

# THE WHARF (HOLDINGS) LIMITED

Interim Report to Shareholders 2003

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# WHARF

*Established 1886*

## HIGHLIGHTS OF GROUP RESULTS

- ◆ Unaudited Group profit attributable to Shareholders of HK\$1,309 million, an increase of 11%. No provision was made for property and investment in the period under review.
- ◆ Earnings per share were HK\$0.53, against HK\$0.48 for the same period in 2002.
- ◆ Group profit attributable to Shareholders before provisions recorded a decrease of 16% compared to HK\$1,555 million for the same period in 2002.
- ◆ An interim cash dividend of 12 cents (2002: 28 cents) per share will be paid.
- ◆ Shareholders will also receive one i-CABLE share for every 10 Wharf shares held. The Company is obliged, latest by November 23, 2003, to restore i-CABLE's public float to the minimum 25% level as prescribed in the Hong Kong Listing Rules. The closing price of i-CABLE shares on August 19, 2003 is HK\$2.075 per share, and the market price of i-CABLE shares for the past 52 weeks ranged from HK\$1.64 to HK\$4.525 per share.

### Operations and financial highlights:

- ◆ Group turnover was HK\$5,463 million, a decrease of 2%.
- ◆ Property investment: revenue reduction of 6% to HK\$2,092 million. Operating profit decreased by 10% to HK\$1,448 million. While retail revenue generated by Harbour City and Times Square went up by 1.5%, the office revenue contributed by these flagship properties showed a 5.5% decline.
- ◆ Due to the impact of SARS, hotel revenue dropped by 34% to HK\$197 million from HK\$299 million, which led to an operating loss of HK\$10 million against profit of HK\$95 million for the same period in 2002.
- ◆ CME (Communications, Media and Entertainment): total revenue decreased by 1% to HK\$1,748 million. Operating profit decreased slightly by 2% to HK\$199 million.
- ◆ Logistics: total revenue increased by 4% to HK\$1,532 million. Operating profit also increased by 9% to HK\$854 million.
- ◆ Net borrowing costs decreased by HK\$78 million or 20% to HK\$305 million from HK\$383 million. Average borrowing cost was 3.1% p.a., a reduction from 3.8% p.a. in the first half of 2002.
- ◆ Tax charge increased by HK\$164 million due primarily to rise in Hong Kong Profits Tax rate, which impacted both the current tax and deferred tax liabilities.
- ◆ Consolidated Group net asset value was HK\$19.78 per share.
- ◆ Net debts decreased from HK\$20.5 billion at December 31, 2002 to HK\$19.4 billion at June 30, 2003 (net debts to equity: 40.0%, reduced from 42.9%).

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For The Six Months Ended June 30, 2003

	Note	Unaudited 30/06/2003 HK\$ Million	Unaudited 30/06/2002 HK\$ Million (Restated)
Turnover	2	5,463	5,576
Other net loss	3	(5)	(1)
		<u>5,458</u>	<u>5,575</u>
Direct costs and operating expenses		(1,984)	(1,910)
Selling and marketing expenses		(244)	(225)
Administrative and corporate expenses		(264)	(254)
		<u>2,966</u>	<u>3,186</u>
Operating profit before depreciation, amortisation, interest and tax		2,966	3,186
Depreciation and amortisation		(598)	(647)
		<u>2,368</u>	<u>2,539</u>
Operating profit	2	2,368	2,539
Borrowing costs	4	(305)	(383)
		<u>2,063</u>	<u>2,156</u>
Net profit		2,063	2,156
Net other charges	5	–	(247)
Share of profits less losses of associates	6	54	(112)
		<u>2,117</u>	<u>1,797</u>
Profit before taxation		2,117	1,797
Taxation	7(c)	(470)	(306)
		<u>1,647</u>	<u>1,491</u>
Profit after taxation		1,647	1,491
Minority interests		(338)	(310)
		<u>1,309</u>	<u>1,181</u>
Profit attributable to shareholders		1,309	1,181
Interim dividend proposed after the balance sheet date	8	802	685
		<u>802</u>	<u>685</u>
Earnings per share			
Basic	9	HK\$0.53	HK\$0.48
		<u>HK\$0.53</u>	<u>HK\$0.48</u>
Diluted	9	HK\$0.53	HK\$0.48
		<u>HK\$0.53</u>	<u>HK\$0.48</u>
Interim dividend per share	8	32.75 cents	28.00 cents
		<u>32.75 cents</u>	<u>28.00 cents</u>

# CONSOLIDATED BALANCE SHEET

As at June 30, 2003

Note	Unaudited 30/06/2003 HK\$ Million	Restated 31/12/2002 HK\$ Million
<b>Non-current assets</b>		
Fixed assets		
	52,385	52,373
Investment properties		
Other properties, plant and equipment	<u>16,738</u>	<u>16,671</u>
	69,123	69,044
Goodwill	386	397
Long term deposits	156	156
Interest in associates	2,643	3,367
Long term investments	1,170	1,178
Deferred debtors	447	459
Deferred items	<u>450</u>	<u>468</u>
	74,375	75,069
<b>Current assets</b>		
Inventories	2,802	2,885
Trade and other receivables	10      883	1,017
Pledged deposits	–	293
Listed debt securities	–	525
Deposits and cash	<u>1,500</u>	<u>1,225</u>
	<u>5,185</u>	<u>5,945</u>
<b>Current liabilities</b>		
Trade and other payables	11      (3,964)	(4,768)
Short term loans and overdrafts	(4,228)	(6,272)
Taxation	<u>(647)</u>	<u>(380)</u>
	<u>(8,839)</u>	<u>(11,420)</u>
<b>Net current liabilities</b>	<u>(3,654)</u>	<u>(5,475)</u>
<b>Total assets less current liabilities</b>	<u>70,721</u>	<u>69,594</u>

**CONSOLIDATED BALANCE SHEET** (Continued)

As at June 30, 2003

	Note	Unaudited 30/06/2003 HK\$ Million	Restated 31/12/2002 HK\$ Million
<b>Capital and reserves</b>			
Share capital	12	2,447	2,447
Reserves	13	<u>45,970</u>	<u>45,287</u>
		<b>48,417</b>	<b>47,734</b>
<b>Minority interests</b>			
		<b>3,631</b>	<b>3,681</b>
<b>Non-current liabilities</b>			
Long term loans		16,805	16,381
Deferred taxation		1,590	1,516
Other deferred liabilities		<u>278</u>	<u>282</u>
		<b>18,673</b>	<b>18,179</b>
<b>Total equity and non-current liabilities</b>			
		<b><u>70,721</u></b>	<b><u>69,594</u></b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For The Six Months Ended June 30, 2003

