
Balance at June 30, 2001	430	–
	<hr/>	<hr/>

The addition of goodwill during the period under review is related to the acquisition of additional interest of 4.5 per cent in Modern Terminals Limited (Modern Terminals), which increased the Group's equity holding in Modern Terminals from 50.8 per cent to 55.3 per cent. The above goodwill is amortised on a straight-line basis over 20 years.

8. DEBTORS

Included in debtors are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at June 30, 2001 as follows:

	30/06/2001 <i>HK\$ Million</i>	31/12/2000 <i>HK\$ Million</i>
0 – 30 days	250	251
31 – 60 days	168	59
61 – 90 days	27	17
Over 90 days	82	82
	<hr/>	<hr/>
	527	409

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.

9. CREDITORS

Included in creditors are trade creditors with an ageing analysis as at June 30, 2001 as follows:

	30/06/2001 <i>HK\$ Million</i>	31/12/2000 <i>HK\$ Million</i>
0 – 30 days	297	226
31 – 60 days	91	101
61 – 90 days	41	132
Over 90 days	362	247
	<hr/>	<hr/>
	791	706

10.SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

11. RESERVES

Reserve movements during the period ended June 30, 2001 are as follows:

	Investments revaluation reserves <i>HK\$Million</i>	Other capital reserves <i>HK\$Million</i>	Revenue reserves <i>HK\$Million</i>
i Company and subsidiaries			
Balance at January 1, 2001	(390)	(538)	6,946
Prior year adjustments (<i>Note 1</i>)	–	207	(84)
Restated	(390)	(331)	6,862
Exchange reserve	–	2	–
Goodwill written off on disposal of an associate	–	301	–
Transferred to the profit and loss account on disposal of non-trading securities	103	–	–
Revaluation deficit – non-trading securities	(119)	–	–
Profit for the period	–	–	1,358
Proposed dividend	–	–	(685)
Balance at June 30, 2001	<u>(406)</u>	<u>(28)</u>	<u>7,535</u>
ii Associates			
Balance at January 1, 2001	13	–	(127)
Transferred to the profit and loss account on disposal of non-trading securities	(4)	–	–
Revaluation deficit – non-trading securities	(6)	–	–
Loss absorbed for the period	–	–	(213)
Balance at June 30, 2001	<u>3</u>	<u>–</u>	<u>(340)</u>
At June 30, 2001	<u>(403)</u>	<u>(28)</u>	<u>7,195</u>
At December 31, 2000 (Restated)	<u>(377)</u>	<u>(331)</u>	<u>6,735</u>

12.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 transaction during the period ended June 30, 2001:

- (a) Loans totalling HK\$4,267 million (2000: HK\$4,622 million) advanced by the Group to certain associates involved in the Sham Tseng and Kowloon Station Development Package Two Projects (as described in more detail in (b) 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) 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 13(b) to the accounts, 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 the subsidiary of an associate under an agreement to develop the Kowloon Station Development Package Two project.

The same parties have also severally guaranteed loans granted to another subsidiary of the above associate to finance the property development project. The amount attributable to the Company and a subsidiary was HK\$1,360 million (2000: HK\$1,360 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.

13.CONTINGENT LIABILITIES

As at June 30, 2001:

- (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\$23,949 million (2000: HK\$27,706 million).
- (b) 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 certain subsidiaries of an associate to finance its property development project. The amount attributable to the Company is HK\$1,360 million (2000: HK\$1,360 million).

13. CONTINGENT LIABILITIES (Cont'd)

- (c) Claims for unspecified damages for alleged breach of contract have been brought by a third party against the Company and certain subsidiaries and a director of the Company based on an alleged option to invest in the Group's cable television franchise. On May 21, 2001, the United States Supreme Court affirmed the judgments of the District Court and the Court of Appeals in Denver in the case of United International Holdings, Inc. ("UIH") and UIH Asia Investment Company v. The Wharf (Holdings) Limited and others.

The judgments were entered in an action brought by UIH arising out of an alleged breach of contract involving Wharf's cable television business, in respect of which the jury in the abovementioned District Court rendered a verdict against The Wharf (Holdings) Limited et al. awarding US\$67 million (HK\$523 million) in compensatory damages plus US\$59 million (HK\$456 million) in exemplary (or punitive) damages. The abovementioned Court of Appeals affirmed the judgment of District Court in May 2000. The Group has made full provision in its accounts for previous years in respect of the amount required to discharge all its liabilities. Up to date, the Group has settled in full the judgment sum and interest thereon and partially the UIH's legal fee claim, which is expected to be fully settled soon .

- (d) Forward exchange contracts amounting to HK\$6,084 million (2000: HK\$5,304 million) were outstanding of which HK\$4,914 million and HK\$1,170 million will mature in 2001 and 2002 respectively.

14. COMMITMENTS

	30/06/2001 <i>HK\$ Million</i>	31/12/2000 <i>HK\$ Million</i>
(a) Capital commitments		
No provision has been made in the accounts for planned capital expenditure of	<u>6,176</u>	<u>5,913</u>
In respect of which contracts have been entered into for	<u>1,945</u>	<u>1,783</u>

- (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 non-recourse to the Company and other subsidiaries.

