Wharf China is well positioned to benefit from China's fast growing economy.

WHARF CHINA LIMITED

Wharf China Limited

Macro Economics

China is one of world's fastest growing economies. Performance data indicate annualized GDP growth of seven per cent, anticipated foreign direct investment (FDI) of US$65 billion in 2002 and forex reserves approaching US$300 billion by the end of 2002. China has become the focus of global economic development.

The Central Government in Beijing has adopted relaxed monetary and fiscal policies to stimulate domestic consumption to help sustain a seven per cent growth in 2002. China's official entry into the WTO in December 2001 is widely expected to be a critical factor in the country's growth prospects over the coming decade, despite the fundamental adjustments required in the state-owned-enterprise sector. In anticipation of this WTO-inspired growth, Asian and Western multi-nationals began moving into Shanghai and other major cities. As a result, Shanghai Grade A office rental rates were up by more than 20 per cent in 2001, with a substantial improvement in the overall vacancy level. This influx bodes well for the Group's China properties.

Management

Mr Gonzaga Li, now the Group's Senior Deputy Chairman, will focus on China and head the Group's China team as Chairman and Chief Executive of Wharf China Limited. Supported by a portfolio of projects in key locations including the **Times Square** properties in Beijing and Shanghai, Wharf China is well positioned to benefit from further property and hotel opportunities arising from China's growth. It will also seek to develop distribution and logistics businesses using Wharf's existing platforms as discussed later in this report.

Investment

Excluding **Modern Terminals** which is a standalone investment with its debts non-recourse to its shareholders, Wharf China's investment up to the end of 2001 was $3.6 billion. Capital expenditure earmarked for the commenced projects amounts to $2.1 billion.

Gonzaga Li, Chairman and Chief Executive of Wharf China Limited.

WHARF CHINA LIMITED

MARCO POLO HOTELS

The Marco Polo Hotel Group now has a portfolio of seven hotels throughout Asia. The Marco Polo Hongkong Hotel, The Marco Polo Gateway and The Marco Polo Prince located along Canton Road in Hong Kong are owned by the Group. The hotels in Saigon, Davao, Xiamen and Beijing are operated under management contracts.

For Marco Polo Hotels, last year's most exciting event was the opening of The Marco Polo Beijing in December. This is the second Marco Polo hotel in China, following the 350-room The Marco Polo Xiamen which opened in November 1996. Location has always been the most critical factor for hotel business anywhere in the world, and The Marco Polo Beijing's prime location will definitely enhance its future. Located at 6 Xuanwu Men Nei Avenue, Xi Cheng District, this 300-room, 10-storey hotel is three blocks from Tiananmen Square and the Great Hall of the People, and a short walking distance to the Bank of China's new headquarters and the Xidan subway station. Together with the nearby Beijing Capital Times Square with its Grade A office space and modern shopping complex, the two properties should create interesting synergy in attracting customer flow and business activities.

From left: Michael Kalyk, Gonzaga Li

With China's WTO entry and Wharf's presence in Beijing and Xiamen, there exists a good opportunity to roll out the Marco Polo Hotel brand and business model in other cities in China.

PROPERTY

Wharf China's mission is to develop and manage high-quality investment properties in major cosmopolitan cities in China through its successful brand "**Times Square**".

Beijing Capital Times Square is a retail and office development with 1.3 million square feet in GFA, and Shanghai Times Square is a retail, office and apartment development with 1.2 million square feet in GFA. Both projects have excellent locations.

TIMES SQUARE AND MARCO POLO HOTEL BRANDS NOW ESTABLISHED IN KEY CITIES

The overall occupancy rate for the two **Times Square** complexes improved to in excess of 70 per cent since they came on stream in 2000, which will translate into a meaningful contribution to the Group going forward. Annual rental income is now close to $200 million.

New Projects

In 2001, the Central Government committed significant resources to promote its "Go West" master plan. As a result, fresh investments as well as demand for high quality office and residential premises within that region are likely to increase. Chongqing Times Square, in Sichuan province, the Group's third **Times Square** project, is currently under construction and is well positioned to benefit from the Go West emphasis. This retail, office and residential development has a total GFA of 1.6 million square feet and an estimated construction cost of approximately $1 billion. Together with the **Times Square** properties in Beijing and Shanghai, this project will bring the total **Times Square** footage in Mainland China to 4.1 million square feet.

In Shanghai, Shanghai Wheelock Square, located on top of a major subway station along Nanjing Xi Road, is presently under planning with 1.6 million square feet in GFA. Targeted completion for the whole development is expected in 2006. This will be a prime office building in the centre of Shanghai and will house the Group's China offices. Construction work for two other projects located along Huai Hai Xi Road is scheduled to commence in 2002. Parc Royal will have a GFA of 783,000 square feet, while Wellington Garden will have a GFA of approximately 572,000 square feet. Completion of these two developments is expected to be in 2005.

China Project List

	Project Nature	GFA (sq ft)	Status	Completion
Beijing Capital Times Square	Commercial	1,295,000	Completed for Lease	
Shanghai Times Square	Commercial/Residential	1,211,000	Completed for Lease	
Chongqing Times Square	Commercial/Residential	1,607,000	Under Construction	2004
Shanghai Wellington Garden	Residential	572,000	Under Planning	2005
Shanghai Parc Royal	Commercial/Residential	783,000	Under Planning	2005
Shanghai Wheelock Square	Commercial	1,575,000	Under Planning	2006

Modern Terminals celebrates three decades of service excellence in 2002.