	Unaudited 30/06/2003 HK\$ Million	Unaudited 30/06/2002 HK\$ Million
Net cash inflow from operating activities	2,755	2,239
Net cash inflow/(outflow) relating to investing activities	512	(2,589)
Net cash outflow from financing	<u>(2,992)</u>	<u>(581)</u>
Increase/(decrease) in cash and cash equivalents	275	(931)
Effect of foreign exchange rates	–	(3)
Cash and cash equivalents at January 1	<u>757</u>	<u>2,852</u>
Cash and cash equivalents at June 30	<u><b>1,032</b></u>	<u><b>1,918</b></u>
Analysis of the balance of cash and cash equivalents		
Deposits and cash	<u><b>1,032</b></u>	<u><b>1,918</b></u>
Reconciliation of cash and cash equivalents to deposits and cash as stated in the balance sheet		
Cash and cash equivalents per above	<b>1,032</b>	1,918
Long-term deposits maturing in 2003	<u><b>468</b></u>	<u>–</u>
	<u><b>1,500</b></u>	<u><b>1,918</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended June 30, 2003

	Unaudited 30/06/2003 HK\$ Million	Unaudited 30/06/2002 HK\$ Million (Restated)
Total equity as at January 1		
As previously reported	48,713	54,645
Prior period adjustments arising from changes in accounting policies for deferred tax (Note 1)	(979)	(886)
As restated	<u>47,734</u>	<u>53,759</u>
Net gains/(losses) not recognised in the consolidated profit and loss account (30/6/2002: previously reported losses of HK\$128 million, now restated) (Note 1)	<u>55</u>	<u>(152)</u>
Profit attributable to shareholders (30/6/2002: previously reported HK\$1,202 million, now restated) (Note 1)	1,309	1,181
Investments revaluation reserves transferred to the profit and loss account on impairment of non-trading securities – by company/subsidiaries	–	5
Investments revaluation reserves transferred to the profit and loss account on disposal of non-trading securities – by company/subsidiaries	4	3
Final dividend approved in respect of previous year	<u>(685)</u>	<u>(1,223)</u>
	<u>628</u>	<u>(34)</u>
Exercise of share options	<u>–</u>	<u>9</u>
Total equity as at June 30	<u>48,417</u>	<u>53,582</u>

## 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, 2002 except for the changes in accounting policies as described below.

#### *SSAP 12 (Revised) “Income taxes”*

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from January 1, 2003, in order to comply with Statement of Standard Accounting Practice 12 (Revised) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The effect of adopting of the new accounting policy has been applied retrospectively. The shareholders’ funds as at January 1, 2003 and January 1, 2002 were restated and decreased by HK\$979 million, which comprised revenue reserves of HK\$690 million and investment properties revaluation reserves of HK\$289 million, and HK\$886 million, which comprised revenue reserves of HK\$646 million and investment properties revaluation reserves of HK\$240 million, respectively. The adjustments represented the deferred tax liability recognised in respect of temporary difference arising from fixed assets net of deferred tax assets in respect of tax losses recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect of change to income tax for the six months ended June 30, 2003 is an increased charge of HK\$95 million (30/6/2002: HK\$21 million).



## 2. Turnover and operating profits

### a. Segment information

#### i. Business segments

	Segment Revenue		Segment Results	
	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million (Restated)	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million
Property investment	2,092	2,217	1,448	1,608
Hong Kong	1,805	1,846	1,430	1,489
China	90	72	28	24
Hotels	197	299	(10)	95
Communication, media and entertainment ("CME")	1,748	1,762	199	203
Pay television	844	877	210	154
Internet and multimedia	193	246	(48)	31
i-CABLE	1,037	1,123	162	185
Telecommunications	615	572	19	3
Others	96	67	18	15
Logistics	1,532	1,478	854	786
Terminals	1,367	1,260	820	709
Other logistics business	165	218	34	77
	5,372	5,457	2,501	2,597
Property development	102	99	(13)	3
Investment and others	114	142	15	65
Inter-segment revenue (Note)	(125)	(122)	–	–
	5,463	5,576	2,503	2,665
Unallocated income and expenses			(135)	(126)
Operating profit			2,368	2,539
Borrowing costs			(305)	(383)
Net other charges				
Property development			–	(204)
Investment and others			–	(43)
Associates				
Property development			44	(119)
Investment and others			10	7
Profit before taxation			2,117	1,797

## 2. Turnover and operating profits (Continued)

### a. Segment information (Continued)

#### i. Business segments (Continued)

Note: Inter-segment revenue eliminated on consolidation included:

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million (Restated)
Property investment	49	54
CME	68	44
Pay television	19	18
Internet and multimedia	1	1
i-CABLE	20	19
Telecommunications	22	20
Others	26	5
Logistics	6	8
Investment and others	2	16
	<u>125</u>	<u>122</u>

#### ii. Geographical segments

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

## 2. Turnover and operating profits (Continued)

### b. Operating profit is arrived at after charging:

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million
Depreciation		
– assets held for use under operating leases	40	30
– other assets	494	496
Amortisation of prepaid expenses and programming library	53	110
Amortisation of goodwill	11	11
Staff costs, including retirement scheme costs HK\$45 million (2002: HK\$58 million)	989	991
Auditors' remuneration		
Audit services	4	4
Other services	1	1
Cost of properties sold during the period	104	88
and crediting:		
Rental income less direct outgoings, including contingent rentals HK\$47 million (2002: HK\$26 million)	1,516	1,536
Interest income	60	86
Dividend income from listed securities	31	24
Dividend income from unlisted securities	29	63

## 3. Other net loss

Other net loss represents a net loss on disposal of investments.

## 4. Borrowing costs

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million
Interest on:–		
Bank loans and overdrafts	207	175
Other loans repayable within five years	75	147
Other loans repayable after more than five years	–	62
Other borrowing costs	55	64
	337	448
Less: Amount capitalised	(32)	(65)
Net borrowing costs for the period	305	383

The Group's average borrowing cost for the period was 3.1% per annum (2002: 3.8% per annum).

## 5. Net other charges

Net other charges for the corresponding period in 2002 comprised provisions of HK\$204 million for properties under development and for sale and provision of HK\$43 million for impairment in value of investments. No such items incurred for the period under review.

## 6. Share of profits less losses of associates

Share of profits of associates was HK\$54 million for the period under review. The losses of HK\$112 million in previous corresponding period were principally comprised the attributable losses in respect of provisions for impairment in value of the Bellagio development.

## 7. Taxation

- a.* The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5 per cent (2002: 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:

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million (Restated)
<b>Current tax</b>		
Hong Kong profits tax	377	235
Underprovision for Hong Kong profits tax relating to prior years	18	47
Overseas taxation	—	8
	<u>395</u>	<u>290</u>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(25)	14
Effect of increase in tax rate on deferred tax	99	—
	<u>74</u>	<u>14</u>
Share of associates' current Hong Kong profits tax	<u>1</u>	<u>2</u>
	<u>470</u>	<u>306</u>

- d.* No net of the taxation payable in the balance sheet is expected to be settled after more than one year.