15.COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for goodwill/negative goodwill, planned maintenance, proposed dividend and segment reporting in order to comply with SSAPs 30, 28, 9 and 26 respectively, details of which are set out in Note 1.

16.REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended June 30, 2001 have been reviewed by the audit committee of the Company.

BUSINESS REVIEW AND PROSPECTS

Driven by stable recurrent earnings and value creation opportunities originating from its flagship investment property at Kowloon Point, the Group has successfully built up significant presence in all three core business areas of Property, CME and Logistics. Since both Hong Kong and China are the Group's strategic focuses, the value of its businesses will be enhanced by China's imminent entry into the World Trade Organization.

PROPERTY

With typical clientele at Harbour City being mostly China business operators such as trading firms, importers, exporters and manufacturers, the investment property portfolio continued to benefit from an influx of overseas companies and the expansion of local operators, now eyeing also the potential of the soon-to-open China domestic market.

Bucking the trend of the lacklustre market conditions, the occupancy rate of Harbour City office excluding Tower 6 of Gateway II had improved steadily to over 90 per cent in the first six months of this year. The excellent response received by the newly launched Tower 6 has also met management's expectations. By securing high quality tenants such as Japan Airlines, Singapore Telecom and GlaxoSmithKline, Harbour City office has explicitly demonstrated its exceptional ability in attracting multinationals. During the first six months, the Times Square office portfolio maintained a 92 per cent occupancy.

Main Board Executives

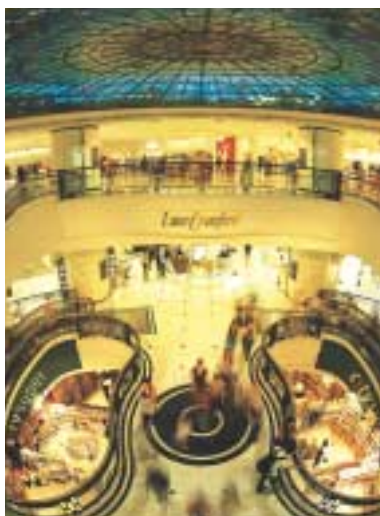


*Front row (from left): Deputy Chairman and Managing Director Stephen Ng, Executive Director John Hung
Back row (from left): Director Quinn Law, Executive Director Paul Tsui, Directors T Y Ng and K H Leung*

With its outstanding quality and services, Gateway Apartments achieved an occupancy rate of 85 per cent by the end of June. More than 50 per cent of the tenants are multinational corporate tenants and over half of the committed tenancies are for periods of 12 months or more.

Persistently high average occupancy at 98 per cent has shown that shops in Harbour City, Times Square and Plaza Hollywood are all under keen demand. Following Gucci's opening of a 9,200-square-foot ground floor shop along Canton Road as its flagship store in Kowloon, Cova has also taken up a 2,275-square-foot ground floor space located in the new extension as its first outlet in Kowloon. Extensive studies are being carried out for Ocean Terminal's renovation plan.

Nelson Court on Waterloo Road was launched during early 2001. The pre-sale was extremely well received to an extent that majority of the units were sold within hours. Following the successful completion of various development projects including Galaxia, Serenade Cove and Nelson Court which totalled 1.1 million square feet, Wharf made a move in July to buy over Wheelock's 15.6 per cent interest in the Yau Tong Consortium in order to replenish its land reserve. Other residential projects such as Bellagio, Sorrento and the Peak Portfolio are progressing according to schedule.



Times Square

After site clearance and excavation works were completed in late 2000, the main construction contract for the third Times Square project in China, Chongqing Times Square, was awarded in late March 2001. Completion of the basement works is expected by early September 2001. The construction of another mixed commercial and residential development in Shanghai known as "Wheelock Square" is now under planning.

The Building and Construction Authority in Singapore has recently awarded the main contractor of the Glencaird Residences the coveted "Building Excellence Awards 2001" for its exceptional standard of workmanship and quality of finish. The Certificate of Statutory Completion has been obtained for all the 12 houses.

Despite a slow-down in the global economy as well as intense competition during the first six months, the three Marco Polo Hotels in Hong Kong managed to maintain an overall occupancy of 84.3 per cent.

CME

Due to visionary investments in brand position, subscriber base, network and servicing infrastructure and content development, together with management's dedicated efforts over the last seven years, Wharf now owns a remarkably sizable and respectable portfolio of CME businesses in Hong Kong. Operating profit for the CME division in the first half of this year totalled HK\$97 million.

After achieving its first breakeven in year 2000 with a net profit of HK\$20 million, i-CABLE's strong earnings momentum was carried forward into first half this year. The company reported HK\$76.5 million in

net earnings for the six months ended June 2001 on the back of strong turnover growth, especially the one delivered by Internet and Multimedia. While Pay TV revenues went up by eight per cent, Internet & Multimedia revenues recorded an impressive 327 per cent jump as it now accounts for 14 per cent of the total turnover.

