



Cable TV Tower, Hong Kong



STEERING AHEAD



Driven by strong recurrent earnings and value creation opportunities originating from its investment flagship property at Kowloon Point, Wharf Holdings, Wheelock's principal associate, is supported by major investments in CME (communications, media and entertainment) and logistics. This portfolio is set to offer significant revenue growth and value creation through brands in the coming years.

BUSINESS REVIEW – WHARF HOLDINGS

Wharf is a group driven by strong recurrent earnings and value creation opportunities originating from its investment flagship property at Kowloon Point. Further supported by other major investments in communications, media and entertainment, and logistics businesses, the group is strategically focused on Hong Kong and China Mainland.

Wharf reported a profit attributable to shareholders of HK\$2,480 million for the year ended 31 December 2000. Its profit before exceptionals grew by 10 per cent when compared to the 1999 figure.

PROPERTY

Prime properties including Harbour City and Times Square which are virtually “freehold” with 999-year leases, altogether maintained an average occupancy of over 90 per cent in year 2000.

With typical clientele at Harbour City being mostly China business operators such as trading firms,

importers, exporters and manufacturers, the investment property portfolio benefited largely from an influx of fresh foreign capital and the expansion of existing local operators, both eyeing on the soon-to-open China domestic market because of the potential WTO agreement. Tower 6 of Gateway II comprising



780,000 square feet of office space has been released to the market. The great response received is totally unanticipated by many under the recent lacklustre market conditions.

The two towers of Gateway Apartments provide about 500 serviced apartments. More than 50 per cent of the tenants are multinational corporate tenants and over half of the committed tenancies are for periods of 12 months or more. Comments from the occupants on quality and service have been excellent.

Because of limited availability, shops in Harbour City are under keen demand. Following the opening of the 14,000-square-foot Louis Vuitton shop at Ocean Centre,

BUSINESS REVIEW – WHARF HOLDINGS

Gucci has also leased a 9,200-square-foot ground floor shop at Canton Road as its flagship store in Kowloon.

Since the inception of Wharf's programmes on the Mainland's property investment, capital expenditure has been controlled, with around

HK\$3.7 billion being invested so far.

The group aims to roll out the successful brand of "Times Square" in various key cities. Both Beijing Capital Times Square and Shanghai Times

Square started operating in 2000 and average occupancy improved consistently from 30 odd per cent at the beginning to as high as 70 per cent by the year end. The commencement of the Chongqing Times Square project coincided nicely with the announcement of the Beijing Central Government's "Go West" master plan. This project is a mixed development of retail, office and residential with a GFA of 1.6 million square feet, located at the city's prime shopping area, the Liberation Statue Square, which is at the junction



of Zou Rong Road and Min Zu Road, the two major pedestrian-only streets in Chongqing.

COMMUNICATIONS, MEDIA AND ENTERTAINMENT ("CME")

Due to visionary investments in brand position, subscriber base, network and servicing infrastructure and content development, together with management's dedicated efforts over

the last seven years, Wharf now owns a remarkably sizable and respectable portfolio of CME businesses in Hong Kong.

Following its successful listing at the end of 1999, i-CABLE started to report a net profit for fiscal year 2000, one year ahead of market expectations. Having become the first local television operator other than the dominant broadcaster to report a profit in Hong Kong's television history, the company would continue with its "Triple Play" strategy in Pay TV,

BUSINESS REVIEW – WHARF HOLDINGS

Broadband Internet, and Telephony to take advantage of its bundling capability whenever possible.

In 2000, the Pay TV subscriber base grew by 15 per cent to 520,000, representing a 29 per cent penetration of total homes passed. ARPU went up by five per cent

to HK\$250 whereas churn rate remained low at 1.5 per cent per month on average.

Being the preferred partner for most programmers and content providers, the company managed to conclude a number

of renewals and also brand new carriage agreements with major players including HBO, Cinemax, CNN, AXN and Sun TV.

Although several new licenses were awarded in late 2000, the company is confident that its first mover advantage would continue to enable its services to prevail over the competition. In fact, the competitive environment of the sector has changed drastically in the past six months. After the withdrawal of both Star TV and HK Network TV due to various commercial

considerations, Galaxy is reported to be still searching for investor funding and was late in meeting the performance bond obligation under its license.