## 8. Dividends

### a. Dividends attributable to the period

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million
Proposed after the balance sheet date: 12 cents (2002: 28 cents) per share	294	685
Distribution in specie in the form of shares in i-CABLE Communications Limited ("i-CABLE Shares") equivalent to 20.75 cents per share	508	–
	<u>802</u>	<u>685</u>

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

The distribution in specie represents the 244.7 million i-CABLE shares to be distributed to the Company's Shareholders with value of HK\$508 million, calculated on basis of the closing price on August 19, 2003.

The book cost of those 244.7 million i-CABLE shares is HK\$189 million. Compared to the market value mentioned above, there would be a deemed profit of approximately HK\$319 million.

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

	30/06/2003 HK\$ Million	30/06/2002 HK\$ Million
Final dividend in respect of the previous financial year, approved during the period, of 28 cents (2002: 50 cents) per share	<u>685</u>	<u>1,223</u>

## 9. Earnings per share

The calculation of earnings per share is based on the earnings for the period of HK\$1,309 million (2002: HK\$1,181 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 million ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK\$1,309 million (2002: HK\$1,181 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 million ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the period ended June 30, 2003 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2003.

## 10. 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, 2003 as follows:

	30/06/2003 HK\$ Million	31/12/2002 HK\$ Million
0 – 30 days	292	398
31 – 60 days	216	164
61 – 90 days	53	34
Over 90 days	68	43
	<u>629</u>	<u>639</u>

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.

## 11. Trade and other payables

Included in this item are trade creditors with an ageing analysis as at June 30, 2003 as follows:

	30/06/2003 HK\$ Million	31/12/2002 HK\$ Million
0 – 30 days	146	218
31 – 60 days	59	100
61 – 90 days	40	64
Over 90 days	146	153
	<u>391</u>	<u>535</u>

## 12. Share capital

	30/06/2003 No. of share Million	31/12/2002 No. of share Million	30/06/2003 HK\$ Million	31/12/2002 HK\$ Million
Authorised				
Ordinary shares of HK\$1 each	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>
Issued and fully paid				
Balance at January 1	2,447	2,447	2,447	2,447
Exercise of share options	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance at June 30/December 31	<u>2,447</u>	<u>2,447</u>	<u>2,447</u>	<u>2,447</u>

## 13. 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
<i>a. Company and subsidiaries</i>							
Balance at January 1, 2003							
– as previously reported	7,742	7	30,298	(229)	(482)	9,895	47,231
– prior year adjustment (Note 1)	–	–	(289)	–	–	(690)	(979)
	<u>7,742</u>	<u>7</u>	<u>30,009</u>	<u>(229)</u>	<u>(482)</u>	<u>9,205</u>	<u>46,252</u>
Dividends approved in respect of the previous year	–	–	–	–	–	(685)	(685)
Transferred to the profit and loss account on disposal of non-trading securities	–	–	–	4	–	–	4
Revaluation surplus – non-trading securities	–	–	–	50	–	–	50
Exchange reserves/others	–	–	–	–	4	–	4
Profit for the period	–	–	–	–	–	1,256	1,256
Balance at June 30, 2003	<u>7,742</u>	<u>7</u>	<u>30,009</u>	<u>(175)</u>	<u>(478)</u>	<u>9,776</u>	<u>46,881</u>
<i>b. Associates</i>							
Balance at January 1, 2003	–	–	–	(1)	–	(964)	(965)
Revaluation surplus – non-trading securities	–	–	–	1	–	–	1
Profit for the period	–	–	–	–	–	53	53
Balance at June 30, 2003	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(911)</u>	<u>(911)</u>
Total reserves							
At June 30, 2003	<u>7,742</u>	<u>7</u>	<u>30,009</u>	<u>(175)</u>	<u>(478)</u>	<u>8,865</u>	<u>45,970</u>
At December 31, 2002 (Restated)	<u>7,742</u>	<u>7</u>	<u>30,009</u>	<u>(230)</u>	<u>(482)</u>	<u>8,241</u>	<u>45,287</u>

## 14. 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, 2003:

- a. Loans totalling HK\$3,426 million (31/12/2002: HK\$4,332 million) advanced by the Group to certain associates, in proportion of the Group's respective shareholdings thereof, involved in the Sorrento (as described in more detail in (b) below) and Bellagio property development projects 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 1997 and 1994 from complying with the relevant connected transaction requirements (as set out in further detail under (b) hereunder for Sorrento property development). 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 15(b), 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.

## 15. Contingent liabilities

As at June 30, 2003:

- 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\$27,820 million (31/12/2002: HK\$26,256 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 the Sorrento property development project by the subsidiary of an associate.
- c. Forward exchange contracts amounting to HK\$5,616 million (31/12/2002: HK\$5,616 million).

## 16. Commitments

	30/06/2003 HK\$ Million	31/12/2002 HK\$ Million
<i>a. Capital commitments</i>		
No provision has been made in the accounts for planned capital expenditure of	<u>3,856</u>	<u>4,408</u>
In respect of which contracts have been entered into for	<u>1,227</u>	<u>1,763</u>



## 16. Commitments (Continued)

- b.* The Company's subsidiary, Modern Terminals Limited ("Modern Terminals"), had entered into a Joint Development Agreement ("JDA") with Hong Kong International Terminals Limited ("HIT") and Asia Container Terminals Limited ("ACT") to jointly procure the construction of Container Terminal 9. The total cost of construction for the whole Container Terminal 9 is estimated by the Directors to be HK\$4.8 billion with a target completion date in 2005. Modern Terminals, ACT and HIT have agreed to share the construction cost at an agreed ratio as stipulated in the JDA.

Furthermore, under a Berth Swap Agreement with ACT, upon the completion of the whole of Container Terminal 9, Modern Terminals will transfer to ACT all of its rights, title and interest in Container Terminal 8 West and ACT will transfer to Modern Terminals all of its rights, title and interest in Container Terminal 9.

## 17. Comparative figures

Certain comparative figures have been adjusted as a result of changes in accounting policies for income taxes in order to comply with SSAP 12 (Revised), detail of which is set out in Note 1.

## 18. Review of unaudited interim accounts

The unaudited interim accounts for the six months ended June 30, 2003 have been reviewed by the audit committee of the Company.

## BUSINESS REVIEW AND PROSPECTS

### Harbour City

For the first six months of 2003, **Harbour City** generated HK\$1.3 billion in total revenue.