Despite the adverse economic conditions and rampant piracy, Pay TV subscribers grew by 11 per cent from a year ago to 537,000. However, as the company moved to penetrate the market further, it was unavoidable to have attracted some of the relatively lower yield subscribers which resulted in a slightly lower ARPU. As piracy proved to be the root cause of the rising churn during the second quarter of this year, the company has placed this issue under top priority and initiated various anti-piracy measures to tackle the problem head-on. Lately, the Government has also stepped up law enforcement actions and begun to prosecute suspected peddlers of illegal set top boxes.

By doubling its Broadband subscribers to over 100,000 in the first six months of this year, the Internet & Multimedia business outperformed all expectations. As the company's share of the residential Broadband market improved from 25 per cent to 33 per cent, the discrepancy between the company and the incumbent operator was seen to be narrowing. Since none of the five newly licensed wireless Broadband operators was able to bring along any significant impact on the overall market, both PCCW-HKT and the company are now widely accepted to be the only two serious contenders in this particular business segment. An EBITDA of HK\$13 million was achieved one year after the launch of the Broadband services.

The company's network expansion plan continued on track. By the end of June, the network covered about 1.84 million homes in Hong Kong, of which over 1.5 million were served by fibre and close to 1.3 million homes were cable modem ready. To combat pirated viewing, the company has brought forward its plan to introduce digital television broadcasting to the third quarter of this year.

With the committed efforts to bring the piracy problem under control, together with the already secured World Cup 2002 broadcasting rights and the newly reached carriage agreement with the STAR Group which included major trophy events such as the English Premier League and various other non-sports programmes, the management is confident that the growth momentum for Pay TV will pick up again irrespective of the setback in the first half of this year. Trials for delivering voice over the HFC network with Internet Protocol have provided positive results, and the commercial roll-out of the service is expected by next year. Meanwhile, in order to plant seeds for i-CABLE's long-term future growth, certain overseas investment opportunities are being examined by the company.



Cable TV Tower

During the first six months of this year, New T&T continued with its rapid and successful transformation from low-value IDD to high-value fixed-line business. With the company's focus on fixed-line voice and data, revenues generated by this segment almost doubled to HK\$260 million and accounted for 56 per cent of the total revenue as of the end of June, against 41 per cent one year ago and as little as 10 per cent back in 1998.

Total revenue grew by 43 per cent to HK\$463 million on the back of rising installed fixed-lines which went from the year-end figure of 140,000 to over 180,000, representing a five year CAGR of 80 per cent. A gross operating profit of HK\$232 million was delivered while margin expanded from 43 per cent to 50 per cent. EBITDA also turned from a loss of HK\$3 million in 2000 to a profit of HK\$57 million in 2001 with EBITDA margin improved to 12 per cent. Net loss for the first half was reduced to HK\$44 million from last year's HK\$91 million.

A net funding of HK\$231 million was invested during the first six months, primarily into the continual process of capacity expansion. After becoming the first and only FTNS operator in Hong Kong to have interconnection with all three licensed operators in the Mainland, New T&T opened its Shenzhen representative office in June 2001. Only recently, New T&T celebrated the completion of its Hong Kong Island network expansion plan as it now covers the entire Island North serving more than 30 per cent of

the total business lines in the Hong Kong Island. New cable landing stations were also interconnected with New T&T's fibre network to provide backhaul services.

By securing contracts to build a new IP-based wide area network for the Central Clearing and Settlement System ("CCASS") under the HKSCC and a high performance community network for the Securities and Futures Commission, New T&T's high recognition given by the business community in Hong Kong, especially the finance sector, was explicitly illustrated. With the company's rising business market share, currently at 10 per cent of the total market and 20 per cent of the addressable market, New T&T will continue to assume the role of the most serious FTNS challenger to the incumbent operator, PCCW-HKT. All growth for installed base, revenue, and EBITDA are expected to accelerate in the second half to return New T&T's first net profit.



iDataCentre, New T&T

LOGISTICS

Modern Terminals, a 55.3 per cent-owned subsidiary of the Group, handled altogether 1.53 million TEUs during the first half of this year. This figure represents a growth of 13 per cent over the same period last year and compares favorably with the industry average.

In anticipation of the potential opportunities brought by WTO, the company continued to invest in various projects in order to solidify its significant position in the sector under the rapidly changing business environment. Procurement of some new terminal handling equipments has been made. ModernPorts.com (Phase 2) which serves as the electronic platform complementing the whole logistics flow has also been launched recently.

Despite some initial delays, the Container Terminal 9 development is now progressing satisfactorily. Additional investments are being made in capacity enhancement to accommodate an additional 400,000 TEUs in existing terminals to cope with the rising throughput volumes before CT9 comes on stream in the second half of 2003.

Modern Terminals' involvement in the construction of container terminal business in Southern China continues to gain momentum. The investment in Kaifeng Container Terminals is now contributing positively. While continuing to manage the Shekou Container Terminal 1 operation, the construction of Shekou Container Terminal 2 has begun.



Modern Terminals

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