# *Property Marking to Market*
# *Back to the Basics*

## GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended 30 September 2002 amounted to HK$158.3 million, compared to HK$460.8 million achieved in the same period last year. Earnings per share were 7.8 cents (2001: 22.7 cents).

The results for the period under review included a provision of HK$756.1 million made for impairment in value of certain properties.

## INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended 30 September 2002 of 2.5 cents (2001: 2.5 cents) per share, payable on Wednesday, 29 January 2003 to Shareholders on record as at 10 January 2003.

## BUSINESS REVIEW

### Property Development and Other Assets – 20% of Group assets

***Sorrento***

Eighty per cent of the 1,272 Sorrento Phase I units were sold last year. The 854 units under Phase II will be released to the market in batches. Completion for Phase I is expected to take place some time during first quarter 2003, one year ahead of the scheduled completion for Phase II. Benefiting from the Government's property stimulus package, total sales for Phase II's Tower 1 of 390 units quickly approached the Group's target of 200 units in spite of the much larger average size per unit when compared against the average for Phase I. Sorrento is an MTRC joint-venture project above the Kowloon Station, equally owned by a five-member consortium comprising Wheelock, New Asia Realty, Realty Development Corporation, Wharf and Harbour Centre Development. Throughout the whole development, each and every one of the five stakeholders contributed exactly on a pro rata basis for the amount of financial capital and funding to the project company holding Sorrento. The total area for the entire development is 2.5 million square feet, with 2,126 units under two phases.

### *Bellagio*

In September 2002, Bellagio Phase I, consisting of 840 units, was launched. Due to the positive response received, a decision was made shortly after the initial launch to add also the entire 864 Phase II units to the offer list. As of the end of October 2002, total sales had accumulated to 1,082 units or 63 per cent of available units under Phases I and II. Bellagio, the Sham Tseng site on the western shore of the New Territories, is a joint-venture development equally owned by Wheelock, New Asia Realty and Wharf. Throughout the whole development, each and every one of the three stakeholders contributed exactly on a pro rata basis for the amount of financial capital and funding to the project company holding Bellagio. With a total area of 3.1 million square feet, it is being developed into 3,354 units in eight towers under four phases. Completion for Phases I and II is expected by first quarter 2003.

## Distribution and Retail – 2% of Group assets

### *Lane Crawford (wholly-owned subsidiary)*

Operating environment for the retail sector remained to be very difficult during the period under review. Other than the extremely weak consumer confidence which already had an adverse impact on the demand side, excessive investments made into new capacity in early years just before the burst of the economic bubble also led to serious consequences on the supply side. It is observed globally that there is over-branding and an over-retailing imbalance spanning high-end, middle and low-end segments.

Against the backdrop of intensive retail competition and with tight cost containment, Lane Crawford reported a small profit of HK$0.5 million for the period under review as compared with the same period last year which saw a loss of HK$27.2 million that included cessation expenses of HK$8.6 million in respect of the Taiwan development project. The business relies on frequent promotional activities, putting the margin under pressure. Profitability is not only subject to rental renewal pressures but also the need for constant capital expenditure demands in the face of competition.

### *Joyce Boutique Holdings Limited (listed subsidiary)*

Despite the 10.8 per cent increase in sales turnover due to intensive promotion efforts, Joyce recorded a loss of HK$11.3 million for the reporting period as compared to a loss of HK$26.1 million for the same period a year ago. This is due to fierce retail competition affecting margin and the closure of Joyce Café and Ad Hoc cessation expenses.

## The Wharf (Holdings) Limited – 48% of Group assets

**Share of Wharf's profit contribution to Wheelock for the six months ended 30 September 2002 was HK$636 million with dividend to Wheelock totalling HK$620.8 million.**

Wharf Holdings (a listed associate) recorded an unaudited profit of HK$1,202 million for the six-month period ended 30 June 2002, representing a growth of 5 per cent over the same period last year.

All five core assets including **Harbour City, Times Square, Modern Terminals, i-CABLE** and **Wharf New T&T** continued to deliver resilient performance in spite of the challenging operating environment. These five brands make up 90 per cent of Wharf's total business assets.

### *Harbour City*

For the first six months of 2002, **Harbour City** generated HK$1.5 billion in total revenue. **Harbour City** offices, excluding Tower 6 of Gateway II, maintained a 90 per cent occupancy while average vacancy rates in Central and Tsimshatsui were approaching 10 and 15 per cent respectively. Keen demand from small/medium trading, manufacturing and other China trade related tenants was the driving force for such outperformance. The consolidated occupancy for the three Marco Polo Hotels at **Harbour City** recovered gradually from last year end's 911 shock to around 84 per cent at the end of June 2002. Gateway Apartments continued to outperform market with average occupancy at 84 per cent while others in the market were mostly at 70-per cent level. During the first six months of 2002, **Harbour City**'s retail podium maintained its occupancy at 98 per cent with double-digit rental increments recorded out of most renewals. With the critical mass established in Tsimshatsui along Canton Road, **Harbour City** is considered by international brands and retail chains as a "must" in terms of retail presence.