#### *Offices*

**Harbour City**'s office occupancy was maintained at 85 per cent taking into account also Tower 6, the last tower of Gateway II, in the overall calculation. While the oversupply situation on the Island side prompted by IFC remained to be the top issue in the Grade A office market, prime rentals across several major districts generally came down by about 10 to 20 per cent during the first six months of the year. However, asking rents for office space at **Harbour City** only experienced on average a single-digit decline due to the relatively stable supply of space within Tsimshatsui and nearby areas. Out of the expiring tenancies in first half 2003, retention rate was at about 80 per cent. More than 50 per cent of all renewals due in 2003 have so far been successfully concluded.

#### *Hotels and Service Apartments*

Due to the SARS outbreak, the consolidated occupancy for the three Marco Polo Hotels at **Harbour City** fell to 48 per cent, versus the 84 per cent recorded same time a year ago. Immediately after the outbreak in March, both business and leisure segments slowed down dramatically as reflected through the across-the-board decline in visitor arrivals. Room rates were under pressure. To cope with such unprecedented situation, several extraordinary cost-control measures as well as promotional activities have been adopted to help preserve both margin and market share.

The prevailing economic condition has made it extremely difficult for Gateway Apartments to sustain the previous outperformance against the market. Having continuously outperformed the industry average for a period of more than three years since its initial launch at the end of year 1999, Gateway Apartments' average occupancy gradually came down to the 70 per cent market norm during the first half of this year. Competition is expected to intensify further as more supplies come on to the market.

#### *Retail*

In spite of the SARS outbreak, **Harbour City**'s retail podium maintained its occupancy at around 96 to 97 per cent which showed remarkable resilience during the crisis. Special measures implemented to boost up **Harbour City**'s already outstanding hygiene standard to an even higher level have received tremendous support from all shoppers, tenants and the public. Rather than reacting passively by giving away concession or rental reduction to tenants, Group management responded proactively by investing promptly into the area of marketing and promotion. Backed by **Harbour City**'s ever rising standard of hygiene-control and exciting promotional activities, both business flow and confidence level have certainly been restored. Immediate business "disruptions" caused by SARS proved to be relatively short-lived, as evidenced by the speedy recovery of foot traffic within weeks during which average weekend foot traffic for the month of May and June showed a year-on-year growth of 26 and 21 per cent respectively.

## Times Square

For the first six months of 2003, **Times Square** generated HK\$415 million in total revenue.

### *Offices*

After staying consistently at 92 per cent for two consecutive years, **Times Square**'s office occupancy declined to just under 84 per cent during the first half of 2003, as a result of one single tenant's decision to relocate to Tai Po. Apart from this particular incident, no other significant vacation of space is expected in the near to medium term. The retention rate for the expiring office tenancies in the first half was at around the normal 70 per cent level. Due to the SARS outbreak and the supply-demand imbalance, most office tenants have been trying to delay their leasing decision to the latest possible as the continued downward trend for rental rates remains the widely accepted view in the market. During the six-month period under review, office consolidation and lease restructuring were still the dominant activities observed in the Grade A office market in Hong Kong.

### *Retail*

Being the landmark property of Causeway Bay, the **Times Square** shopping complex again demonstrated exceptional resilience during the SARS period. Due to Wharf management's timely and decisive actions, foot traffic quickly bounced back to pre-SARS level within weeks in absolute terms which was indeed about 10 per cent higher than the foot traffic number recorded the same time a year ago. Similar to the case of **Harbour City**, numerous innovative marketing programmes and extensive hygiene measures proved to be extremely successful and no rental reduction has been given to any tenant due to SARS. During the six-month period under review, retail occupancy was maintained at 97 per cent and all expiring tenancies had been either renewed or re-merchandised with more appealing retailers. While rental reversion stayed positive, more international brands and retail chains including L'Oreal Paris, Swiss Balance, Offermann, Fruits & Passion and Pedder Red continued to march into **Times Square**.

## Modern Terminals

Notwithstanding the great deal of uncertainties brought by the implementation of the US Government's Container Security Initiative requirements, the Middle East military conflict and the SARS outbreak, **Modern Terminals** handled 1.93 million TEUs and recorded a year-on-year growth of 23 per cent in throughput volume during the first six months of 2003.

**Modern Terminals**' market share in Kwai Chung expanded to 33.2 per cent as compared to the 28.7 per cent achieved the same time a year ago. Even though the pricing differential between Kwai Chung and other Southern China ports has narrowed considerably, the average tariff achieved by **Modern Terminals** continued to be under pressure.

The delivery of the four berths to **Modern Terminals** at Container Terminal 9 in Hong Kong is about to begin in October 2003. Judging from the recent years' persistently strong growth recorded out of the Pearl River Delta's manufacturing activities and exports performance, **Modern Terminals** stands to benefit from its additional capacity in the next several years to come.

All ongoing projects are progressing smoothly and on schedule. Shekou Container Terminal 2 in Shenzhen, in which **Modern Terminals** holds a 20 per cent equity stake in it, is expected to become operational within the coming month.

## CME

### *i-CABLE*

Against the backdrop of an already lacklustre economy which suffered a further blow in the first half of 2003 as Hong Kong was hit by SARS, **i-CABLE** continued to register subscriber growth from both sides of the business including Pay TV and Broadband. However, such additional demand on the Broadband side was not large enough to offset the weakness in pricing due to the extremely cautious consumer sentiment. For the six-month period under review, **i-CABLE** reported an 8 per cent year-on-year decrease in turnover, partly because of the high base backed by World Cup in first half 2002, to HK\$1,037 million. Due mainly to a higher depreciation charge and the increase in tax rate, a 7 per cent decline in net profit to HK\$95 million was recorded, when compared with the same period a year ago. Thanks to effective cost-control and also in the absence of World Cup, **i-CABLE**'s EBITDA margin nevertheless expanded to 36 per cent from June 2002's 33 per cent and EBITDA also grew by 3 per cent to HK\$378 million to surpass all previous periods.

### Pay TV

Despite the weak economy and the absence of any mega programming impetus like the World Cup last year, the Pay TV division managed to report a steady 4 per cent year-on-year subscriber growth to 625,000 with the implementation of a variety of new marketing and programming initiatives. While approximately 50 per cent of **i-CABLE**'s Pay TV subscribers are now receiving digital television service, the digitisation technology adopted has been proven effective not only in curtailing piracy but also in network capacity expansion. During the six-month period under review, five new channels had been added to the Pay TV platform. More content and choices would always help to firstly increase the stickiness of the subscriber's habit in watching cable television and to secondly bring in additional revenue.

Apart from the basic monthly Pay TV subscription business, **i-CABLE** has also been actively looking for other new sources of revenue. Sports events on a "pay-per-event" basis was one of the newly experimented areas. Events introduced during the first half included World Cup Cricket, NCAA basketball finals and NHL playoff matches. Meanwhile, **i-CABLE** is exploiting the area of licensing its digital content to other service providers, including mobile phone operators as well as overseas television stations.

