

Operations Review



Infrastructure

The Group is participating in the investment of five toll road projects with a total length of 360km, all of which are located in the Pearl River Delta region of Guangdong Province. Four toll road projects are in operation while construction of the 15km Phase I of the Guangzhou-Zhuhai West Superhighway (Guangzhou to Shunde section) commenced in December 2001. All of the projects are in the form of co-operative joint ventures between the Group and PRC partners.

With increasing business and trade activities, and the continuously growing strong economy of Guangdong Province, the Group recorded satisfactory performance in its infrastructure business during the year under review. The average daily combined traffic flow of the Group's toll roads reached 364,000 vehicles, an increase of 8% as compared to the previous year. Infrastructure business accounted for 71% of the Group's earnings before interest and tax.

As China has become a member of the World Trade Organization, effective from 1st April this year, all toll highways in Guangdong Province are required by the relevant authorities of the province that all tolls collection from Hong Kong or Macau originated vehicles must be in Renminbi and at the same rate applicable to the same class of PRC vehicles ("Guangdong RMB Toll Requirement").

As the number of Hong Kong and Macau originated vehicles using the Guangzhou-Shenzhen Superhighway and the Guangzhou East-South-West Ring Road accounted for only a small proportion of the total traffic flow, and the Shunde Roads and the Shunde 105 Road had been charging tolls all along in Renminbi; the Guangdong RMB Toll Requirement has only minimal impact on the toll revenue of the respective toll roads.



Combined financial information of the PRC joint ventures in operation for the year ended 30th June, 2002:

	RMB million
Toll revenue	2,540
Earnings before interest and tax	1,903

Note:

Included in consolidated income statement are the interest income from the joint ventures and share of profits accounted for on an equity basis, totalling HK\$718 million. Toll revenue of the joint ventures has not been consolidated in the Group's turnover.

Infrastructure

Guangzhou-Shenzhen Superhighway (GS Superhighway)



Control centre

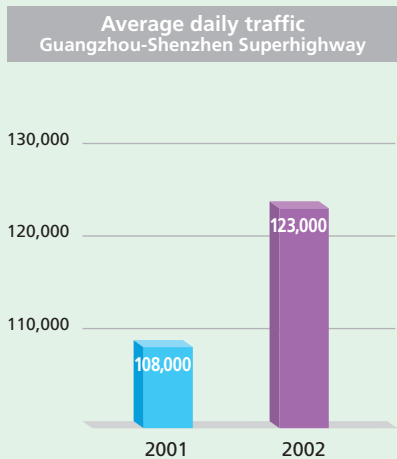
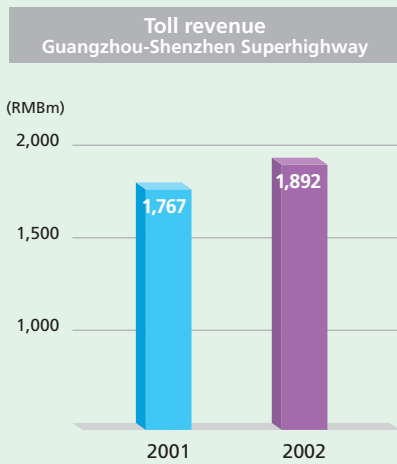
Project Summary			
Location	Guangzhou to Shenzhen, Guangdong, PRC		
Length	122.8km		
Lane	Dual three-lane		
Class	Superhighway		
JV Contractual Operation Period	Jul 1997 – Jun 2027		
Profit Sharing Ratio	Year 1-10: 50%	Year 11-20: 48%	Year 21-30: 45%

The Guangzhou-Shenzhen Superhighway is the principal transport route linking the three major cities of Guangzhou, Dongguan and Shenzhen. During the year under review, traffic flow and toll revenue continued to record satisfactory growth. The average daily traffic flow reached 123,000 vehicles, an increase of 14% over last year while toll revenue increased by 7% to reach RMB1,892 million.

The upgrading of the existing magnetic card-based toll collection system under a plan

proposed by the joint venture company last year to permit the use of integrated circuit cards (I.C. card) is being implemented and is expected to be completed next year. Upon completion, the effectiveness of the toll collection system will be enhanced and the processing time for toll payment will be shortened.