### *Times Square*

**Times Square** generated HK$450 million in total revenue during the first six months of 2002. **Times Square** offices' average occupancy improved to 93 per cent. Anchor tenants including Shell Oil, AT&T and Apple Computer have all renewed their tenancies. With these successful renewals accounting for more than half of the total expiring leases in 2002, **Times Square**'s office occupancy is expected to stay above the 93-per cent level for the remainder of the year. The **Times Square** retail podium with more than 230 shops and retail outlets continued to enjoy a respectable occupancy rate of 96 per cent during the first half of 2002. Similar to **Harbour City**, positive rental reversion was also achieved by **Times Square**'s retail section. Improvement and refinement of the retail trade mix will continue through the second half of 2002.

## *Modern Terminals*

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

## *i-CABLE (listed subsidiary)*

Share of **i-CABLE**'s profit contribution to Wharf for the six months ended 30 June 2002 was HK$81.5 million with dividend to Wharf totalling HK$40 million.

In a weak economy and competitive operating environment, **i-CABLE**, a listed subsidiary, continued to report growth in the first half of 2002. Anti-piracy measures have proven to be helpful in arresting the decline in ARPU and revenue. While total subscribers increased to 600,000 on the back of World Cup, first half ARPU recovered to HK$244 from HK$239 a year ago and monthly churn eased back to 1.5 per cent. New channels first introduced in April to target the international communities and special interest groups also received very positive market response. The Broadband subscriber base expanded from 160,000 to 192,000 during the first six months of 2002. ARPU declined to HK$213 from HK$225 a year ago mainly due to keen competition.

## *Wharf New T&T (wholly-owned subsidiary)*

**Wharf New T&T**'s installed base of fixed lines grew to 270,000 as at 30 June 2002, for a market share of over 7 per cent. This represented a net gain of 33,000 in 6 months and 86,000 in 12 months. In the middle of a very weak economy and a global meltdown within the industry, the overall telecommunications market in Hong Kong actually contracted during the period under review. However, underpinned by the solid foundation and headstart built steadily in earlier years, **Wharf New T&T** was able to continue to gain market share and control costs to report a small profit of HK$3 million.

## New Asia Realty and Trust Company, Limited – 30% of Group assets

**New Asia Realty's assets including its stake in Sorrento and Bellagio represent about 30 per cent of Group total assets. Attributable profit for the six months ended 30 September 2002 before property provisions from New Asia Realty to Wheelock was HK$169.5 million with dividend to Wheelock totalling HK$76.8 million.**

New Asia Realty, a listed subsidiary, reported an unaudited loss of HK$122.3 million for the six months ended 30 September 2002, compared to a profit of HK$204.7 million in the same period last year. The weakened performance was mainly due to lower property sales as well as the provision made for impairment in value of properties held for development.

New Asia Realty has a 20 per cent direct stake in Sorrento and a 33 per cent stake in Bellagio. Throughout the development process, New Asia Realty contributed to these projects on a pro rata basis for the amount of financial capital and funding as all other stakeholders of Sorrento and Bellagio.

### *Property Development*

The two projects, Sorrento and Bellagio, are effectively 35 and 33 per cent owned by New Asia Realty.

### *Realty Development Corporation Limited (listed subsidiary)*

Share of Realty Development Corporation's loss attributable to New Asia Realty for the six months ended 30 September 2002 was HK$255.5 million with dividend to New Asia Realty totalling HK$50 million.

The King's Park development is owned by a five-member consortium comprising Realty Development Corporation, New World Development, Sino Land, Chinese Estates and Manhattan Garments. This residential site located in Homantin is being developed into eight towers consisting of 700 units with a total GFA of 904,200 square feet. Following the completion of demolition works, foundation works are now in progress. Pre-sale is targeted to take place during the first quarter of 2003.

Realty Development Corporation has a 20 per cent direct stake in Sorrento. Throughout the development process, Realty Development Corporation contributed to this project on a pro rata basis for the amount of financial capital and funding as all other stakeholders of Sorrento.

### *Marco Polo Developments Limited (listed subsidiary)*

Share of Marco Polo Developments' profit contribution to New Asia Realty for the six months ended 30 September 2002 was HK$200.6 million with dividend to New Asia Realty totalling HK$46.6 million.

Wheelock Place, a commercial building with 464,900 square feet in GFA on Orchard Road, is currently 96 per cent leased at satisfactory rental rates.

As at 30 September 2002, all 330 apartments in Ardmore Park were sold and resulting proceeds have been substantially collected.

## OUTLOOK

As Hong Kong is going through structural adjustments in the near term, her fundamentals remain indisputably intact. With international trading and commerce being Hong Kong's core competence, macro-factors are moving towards favourable directions – the continual high growth story of China, the dynamic partnership with the Pearl River Delta for overseas markets and Mainland markets, low interest rates plus the increase in tourism business. The third quarter GDP growth of 3.3 per cent is positive for Hong Kong's base building towards a brighter outlook.