ARPU for first half 2003 was HK\$219, compared to the HK\$244, mainly driven by World Cup, achieved for first half 2002 and the HK\$222 for second half 2002.

### Internet and Multimedia

On the Broadband service front, proactive steps have been taken to improve service quality and customer retention efforts are beginning to bear fruit. During the period under review, total Broadband subscribers grew by 22,000 to reach 247,000.

However, due to i-CABLE's aggressive pricing strategy in order to further penetrate the competitive market, the Broadband turnover actually showed a year-on-year decline of 21 per cent to HK\$193 million and ARPU also fell to HK\$125 before stabilising at such level. The drop in turnover caused a decline in EBITDA to HK\$71 million. Coupled with a HK\$22 million increase in depreciation associated with the expansion of the subscriber base, the Broadband division recorded a net operating loss of HK\$48 million against a HK\$31 million profit generated in the first six months of 2002.

### *Wharf T&T*

The weak economy resulted in business closures and downsizing and the business sector of the telecommunications market headed for further contraction. Despite such difficult operating environment in the first half, **Wharf T&T** was able to increase market share within various product segments. The second half, however, is expected to be more challenging as the weak economic condition and more severe competition are likely going to prevail.

During the first six months of the year, the installed base of total fixed lines grew by about 39,000 lines to reach 378,000 which represented an overall market share of 10 per cent. While total net revenue increased by 8 per cent year-on-year to HK\$615 million, a net profit of HK\$19 million was reported versus the net profit of HK\$3 million achieved in the first half of 2002. On the back of a 22 per cent higher EBITDA at HK\$172 million, EBITDA margin also improved to 28 per cent from the previous year's 25 per cent.

On a sectoral basis, business and residential customers accounted for 76 and 24 per cent of total revenue respectively as at the end of June 2003, versus the 79 and 21 per cent split 12 months ago. While the size of the residential market was relatively less affected by the economic downturn, extra efforts have been deployed to further penetrate that particular segment.

## **Wharf Estates Development Limited**

### *Sorrento*

Sorrento is an MTRC joint-venture project above the Kowloon Station, equally owned by a five-member consortium comprising Wharf, Harbour Centre Development, Wheelock, New Asia Realty and Realty Development Corporation (now a wholly-owned subsidiary of New Asia Realty). Phase II units were launched in November 2002 for pre-sales. As at the end of June 2003, cumulative sales recorded for Phase I and Phase II reached 1,061 and 346 units respectively, realising sales proceeds of about HK\$4.93 billion and HK\$2.31 billion respectively.

Each of the five stakeholders has contributed financial capital and funding on a pro rata basis to the project company which holds Sorrento. The total area of the development is 2.5 million square feet, comprising 2,126 units in two phases. Phase I consisting of 1,272 units was completed in October 2002, one year ahead of the expected completion of Phase II which covers the remaining 854 units.

### *Bellagio*

Bellagio, in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wharf, Wheelock and New Asia Realty. Both Phases I and II were launched in September 2002 for pre-sales. As at the end of June 2003, cumulative sales for Phases I and II reached 1,356 units, realising sales proceeds of about HK\$3.11 billion.

The three stakeholders contributed financial capital and funding on a pro rata basis to the project company which holds Bellagio. With a total area of 3.1 million square feet, once completed it will provide altogether 3,354 units in four phases. Phase I and Phase II, consisting of 1,704 units in total, were completed in May and August 2002 respectively. Construction works for Phase III and IV which cover the remaining 1,650 units commenced recently in March 2003.

### **Group**

The Group continued to enjoy low cost of borrowings during the first half of this financial year due to high liquidity in the market. Total borrowing costs for the six-month period under review amounted to HK\$305 million, which was HK\$78 million lower than the total borrowing costs recorded for the same period a year ago. Loan facilities totalling HK\$3.0 billion have been refinanced with lower interest margins and more favourable terms. Incoming cash from successful pre-sales also helped to cancel or prepay all outstanding project loans. As at the end of June 2003, the Group's net debt amounted to HK\$19.4 billion. If the portion of **Modern Terminals**' debts (non-recourse to parent) were to be excluded, the Group's net debt would stand at an even lower level of HK\$18.1 billion.

## COMMENTARY ON INTERIM RESULTS

### (I) Review of 2003 interim results and segmental performance

#### *Review of 2003 interim results*

##### **Profit attributable to Shareholders**

The Group reported a profit attributable to shareholders of HK\$1,309 million for the six months ended June 30, 2003, an increase of HK\$128 million or 11% as compared to HK\$1,181 million achieved for the same period in 2002. Earnings per share were HK\$0.53, against HK\$0.48 for the same period in 2002.

The increase in profit was largely because of the absence of provisions made for property and investment in the period under review while deducted from the half-year results of 2002 were attributable impairment provisions totalling HK\$374 million, which comprised HK\$331 million for properties and properties under development, including the Bellagio project held through an associate, and of HK\$43 million for investments.

On the basis of taking out the provision factor, the Group's profit attributable to shareholders of HK\$1,309 million for the first half of 2003 would decrease by HK\$246 million or 16%, compared to HK\$1,555 million, after adding back the attributable provisions of HK\$374 million mentioned above to the reported profit of HK\$1,181 million, for the first half of 2002. The unfavorable factors leading to this decline included the decrease in operating profit of HK\$171 million arising principally from the devastating impact of SARS on the hotel businesses and the drop in office rental income for negative revision in the light of oversupply of Grade A office spaces, combined with an increase in taxation of HK\$164 million following an increase in Hong Kong Profits Tax rate on the current tax charge and deferred tax liabilities, which had been enlarged upon the adoption of new accounting standard in the beginning of the current financial year.

##### **Group's Turnover**

The Group's turnover for the period was HK\$5,463 million, a decrease of HK\$113 million or 2% against HK\$5,576 million earned in same period last year. Decrease in turnover was principally due to the reduction in hotel revenue and office rental income though it was offset by an improvement in revenue from the continued robust logistics operations.

##### **Group Operating Profit**

Group operating profit before borrowing costs for the period reduced to HK\$2,368 million, or by 7% from HK\$2,539 million for first half of 2002. This was primarily due to the reduction in rental contribution from office area and adverse results from hotel operations, the latter of which were adversely affected by the outbreak of SARS.

**Net Profit**

Mitigated by the reduction in borrowing costs of HK\$78 million, the net profit fell by 4% against the interim results of 2002 to HK\$2,063 million.

***Segment performance*****Property Investment**

The Property Investment segment reported a revenue reduction of 6% to HK\$2,092 million. Operating profit showed a decrease of 10% to HK\$1,448 million.