Two new toll stations were completed and began operation during the year. Baoan toll station, located in the industrialized Baoan District of Shenzhen, next to



Baoan toll station



Signing ceremony of the US\$700m project financing of the Guangzhou-Shenzhen Superhighway

the Nantou inspection station on National Route 107 in Shenzhen, has helped to ease the traffic congestion of that inspection station. The usage of Baoan toll station has gradually increased since its opening. The opening of Huacun toll station has linked the GS Superhighway to Guangzhou Second Northern Ring Road and Guangzhou Airport Superhighway, and provides a direct access to the new international airport in Huadu of Guangzhou. This airport will be completed by the end of 2003, and it will be one of the three principal hub airports in China.

In February 2002, the joint venture company arranged a

bank loan with a PRC bank for the repayment of a total sum of US\$684 million of the principal and interest of the shareholders loan advanced by the Group. The sum received would be used to repay the principal together with interest and fees payable under the Notes issued in August 1997.

With effect from 1st April, 2002, the Guangdong RMB Toll Requirement was implemented. As the number of Hong Kong and Macau vehicles accounted for less than 7% of the total traffic flow of the GS Superhighway, the Guangdong RMB Toll Requirement has only minimal impact on toll revenue.



Guangzhou-Shenzhen Superhighway

Infrastructure

Guangzhou East-South-West Ring Road (ESW Ring Road)

Project Summary

Location	Guangzhou, Guangdong, PRC		
Length	38km		
Lane	Dual three-lane		
Class	Superhighway		
JV Contractual Operation Period	Jan 2002 - Dec 2031		
Profit Sharing Ratio	Year 1-10: 45%	Year 11-20: 37.5%	Year 21-30: 32.5%



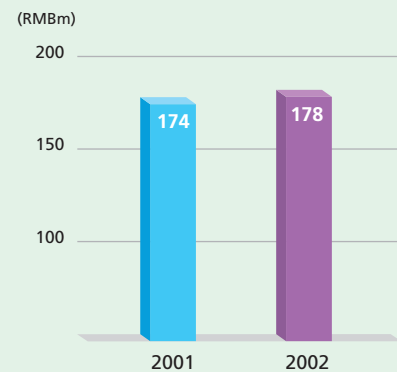
Dongpu toll station

The Guangzhou East-South-West Ring Road constitutes the main segments of the completed ring of the expressway surrounding the downtown of Guangzhou. It provides a high speed thoroughfare for the large volume of traffic passing through the city of Guangzhou. As some of the access roads connecting to its interchanges have yet to be completed, the average daily traffic of the ESW Ring Road was 33,000 vehicles, which is

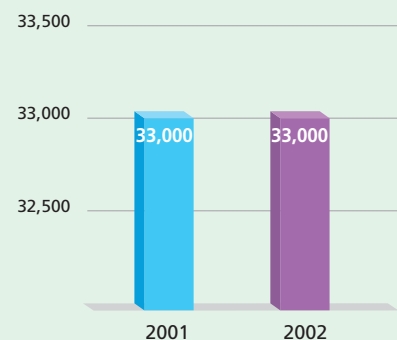
comparable to that of last year. Toll revenue increased slightly to about RMB 178 million. The implementation of the Guangdong RMB Toll Requirement also has had minimal impact on toll revenue of the ESW Ring Road as the number of Hong Kong and Macau vehicles accounted for less than 0.1% of the total traffic flow. As for the two regulations effected in December 2001 and May 2002 of requiring non-Guangzhou registered vehicles to buy

entry tickets, and restricting the hours and travel zones for non-Guangzhou registered goods vehicles to enter the municipality respectively, the average daily traffic flow of the ESW Ring Road since their implementation has risen to over 36,000 vehicles in July 2002, an increase of 18% over the same period of last year. In the next several years,

Toll revenue ESW Ring Road



Average daily traffic ESW Ring Road





Signing ceremony of the RMB1.5b project financing facility of the ESW Ring Road

when the three new connections, 1) Phase I of Guangzhou - Zhuhai Superhighway connecting to the Hainan Interchange, 2) the Guangzhou Southern Expressway connecting to the Luntou Interchange with direct access to Long Xue Dao in Panyu, and 3) the Guangzhou Zhuhai East Superhighway connecting to the Xinzhou Interchange, are completed and connected, the role of the ESW Ring Road will play a more effective role as a thoroughfare in relieving the traffic congestion of vehicles passing through Guangzhou and traffic flow of the ESW Ring Road is expected to experience significant growth.

