

Interim Report 2000

Highlights

"Wharf Riding Wave of Attractive Growth"

Results

- Unaudited Group profit of HK\$1,119.7 million, an increase of 5.3 per cent over last year.
- Earnings per share HK\$0.46.
- Interim dividend of 28 cents per share.
- Debt to total assets ratio at 25.1 per cent.
- Moody's outlook on Group revised from "negative" to "stable"; and upgraded five categories in Commercial Mortgage Backed Securities ratings for Harbour City.



Property

- Group core portfolio about 90 per cent occupied, with retail at 96%. Gateway II: retail fully let; office and serviced apartments over 80 per cent. Tower 6 of Gateway II expect launch in the fourth quarter.
- Construction of residential properties on schedule. Superstructure works for Sham Tseng site and the Airport Railway Kowloon Station Package II in progress. Presale of these projects scheduled for 2001. Forward sales for the three Peak projects comprising Mountain Court, Chelsea Court and Hillview Court subject to market conditions.
- Hotels in Hong Kong achieved strong growth, and see further uptrend for full year. Discussions in advanced stage to manage "The Marco Polo, Beijing".

i-CABLE

- "Triple Play" with three direct major revenue streams from Pay TV, Broadband Internet and voice regarded as the only strategic formula for success in increasingly competitive environment. The three solutions provide unique bundling opportunities.
- Cohesive management has met all the targets despite two recessions occupying four of the first six years of operation.
- Arising from first or early mover advantage, significant growth seen across all aspects of operations.
 - Pay TV subscribers grew by 14 per cent to 480,000.
 - Pay TV EBITDA margin gained 9 points to 30 per cent and viewership share to 30 per cent.
 - Pay TV EBITDA grew 63 per cent to HK\$220 million and net profit achieved for the first time.
 - Internet subscribers grew by 370 per cent to 180,000. Broadband Internet subscribers introduced in March have exceeded 20,000.
 - Total i-CABLE revenue grew by 21 percent to HK\$775 million and EBITDA grew by 57 percent to HK\$176 million. Net loss improved by 68 per cent to HK\$40 million.
 - Voice-over-IP trial to start this year with commercial rollout towards the end of 2001.

New T&T

- Growth in telephony services dramatic in all areas.
 - Installed fixed lines grew by 90 per cent to over 110,000; and IDD lines increased by 35 per cent to over 610,000.

- Fixed lines revenue grew by 70 per cent to HK\$133 million.
- Total revenue was HK\$323 million and contribution from fixed lines rose by 18 points to 41per cent.
- Infrastructure capabilities enhanced:
 - A second gateway switch commissioned in February 2000 and the third local switch commissioned shortly.
 - Rapid increase in traffic demand necessitated fourth and fifth local switches to be commissioned in near future.
 - External facilities connecting directly with Mainland and major international routes completed.
 - Became first operator to offer International Private Leased Circuits after ending the last chapter of telecoms monopoly in Hong Kong in January 2000.
 - New broadband and IP products launched to provide services to ISPs, ICPs and ASPs.

Modern Terminals

- Throughput grew by 9.8 per cent compared to same period last year.
- At completion, CT9 will provide 4 contiguous berths, a net increase of 2 berths to Modern Terminals. Capacity will increase from the present 3.4 million TEUs to 4.5 million TEUs.
- Development of CT9 and the strategic engagement in Western Shenzhen ports are both fortuitously timed in view of the impending entry of China into WTO.

Group Results

The unaudited Group profit attributable to Shareholders for the six months ended June 30, 2000 amounted to HK\$1,119.7 million, compared with HK\$1,063.3 million for the corresponding period last year. Operating profit amounted to HK\$1,587.1 million (1999 - HK\$1,481.2 million). Earnings per share were 46 cents.

Interim Dividend

The Board has declared an interim dividend of 28 cents (1999 - 28 cents) per share in respect of the financial year ending December 31, 2000, payable on November 2, 2000 to Shareholders on record as at October 20, 2000.