***Wharf Estates Limited******Harbour City***

Harbour City, a core property investment asset of Wharf Estates Limited, generated a lower turnover of HK\$1,326 million in the period as a consequence of reduction in revenue from hotels, office area and apartments. The hotel operations recorded a decrease in sales of 34% to HK\$197 million due to the outbreak of SARS in second quarter of 2003. The average hotel room occupancy sharply reduced to around 48% in the period under review as opposed to 84% achieved in the same period last year. Negative rental revision in the office areas was observed given the oversupply situation of Grade A office. For the retail area, its revenue improved steadily for an overall higher rental rate coupled with a high sustainable occupancy level.

***Times Square***

Times Square, another core investment property asset of Wharf Estates Limited, generated total revenue of HK\$415 million, which was lower than the previous period's level. A lower occupancy level in early part of 2003 had negatively affected the revenue contribution from its office area. Revenue from retail area recorded a slight decrease against the same period last year.

***Wharf Estates China Limited***

Both aggregate revenue and operating profit from investment properties in Mainland China, namely Beijing Capital Times Square and Shanghai Times Square, recorded double-digit growth over same period last year.

**Communications, Media and Entertainment ("CME")**

Despite continuous increases in subscribers to Pay TV, Broadband Internet multimedia and telecommunication services, the total revenue of CME segment decreased by HK\$14 million or 1% to HK\$1,748 million and its operating profit decreased slightly by HK\$4 million or 2% to HK\$199 million compared to the first half of 2002.



*i-CABLE**Pay TV*

Although subscribers of Pay TV grew by 25,000 and 20,000 over previous corresponding period of 600,000 and end of 2002 of 605,000 respectively to reach 625,000, its turnover decreased by 4% to HK\$844 million year-on-year as a result of absence of the World Cup impact in the previous period. ARPU was HK\$219, compared to HK\$244 and HK\$222 in the first and second halves of 2002 respectively. Its operating profit, on the other hand, reported an increase of HK\$56 million or 37% to HK\$210 million primarily due to continuing tight control over programming and other operating costs.

*Internet and multimedia*

Internet and multimedia revenue for the period decreased by HK\$53 million or 21% to HK\$193 million, in spite of a growth of Broadband subscribers by 55,000 and 22,000 over previous corresponding period of 192,000 and end of 2002 of 225,000 respectively to reach 247,000. The operating results recorded a loss of HK\$48 million against profit of HK\$31 million in the first half of 2002. The unfavourable results were primarily due to substantial decline of ARPU by 41% year-on-year to HK\$125 following an aggressive pricing strategy under highly competitive environment. ARPU has stabilised in recent months.

As compared to the first half year of 2002, the combined results of Pay TV and Internet and multimedia businesses decreased the group revenue of i-CABLE by HK\$86 million or 8% to HK\$1,037 million and decreased its operating profit before corporate expenses by HK\$23 million or 12% to HK\$162 million.

*Wharf T&T (Telecommunication services)*

Compared to the first half year of 2002, Wharf T&T increased its telecommunication revenue by 8% to HK\$615 million. Its installed base of fixed lines reached about 378,000 lines at June 30, 2003, an increase of 40% and 12% over previous corresponding period of 270,000 lines and end of 2002 of 340,000 lines respectively, which represented a market shares to 10% overall. The company's revenue from fixed-line telephony services rose by 9% to HK\$468 million which accounted for 76 per cent of its total revenue, and IDD revenue rose by 6% to HK\$147 million. Coupled with operating efficiency, Wharf T&T achieved an operating profit of HK\$19 million compared with profit of HK\$3 million in previous corresponding period.

**Logistics***Modern Terminals*

The total revenue of Logistics segment including Modern Terminals Limited ("Modern Terminals"), a 55.3%-owned subsidiary, was HK\$1,532 million, an increase of HK\$54 million or 4% as compared with HK\$1,478 million in previous corresponding period. The operating profit also recorded an increase of HK\$68 million or 9% to HK\$854 million.

The revenue increase was mainly due to an increase in Modern Terminal's revenue as a result of its increase in throughput handled driven by strong trade volume from the increasing number of factories in Pearl River Delta, though at a lower tariff rate in line with the market development. Modern Terminal's operating profit also recorded a satisfactory increase.

### **Property development**

During the period, Wharf Estates Development Limited had reported a low level of property sales activities. The Group's associates undertaking the Sorrento and Bellagio projects progresses their respective developments according to schedule and their sale proceeds derived there from were not accounted for as the Group's turnover.

### **Depreciation and amortisation**

Depreciation and amortisation charge for the period totalled HK\$598 million (including the amortisation of goodwill HK\$11 million), a decrease of HK\$49 million or 8% over same period last year. The drop resulted from the combined effect of a decrease in amortisation of the programming library of i-CABLE due to lack of previous period's programming costs for 2002 FIFA World Cup and a reduction of depreciation charge of HK\$39 million following an extension of estimated useful lives of some plant and equipment of the Group (including Modern Terminals) starting from end of 2002. The decrease was partly offset by additional depreciation charges recorded by i-CABLE and Wharf T&T on their expanded capital expenditures.

### **Borrowing costs**

Net borrowing costs charged for the period decreased by HK\$78 million or 20% to HK\$305 million from HK\$383 million incurred in the previous corresponding period as a result of a persistently low interest rate environment as well as the Group's success in reducing interest margins through its refinancing activities. The charge was after capitalisation to related assets of HK\$32 million for the period compared to HK\$65 million in previous corresponding period. The Group's average borrowing cost for the period was 3.1% p.a., a reduction from 3.8% p.a. in the first half year of 2002.

### **Net other charges**

The net other charges recorded in the first half of 2002 comprised provisions of HK\$204 million for properties and HK\$43 million for impairment in value of investments. No such items were recorded in the current period.

### **Share of profits less losses of associates**

The share of profits of associates for the period was HK\$54 million compared to a loss of HK\$112 million in previous corresponding period. The reported losses in the first half of 2002 principally reflected the attributable loss for impairment in value of Bellagio, a 33-1/3% owned property development project.

### **Other items**

The Group's profit before taxation increased by HK\$320 million to HK\$2,117 million from HK\$1,797 million against same period last year.

The taxation charge for the period was HK\$470 million, an increase of HK\$164 million from HK\$306 million recorded in the corresponding period last year. The significant increase was primarily resulted from the application of the higher new Hong Kong Profits Tax rate of 17.5% (2002: 16%) to the current tax and the deferred tax liabilities, the latter of which had been enlarged upon the adoption of the new accounting standard SSAP 12 “Income taxes” in the beginning of the current financial year.

Minority interests were HK\$338 million for the period compared to HK\$310 million in previous corresponding period.