Logistics

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Operating Environment

During 2001, overall trade activities slowed dramatically as a result of the softening global economy. However, supported by the resilient China exports, the whole South China region managed to register a positive growth rate of 2.8 per cent in container volume. Although the marginal growth in 2001 was substantially lower than the 17 per cent growth rate in 2000, the South China region's performance in terms of TEUs handled was far better than that of most other regions in the world.

While the Kwai Chung and Shenzhen ports have been contributing by and large the vast majority of South China's throughput volume, the two locations performed quite differently in year 2001. Due to lower tariff rates and the availability of new capacity, Shenzhen ports outperformed Kwai Chung in 2001 by gaining an additional 836,000 TEUs in throughput volume, representing an increase of 25 per cent over 2000. During the same period, Hong Kong's Kwai Chung terminals actually showed a decline of four per cent in TEUs handled.

In view of Hong Kong's higher cost but much more efficient and predictable operating structure, time critical exports tend to go through Kwai Chung, whereas others would make use of the Shenzhen ports. Services being offered by the two locations have been differentiated into value-added services and commodity type services.

Performance

In February 2001, Wharf increased its shareholding in **Modern Terminals** to 55.3 per cent from 50.8 per cent. The value of Wharf's investment in **Modern Terminals** now represents more than 10 per cent of the Group's business assets. A leading operator of value-added container terminal services in the South China region, **Modern Terminals** maintained its 2001 profit at the

Key Operating and Financial Highlights

	2001	2000	1999	1998	1997
Container Handling Capacity (TEUs in millions)	4.03	3.70	3.40	3.40	3.17
Throughput (TEUs in millions)	3.52	3.36	2.82	2.51	2.04
Headcount	1,179	1,184	1,294	1,328	1,336
TEUs per Headcount	2,985	2,840	2,177	1,889	1,525
Market Share	30.7%	28.6%	27.1%	26.3%	21.6%

MODERN TERMINALS LIMITED

previous year's level due to increased market share and enhanced productivity.

Productivity

Coping with the challenges outlined above, **Modern Terminals**' professional management team, under the able leadership of Mr Erik Christensen, has been successful in implementing numerous measures to re-engineer the company into a customer-focused organization with substantial improvement in efficiency and productivity. Since 1997, the average cost per TEU handled has been reduced by as much as 50 per cent, and staff productivity in terms of TEUs per headcount increased to 2,985 from 1,525, representing a productivity gain of almost 100 per cent.

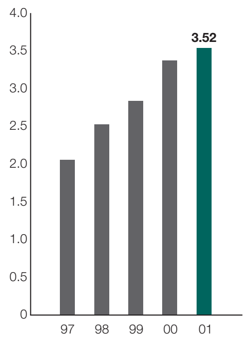
Despite the mild drop in Kwai Chung's throughput volume in 2001, **Modern Terminals** maintained its trend of persistent growth since 1998. By delivering a growth of 4.7 per cent in the number of TEUs handled in 2001, **Modern Terminals**' market share in Kwai Chung expanded to 30.7 per cent from 28.6 per cent. Over a five-year period, market share has increased from 21.6 per cent. During the year under review, trans-Pacific and intra-Asia routes showed growth of five per cent and two per cent respectively, but were offset by a five per cent decline in European traffic. Traffic with other regions remained fairly stable.

From left: Erik Christensen, Gonzaga Li

As one of the world's most efficient container terminal operators, **Modern Terminals**' ability was further proven by a new world record set in February 2001 during which 1,884 containers were handled in 5 hours and 36 minutes, representing on average 336 TEUs handled per berthing hour.

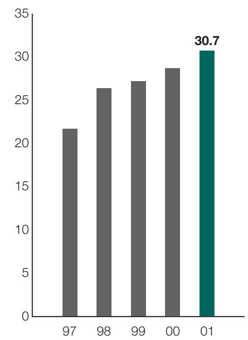
Throughput

Million TEUs



Market Share

%



New Projects

In China, **Modern Terminals** obtained the in-principle approval in February 2001 from the Central Government in Beijing for its plan to take up a 20 per cent interest in the Shekou Container Terminal 2 project.

PROFIT MAINTAINED THROUGH INCREASED MARKET SHARE AND ENHANCED PRODUCTIVITY — NOW 10 PER CENT OF GROUP'S BUSINESS ASSETS

In Hong Kong, due to the initial delay in dredging works, the completion date for the first berth of Container Terminal 9 (CT9) project will be delayed to early 2003. CT9 is being developed by a consortium of **Modern Terminals**, Hongkong International Terminals Limited and Asia Container Terminals (ACT) Limited. Upon completion of the CT9 project, together with the company's further investments in and enhancements of its existing facilities, **Modern Terminals** will have a total capacity of 5.5 million TEUs. This more than 30 per cent increase in capacity will provide meaningful economies of scale and further opportunities for productivity gains. After the swap of two berths in CT8 with ACT is effected, a configuration of four contiguous berths in CT9 will provide additional synergies to **Modern Terminals**.

As one of the world's most efficient container terminal operators, Modern Terminals set a new world record in February 2001.