Unaudited Consolidated Results

| Six months ended June 30: | (Restated) | |
|--|------------------|------------------|
| | 2000 | 1998 |
| | HK\$ Million | HK\$ Million |
| Turnover | 5,769.3 | 4,979.5 |
| Other net income | <u>188.8</u> | <u>183.4</u> |
| | <u>5,958.1</u> | <u>5,162.9</u> |
| Direct costs and operating expenses | (2,538.0) | (2,132.4) |
| Selling and marketing expenses | (189.3) | (112.4) |
| Administrative and corporate expenses | (298.0) | (282.2) |
| Depreciation and amortisation | <u>(501.7)</u> | <u>(464.8)</u> |
| | <u>(3,527.0)</u> | <u>(2,991.8)</u> |
| Operating profit before borrowing costs | 2,431.1 | 2,171.1 |
| Borrowing costs | <u>(844.0)</u> | <u>(689.9)</u> |
| Operating profit | 1,587.1 | 1,481.2 |
| Share of profits less losses of associates | <u>22.4</u> | <u>32.8</u> |
| Profit before taxation | 1,609.5 | 1,514.0 |
| Taxation (Note 1) | <u>(171.5)</u> | <u>(141.5)</u> |
| Profit after taxation | 1,438.0 | 1,372.5 |
| Minority interests | <u>(318.3)</u> | <u>(309.2)</u> |
| Profit attributable to shareholders | 1,119.7 | 1,063.3 |
| Interim dividend | <u>(685.0)</u> | <u>(643.2)</u> |
| Retained profit for the period | <u>434.7</u> | <u>420.1</u> |
| Earnings per share | | |
| Basic and diluted (Note 2) | <u>HK\$0.46</u> | <u>HK\$0.46</u> |

Notes:

(1) Taxation

The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16.0% (1999 - 16.0%). Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax. Taxation in the consolidated profit and loss account represents:

| Six months ended June 30: | 2000 HK\$ Million | 1999 HK\$ Million |
|---|----------------------|----------------------|
| The Company and its subsidiaries | | |
| Hong Kong profits tax for the period | 179.2 | 194.0 |
| Rebate of 10% of 1997-1998 profits tax | - | (57.0) |
| Overseas taxation for the period | 1.0 | 0.2 |
| Deferred taxation | <u>(9.4)</u> | <u>6.9</u> |
| | 170.8 | 144.1 |
| Share of associates' Hong Kong profits tax for the period | <u>0.7</u> | <u>(2.6)</u> |
| | <u>171.5</u> | <u>141.5</u> |

(2) Earnings per share

The calculation of earnings per share is based on the earnings for the period of HK\$1,119.7million (1999 - HK\$1,063.3 million) and the weighted average of 2,446.2 million ordinary shares (1999 - 2,295.4 million ordinary shares) in issue during the period.

The existence of unexercised options during the period ended June 30, 2000 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2000.

(3) Change in accounting policies

In prior years, pre-operating and pre-maturity expenses were deferred and amortised over the licence period for cable television and telecommunications operations or a period not exceeding five years from the dates the projects come into operation and less such provisions as considered appropriate by the Directors. With effect from January 1, 2000, the Group adopted an accounting policy to write off the pre-operating and pre-maturity expenses in the period in which they incurred in order to comply with Interpretation 9 "Accounting for pre-operating costs" issued by the Hong Kong Society of Accountants ("Interpretation 9"). The new accounting policy has been adopted retrospectively. In adjusting prior years' figures, revenue reserves as at January 1, 1999 were restated and decreased by HK\$1,744.8 million representing the write off to the prior year consolidated profit and loss account of the unamortised balance of pre-operating and pre-maturity expenses.

As a result of the adoption of Interpretation 9 and restating the prior years' results and reserves, the Group's profit for the period attributable to shareholders has increased by HK\$43.0 million (1999 - HK\$7.0 million) as a net result of no amortisation of pre-operating and pre-maturity expenses and of write off of related expenses incurred during the period and the Group's net assets at June 30, 2000 have decreased by HK\$1,444.4 million (1999 - HK\$1,758.8 million).

(4) Comparative figures

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements in SSAP 1 (revised) "Presentation of financial statements" and Interpretation 9. As a result, pre-operating and pre-maturity expenses have been written off as required by Interpretation 9 and additional line items have been included on the face of the consolidated profit and loss account as required by SSAP1 (revised), such as other net income and an analysis of expenses. Comparative figures have been reclassified to conform with the current period's presentation. Certain comparative figures have also been adjusted as a result of the change in accounting policy for pre-operating and pre-maturity expenses in order to comply with Interpretation 9, details of which are set out in Note (3).

Business Review and Prospects

The overall performance of the Wharf Group met expectations for the first half of 2000 and continual uptrend is expected for the remainder of the year. The Wharf Group is now riding the wave of attractive growth in most areas of its operations.

An unaudited Group profit of HK\$1,119.7 million was reported, representing an increase of 5.3 per cent over the same period last year. Earnings per share were HK\$0.46. An interim dividend of 28 cents per share has been recommended.