Included in the Group’s profit attributable to the shareholders were profit of HK\$470 million (6/2002: HK\$443 million) contributed from three major non-wholly owned subsidiaries, namely the 55.3%-owned Modern Terminals, 79.2%-owned i-CABLE Communications Limited (“i-CABLE”) and 66.8%-owned Harbour Centre Development Limited (“HCDL”). Total dividends received or receivable from these subsidiaries amounted to HK\$504 million for the period under review (6/2002: HK\$494 million).

## (II) Liquidity and Financial Resources

### Shareholders’ funds

As at June 30, 2003, the shareholders’ funds of the Group totalled HK\$48,417 million, an increase of HK\$683 million from HK\$47,734 million at December 31, 2002. Shareholders’ funds at December 31, 2002 was restated and adjusted downwards as a prior year item by HK\$979 million for making an additional provision for net deferred tax liabilities in accordance with new requirements of SSAP 12 “Income taxes” (revised) adopted retrospectively with effective from January 1, 2003. On that basis, the consolidated net asset value of the Group at June 30, 2003 was HK\$19.78 per share, compared to the restated net asset value of HK\$19.50 per share at December 31, 2002.

<b>Supplemental Information</b>	
To better reflect the underlying net asset value of the Group, the following objective-base adjustments are given below:	
	<b>Per share</b>
Book net asset value at June 30, 2003	HK\$19.78
Add adjustments for:–	
Modern Terminals	
– based on the previous average transaction prices	2.26
i-CABLE	
– based on market value at June 30, 2003 (@\$1.97 p.s.)	0.77
Adjusted net asset value per share at June 30, 2003	<u>HK\$22.81</u>

### Net cash generated from the Group's operating activities

For the period under review, net cash generated from the Group's operating activities amounted to HK\$2.7 billion which included proceeds from disposal of listed debt securities of HK\$0.5 billion, compared to HK\$2.2 billion in the previous corresponding period. Net cash inflow of HK\$0.5 billion was recorded for investing activities which comprised net repayments of advances mainly from the associates undertaking the property developments of Bellagio and Sorrento of HK\$0.8 billion and the uplift of pledged deposits of HK\$0.3 billion net of purchase of fixed assets HK\$0.6 billion.

### Capital expenditure

The capital expenditure, including programming library of i-CABLE, incurred by the Group's core businesses during the period and their capital commitments at June 30, 2003 are analysed as follows:

Business Unit/Company	Capital Expenditure for 1-6/2003 HK\$ Million	Capital Commitments as at June 30, 2003	
		Authorised And Contracted for HK\$ Million	Authorised But not Contracted for HK\$ Million
Property investments/others	98	96	1,211
Modern Terminals	196	847	172
i-CABLE	210	66	113
Wharf T&T	150	186	87
	<u>654</u>	<u>1,195</u>	<u>1,583</u>
At December 31, 2002		<u>1,700</u>	<u>1,606</u>

The capital expenditure of i-CABLE and Wharf T&T mainly related to network equipment while that of Modern Terminals was substantially for construction of Container Terminal 9.

In addition to the above, the Group had planned expenditures of approximately HK\$1.1 billion (31/12/2002: HK\$1.1 billion) related to the properties under development for sale at the end of June 2003.

### Major property projects undertaken by associates

Pre-sales of the Sorrento and Bellagio projects undertaken by associates, 40%-owned and 33-1/3% owned by the Group, respectively, are continuing with good progress. For the period under review, 106 units of Sorrento and 103 units of Bellagio were sold. At June 30, 2003, accumulated sales of Sorrento Phase I and Phase II units reached 1,061 units or 83% and 346 units or 42% respectively. The sale of Bellagio accumulated to 1,356 units or 79% of the 1,704 Phases I and II units. Construction works for Phases III and IV commenced in March 2003 and are underway in accordance with schedule.

At June 30, 2003, the cash deposits in Sorrento's stakeholders account amounted to HK\$0.7 billion, which would be sufficient to fully cover its outstanding construction cost for completion of the whole project. Following the completion of the Phase I and II units, the cash deposits in Bellagio's stakeholders' account at March 31, 2003, amounting to HK\$1.2 billion were distributed to the shareholders of the project company in proportion to their equity interests in April 2003. The two project companies did not have any bank borrowings at June 30, 2003.

### **Gearing Ratios**

As at June 30, 2003, the ratio of net debts to total assets reduced to 24.9 per cent and the ratio of net debts to shareholders' equity decreased to 40.0 per cent, compared to 26.0 per cent and 42.9 per cent at December 31, 2002, respectively. The Group's net debts decreased from HK\$20.5 billion at December 31, 2002 to HK\$19.4 billion at June 30, 2003, which was made up of HK\$21.0 billion in debts less HK\$1.6 billion in deposits and cash. Included in the Group's debts were loans of HK\$1,273 million and HK\$304 million borrowed by two non-wholly owned subsidiaries, Modern Terminals and i-CABLE respectively (31/12/2002: HK\$941 million borrowed by Modern Terminals and HK\$386 million borrowed by i-CABLE). These loans are without recourse to the Company and other subsidiaries of the Group.

### **Availability of committed and uncommitted facilities**

High liquidity continued to sustain in the banking market during the first half of 2003. The Group arranged an aggregate of HK\$3.0 billion loan facilities to refinance a number of its loan facilities, mainly the asset-backed notes prepaid in May 2003, with substantial reduction in interest margins and on more favourable terms.

The Group's available loan facilities and debt securities amounted to HK\$28.8 billion. Debts totalling HK\$21.0 billion were outstanding at June 30, 2003, against the available facilities as analysed below:

Debt Maturity	30/6/2003			
	Available Facility	Total Debt		Undrawn Facility
	HK\$ Billion	HK\$ Billion		HK\$ Billion
<u>Company and wholly-owned subsidiaries</u>				
Committed facilities				
Repayable within 1 year	3.3	3.1	15%	0.2
Repayable between 1 to 2 years	5.3	5.0	24%	0.3
Repayable between 2 to 3 years	3.4	2.7	13%	0.7
Repayable between 3 to 4 years	5.3	5.3	25%	–
Repayable between 4 to 5 years	4.9	2.3	12%	2.6
	22.2	18.4	89%	3.8
Uncommitted facilities	2.3	0.5	2%	1.8
	24.5	18.9	91%	5.6
Non wholly-owned subsidiaries				
– Committed and uncommitted				
Modern Terminals Limited	2.9	1.3	6%	1.6
i-CABLE Communications Limited	0.9	0.3	1%	0.6
Others	0.5	0.5	2%	–
	28.8	21.0	100%	7.8
– Secured	1.0	0.8	4%	0.2
– Unsecured	27.8	20.2	96%	7.6
Total	28.8	21.0	100%	7.8

As at June 30, 2003, the banking facilities of the Group were secured by mortgages over certain investment properties with an aggregate carrying value of HK\$3,681 million (31/12/2002: HK\$17,923 million).