Backed by the company's early mover advantage and its highly recognized brandname, Broadband

Internet access subscribers grew from a standing start in late March 2000 to over 50,000 before the end of the year. This represented an approximate 25 per cent share of the residential market.

Due to the high operating leverage structure, EBITDA breakeven was rapidly achieved within the first nine months of operation on an incremental basis. By year end of 2000, over 900,000 homes in about 4,600 buildings throughout Hong Kong, Kowloon and the New Territories had been covered. The milestone of 1,000,000 was reached two months later, doubling the license commitment to the Government. This represents one of the fastest, if not the fastest, rollouts of Cable Broadband services in any major city in the world.



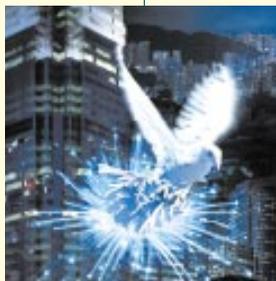
BUSINESS REVIEW – WHARF HOLDINGS

The company commenced its commercial trial for VoIP (Voice-Over-Internet-Protocol) telephony in December, and plans to launch commercial service sometime in 2002 to generate a third major recurring revenue stream. The company's distribution infrastructure will make it one of the only two operators with city-wide coverage.

Being the most competitive and fastest growing fixed line operator in Hong Kong, New T&T had quite an eventful year during 2000. It accomplished significant

growth in the areas of network coverage, number of customers, number of fixed lines, IDD volume and financial performance, as well as improvement in the company's position along the value chain.

Having expanded significantly, the company's advanced network now covers almost the entire North Shore of Hong Kong Island, Kowloon Peninsula, and key data & voice locations in the New Territories. For the company's international bandwidth capacity, New T&T became the first operator in Hong Kong to



interconnect with all three licensed Mainland operators namely China Telecom, China Unicom, and China Netcom. Together with its earlier investment in the submarine cable linking Japan-US and the alliance with FLAG Telecom and Level-3, New T&T is now well-positioned to become a leading international bandwidth and IP backbone player in the market. New cable landing stations were also interconnected with New T&T's fibre network to provide backhaul services.

Apart from the remarkable 38 per cent growth in total business customers, New T&T also became an important player in providing service for the e-commerce market place. At 31 December 2000, the number of total installed fixed lines reached 140,000, representing the second consecutive year with an 80 per cent plus growth rate. Total IDD volume increased by 140 per cent to over 650 million minutes. By managing various cost items below the 1999 level, New T&T reported an impressive improvement in

BUSINESS REVIEW – WHARF HOLDINGS

EBITDA and came close to breaking even on the EBIT level. Moreover, contribution from fixed lines, as a percentage of the total revenue, had jumped from 1998's 10 per cent to end of 2000's 50 per cent. This underlined the rapid and successful transformation of the company's business in only two years from low value IDD to high value fixed lines, where the entry barriers are much higher and customers are much more loyal, but discerning.



LOGISTICS

Wharf's interest in Modern Terminals was raised from 50.8 per cent to 55.3 per cent in early 2001. Propelled by strong export growth during 2000, South China throughput grew by 2.2 million TEUs, of which Hong Kong's terminals absorbed 55 per cent and Shenzhen 45 per cent. Modern Terminals handled in total 3,073,436 TEUs last year, representing an 18.4 per cent growth against 1999. The company's growth compared favourably with the overall growth in Kwai Chung of 12.5 per cent and South China of 17.4 per cent.

In anticipation of the potential opportunities brought by WTO, the company continued to invest in various projects in order to solidify its leading position in the sector under the rapidly changing business environment. ModernPorts.com, aimed to improve the overall operating efficiency of both customers and Modern Terminals, was introduced towards the end of 2000. Phase 2 has just been launched recently to enhance the number of performable functions provided by this portal. With its eight

per cent effective investment in Kaifeng Container Terminals in Western Shenzhen already making a positive contribution to the company's bottomline, a new berth which increases handling capacity by about 400,000 TEUs, became operational in late 2000. While continuing with its involvement in the operational management of Shekou Container Terminal 1, the company obtained in-principle approval in early 2001 from the Central Government in Beijing to hold a 20 per cent interest in Shekou Container Terminal 2.