The Group continues to exercise maximum financial prudence. Debt to total assets ratio remains at a conservative 25.1 per cent despite some capital spending because improved sales have begun to accrue from nearly all of the business units. The Group can be said to have gone past a heavy capital investment phase and moving into a phase of positive financial returns.

In recognition of the improving climate, Moody's Investors' Service raised the outlook for Wharf's long term foreign currency ratings from "negative" back to "stable" in July. In the same month, Moody's also upgraded Wharf's CMBS (Commercial Mortgage Backed Securities) papers by a notch each in five categories of the issue. They noted that their decision reflected the robust performance of the properties at Harbour City and, in particular, the substantial increase in occupancy and the resultant cashflow generated.

Property

With supply diminishing and demand rising, the property market generally looks to be on the verge of stronger recovery. The year-end overall vacancy rate is expected to fall substantially. Consumer spendings have visibly increased and hotel occupancy rates are probably at their highest since the beginning of the economic turmoil in the second half of 1997.

In tandem with the improving economic climate, the overall occupancy of the Group's core investment portfolio has recovered to about 90 per cent, with retail occupancy particularly strong at 96 per cent.

Gateway II, the modern and competitive leader in quality in Tsimshatsui, has been performing well since its opening. The retail podium is virtually fully occupied; offices and serviced apartments are over 80 per cent leased. The third tower of Gateway II is likely to be officially launched in the last quarter of 2000 to capitalise on the cyclical turnaround.

With Gateway II's 2.7 million square feet completed, the Wharf Group's overall core investment property portfolio now exceeds 11 million square feet in Hong Kong. When optimal occupancy is achieved, the total Group rental billings could amount to HK\$4.25 billion per annum.

The construction of residential properties has made steady progress. Superstructure works for Phases I and II of the Sham Tseng development commenced at the end of 1999, while those for Phase I of Kowloon Station Package II commenced in May. Pre-launches for these projects are scheduled for 2001.

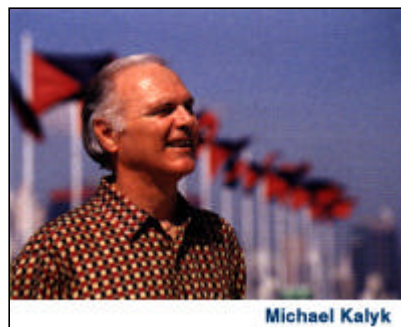
Main Board Executives



Deputy Chairman and Managing Director Stephen T H Ng (centre) with (from left): Executive Director John Hung, and Directors Quinn Law, K H Leung and T Y Ng



The construction of three luxury development projects, totalling some 180,000 square feet and collectively named "Wharf Peak Portfolio", is also on schedule. Superstructure works at Mountain Court and Chelsea Court are at the final stage and completion is expected by the fourth quarter of 2000. Superstructure works at Hillview Court in Plantation Road are in steady progress and completion is scheduled for the first half of 2002. Forward sales for these projects will depend on market conditions.



Tourism-related business was expected to grow by 14 per cent over 1999, a positive trend of which Marco Polo Hotels are well positioned to take advantage. All three Hong Kong hotels reported strong growth in performance for the first half of 2000 and the year-end results are expected to reflect a continuation of this growth. Turnover for food and beverages and average room rates have also gone up.

Discussions are in an advanced stage for the Marco Polo Hotels Group to manage a hotel to be named "The Marco Polo, Beijing" which is located at the centre of the business and financial district of Western Beijing.

The Marco Polo Hotels Group will unify the Marco Polo brand in Hong Kong in October 2000. At that time, the three existing hotels will be known as "The Marco Polo Hongkong Hotel", "The Marco Polo Gateway" and "The Marco Polo Prince".

Communications

- **i-CABLE**

i-CABLE was well placed to take advantage of the opportunities provided by the convergence of video, data and voice services. i-CABLE's broadband HFC network permits the implementation of a unique triple play strategy with three direct major revenue streams from pay TV, broadband Internet and voice over the same infrastructure. The Group regards the bundling of the three solutions as the only strategic formula for success in an increasingly competitive environment.



i-CABLE's cohesive management over these years has enabled the company to meet all targets despite two deep recessions during four of the first six years of its operation. Significant growth has been seen across all aspects of its operations in the first half of 2000.

Pay TV subscriptions grew by 14 per cent to 480,000. The pay TV EBITDA margin grew by nine points to 30 per cent and viewership share has risen to 30 per cent. Pay TV EBITDA grew by 63 per cent to HK\$220 million and net profit was achieved for this core business for the first time.