An analysis of the Group's total debts by currency at June 30, 2003 is shown as below:

	HK\$ Billion
Hong Kong dollar	15.8
United States dollar (swapped into Hong Kong dollars)	4.6
Renminbi	0.6
	<u>21.0</u>

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, 2003, the Group also maintained a portfolio of long-term investments, primarily in blue-chip securities, with a market value of HK\$1.1 billion.

### (III) Employees

The Group has approximately 9,667 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, 2003 amounted to HK\$989 million, compared to HK\$991 million in the first half of 2002.

### 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 (the "Stock Exchange"), at any time during the six-month period ended June 30, 2003. Nevertheless, the matter regarding the acquisition by the Group of a 39.08% effective interest in City Super Limited from a wholly-owned subsidiary of Wheelock and Company Limited ("Wheelock") as announced on February 17, 2003, 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, 2003, Directors of the Company had the following personal beneficial interests, all being long positions, in the ordinary shares of the Company and of a subsidiary of the Company, namely, i-CABLE Communications Limited ("i-CABLE"):

	Number of Shares
<b>The Company</b>	
Mr Gonzaga W J Li	686,549
Mr Stephen T H Ng	650,057
Mr Erik B Christensen	25,000
Mr TY Ng	178,016
<b>i-CABLE</b>	
Mr Stephen T H Ng	1,000,000

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted under the Executive Share Incentive Scheme of the Company previously held by Directors of the Company during the financial period:

Name of Director	Date granted (Day/Month/ Year)	No. of ordinary share represented by unexercised options outstanding as at Jan. 1, '03 (all such options lapsed on June 16, '03)	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:	22/06/1993	210,000	17/06/1997 to 16/06/2003	19.00	1.00
Mr Quinn Y K Law:	22/06/1993	100,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr Stephen T H Ng:	22/06/1993	200,000	17/06/1996 to 16/06/2003	19.00	1.00
Mr TY Ng:	22/06/1993	100,000	17/06/1996 to 16/06/2003	19.00	1.00



Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the “SFO”) in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests, both long and short positions, held as at June 30, 2003 by any of the Directors or Chief Executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and
- (ii) there existed during the financial period no rights to subscribe for shares, underlying shares and debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

### Substantial shareholders' interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at June 30, 2003 as recorded in the register kept by the Company under section 336 of the SFO:

Names	No. of Ordinary Shares
(i) Woodenfield Limited	140,136,675
(ii) Lynchpin Limited	171,974,029
(iii) Star Attraction Limited	171,974,029
(iv) New Asia Realty and Trust Co., Ltd.	191,343,162
(v) Myers Investments Limited	191,343,162
(vi) Wheelock Properties Limited	191,343,162
(vii) Diplock Holdings Limited	1,050,087,051
(viii) WF Investment Partners Limited	1,069,456,184
(ix) Wheelock and Company Limited	1,241,430,213
(x) Bermuda Trust (Guernsey) Limited	1,241,430,213
(xi) J.P. Morgan Chase & Co.	147,113,218

*Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (x) above to the extent that the shareholding stated against party (i) above was entirely duplicated or included in that against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), (iii) in (iv), (iv) in (v), (v) in (vi), (vi) in (vii), (vii) in (viii), (viii) in (ix) and (ix) in (x).*

All the interests stated above represented long positions and as at June 30, 2003, there were no short positions recorded in the said register.

## Share option scheme

Details of share options granted to Directors of the Company 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 employees (all being participants with options not exceeding the respective individual limits and including 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 1 Jan. '03	No. of ordinary shares represented by options lapsed/ exercised during the financial period	No. of ordinary shares represented by unexercised options outstanding as at 30 June '03	Period during which rights exercisable (Day/Month/ Year)	Price per share to be paid on exercise of options (HK\$)
(i)	22/06/2003	1,781,000	(1,781,000)	–	17/06/1996 to 16/06/2003	19.00
(ii)	01/08/1996	330,000	–	330,000	01/08/2002 to 31/07/2003	25.00
(iii)	01/08/1996	440,000	–	440,000	01/08/2005 to 31/07/2006	25.00
		2,551,000	(1,781,000)	770,000		

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the financial period.

## 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.

## Interim dividend in cash and in specie

The Board has declared an interim dividend in respect of the half-year period ended June 30, 2003 amounting to HK\$802 million (“Interim Dividend”), to be paid by way of (a) cash for an aggregate sum of HK\$294 million (“Cash Dividend”), equivalent to 12 cents per share, and (b) distribution of 244,747,663 shares of HK\$1.00 each in the share capital of i-CABLE Communications Limited (“i-CABLE Shares”) held by the Company (“Distribution”), with a value of HK\$2.075 per i-CABLE Share, being the closing price per i-CABLE Share on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) as at August 19, 2003. On these bases, the Interim Dividend will amount to 32.75 cents per Share in total (2002: interim dividend in cash of 28 cents per share).

Pursuant to the Distribution, one i-CABLE Share will be distributed for every 10 Shares of the Company held on September 19, 2003, being the record date for the purposes of determining the Shareholders' entitlements to the Interim Dividend ("Record Date"). No fraction of an i-CABLE Share will be distributed but fractional entitlements will be aggregated and disposed of for the benefit of the Company.

The Distribution will not be made to the Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong ("Overseas Shareholders"). The number of i-CABLE Shares that they are entitled to will not be distributed to them. Arrangements will be made for such i-CABLE Shares to be sold in the market as soon as practicable. Any net proceeds of sale after deduction of the expenses will be distributed *pro-rata* to such Overseas Shareholders.

The i-CABLE Shares to be distributed pursuant to the Distribution will rank *pari passu* in all respects with all other issued i-CABLE Shares. The Cash Dividend will be paid on Monday, September 29, 2003 to Shareholders and the share certificates for the i-CABLE Shares will also be despatched on September 29, 2003 to Shareholders by post.

Upon completion of the Distribution, the percentage of issued share capital of i-CABLE Communications Limited ("i-CABLE Share Capital") held by the Company will decrease from 79.24% to 67.12%. At the same time, the percentage of i-CABLE Share Capital in the hands of the public will increase from 20.56% to 26.62%, thereby meeting the minimum public float of 25% as prescribed in the Rules Governing the Listing of Securities on the Stock Exchange.

## Book closure

The Register of Members will be closed from Friday, September 19, 2003 to Friday, September 26, 2003, 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 in cash and the Distribution, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, September 18, 2003.

By Order of the Board  
**Wilson W S Chan**  
Secretary

Hong Kong, August 19, 2003