Internet subscribers grew by 370 per cent to 180,000, and total i-CABLE revenue grew by 21 per cent to HK\$775 million with EBITDA increasing by 57 per cent to HK\$176 million. Net loss improved by 68 per cent to HK\$40 million.

High speed cable modem Internet service was introduced in March, and early mover advantage has enabled the infrastructure rollout and subscriber penetration to rank amongst the fastest in the world. Broadband service is now available to 700,000 homes and this will reach one million homes by year end and over 1.7 million homes by the end of 2001, which will reflect market coverage of more than 95 per cent. The number of broadband Internet subscribers has reached the 20,000 target. Dial-up subscribers now number 163,000, which accounts for about 10 per cent of the total dial-up traffic in the market.

In the meantime, voice-over-IP telephony trials are due to commence this year with commercial rollout expected towards the end of 2001.

- **New T&T**

New T&T continued to be an innovative mover in the telecommunication industry with its "Building e-Connections" vision. In the period under review, dramatic growth has been seen in all areas of New T&T's services.

Installed fixed lines grew by 90 per cent to over 110,000; and IDD lines increased by 35 per cent to over 610,000. Fixed lines revenue increased by 70 per cent to HK\$133 million. Total revenue was HK\$323 million, with contribution from fixed lines having risen by 18 points to 41 per cent.

New T&T's infrastructure capabilities have been, and continue to be, enhanced to meet the challenges of the future. A second gateway switch was commissioned in February and the third local switch will be commissioned shortly. The rapid increase in traffic demand has necessitated fourth and fifth local switches to be commissioned in the near future. The fourth is currently on order and the fifth is being sourced.

External facilities connecting directly with the Mainland and major international routes have been completed, and New T&T became the first operator to offer International Private Leased Circuits after ending the last chapter of telecoms monopoly in Hong Kong in January 2000. New broadband and IP products have been launched to provide services to ISPs, ICPs and ASPs.

Terminals

As a result of strong consumer demand in the US and improvements in intra Asian trade, Modern Terminals continue to register significant growth. For the first half of 2000, throughput grew by 9.8 per cent compared to the same period last year.

The CT9 civil construction contract was signed in May 2000 and the first berth of CT9 is expected to be operational in the first half of 2002.

On completion, Modern Terminals will have four contiguous berths at CT9, which will give the company a net increase of two berths, following the contractual commitment to swap its two berths at CT8. Modern Terminals' capacity will then increase from the present 3.4 million TEUs to 4.5 million TEUs.

Development of CT9 and the strategic engagement by Modern Terminals in Western Shenzhen ports are both fortuitously timed in view of the impending entry of China into the World Trade Organisation.



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, 2000. Nevertheless, the matter regarding the sale by the Group of a 39.91% effective interest in City Super Limited as announced on June 29, 2000, being a matter involving conflict of interest for the Company's substantial shareholder, namely, Wheelock and Company Limited, a subsidiary of which is the counter-party, i.e. the buyer, in relation to such a transaction, 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 Directors of the Company (which are technically as valid as and equivalent to resolutions passed at a Directors' Meeting).

Directors' Interests in Shares

At June 30, 2000, 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 John T Hung | 20,000 | Personal Interest |
| Mr Stephen T H Ng | 750,000 | Personal Interest |
| Wharf International Finance Limited | | |
| - US\$ Guaranteed Series A Notes Due 2007 | | |
| Mr Ian H Melrose | US\$300,000 | Personal Interest |

As at June 30, 2000, 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 (the "Scheme"):-

| 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: | (l) | 210,000 | June 22, 1993 | 17/6/1997 to 16/6/2003 | HK\$ 19.00 | HK\$1 |
| Mr Quinn Y K Law: | (l) | 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: | (l) | 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 |

During the period under review, Mr Stephen T H Ng exercised his option under the Scheme to subscribe for a total of 50,000 ordinary shares of the Company at an exercise price of HK\$7.60 per share.

Save as disclosed above:

- (i) there were no interests held as at June 30, 2000 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (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,

as recorded in the register kept by the Company under section 29 of the SDI Ordinance.

Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 10 per cent 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, 2000 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 | 295,360,343 |
| (ii) Diplock Holdings Limited | 633,227,925 |
| (iii) WF Investment Partners Limited | 1,071,455,244 |
| (iv) Wheelock and Company Limited | 1,233,143,559 |
| (v) Bermuda Trust (Guernsey) Limited | 1,233,143,559 |

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 (iv) in (v); all of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at June 30, 2000.

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 17, 2000 to Friday, October 20, 2000, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Monday, October 16, 2000.

By Order of the Board
Wilson W S Chan
Secretary

Hong Kong, August 31, 2000