In December 2001, the joint venture company arranged a PRC project financing facility of RMB1.5 billion. Part of the proceeds was used to finance the construction of the project and the balance was applied to repay shareholders loan advanced by the joint venture parties, of which the Group received HK\$286 million.



Control centre



ESW Ring Road

Infrastructure

Shunde Roads

Project Summary	
Location	Shunde, Guangdong, PRC
Length	102.4km
Lane	Dual three-lane
Class	Class 1 Highway
JV Contractual Operation Period	Aug 1996 - Aug 2026
Profit Sharing Ratio	25%



Shunde Interchange

The Shunde Roads, a system of four interconnecting highways and eight main bridges, form the core road network in the Shunde Municipality and provide vital access to the neighbouring municipalities. The average daily traffic flow during the year reached 103,000 vehicles, a 3% increase as compared to the previous year, and toll revenue increased by 3% to about RMB285 million.

When construction of Phase I of the Guangzhou-Zhuhai Superhighway is completed and connected to

the Bigui section of the Shunde Roads, the travel time between Guangzhou, Shunde and Zhongshan will be substantially shortened and traffic flow of the Shunde Roads is expected to further increase.



Bigui section



Shunde 105 Road

The Shunde 105 Road is another major route in the Shunde Municipality and also provides a vital access to the neighbouring municipalities. The average daily traffic flow during the year reached 105,000 vehicles, an increase of 9% over the same period of last year. Toll revenue also increased 9% to about RMB 185 million.

In view of the increasing traffic flow, a number of intersections along the Shunde 105 Road inter-connecting with the access roads in Shunde have been enlarged, upgraded and equipped with additional safety facilities in order to enhance traffic efficiency.

Project Summary	
Location	Shunde, Guangdong, PRC
Length	40km
Lane	Dual three-lane
Class	Class 1 Highway
JV Contractual Operation Period	Jan 2001 - Dec 2026
Profit Sharing Ratio	30%

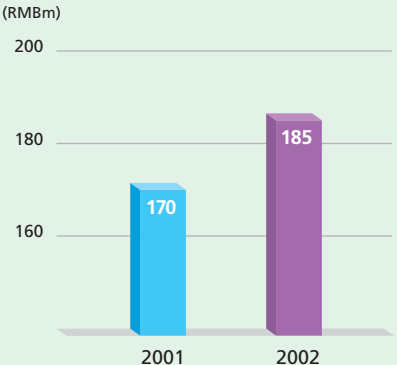


Shunde 105 Road



Toll station at Sanhongqi Bridge

Toll revenue Shunde 105 Road



Average daily traffic Shunde 105 Road



Infrastructure

Guangzhou-Zhuhai West Superhighway



Construction of the Guangzhou-Zhuhai West Superhighway (Phase I)

The Guangzhou-Zhuhai West Superhighway is the Group's new investment project in the Pearl River Delta region. The route starts from the Hainan Interchange of the ESW Ring Road, passes through Guangzhou, Nanhai, Shunde and Shalong of Zhongshan, then links with the National Route 105 to reach Zhuhai.

It connects the ESW Ring Road, the Shunde Roads and the Shunde 105 Road and upon completion, it will be a major transport route in the western part of the Pearl River Delta region.

The project will be constructed in three phases. Phase I is a 15 km highway running from Hainan Interchange to the Bigui section of the Shunde Roads. The project cost for Phase I is RMB1.68 billion, which will be largely funded by Renminbi project financing. The Group owns a 50% interest in this project. The construction work of Phase I began in December 2001 and is expected to be completed and open to traffic in 2004.



Major Highways in the PRC



Length of highways (km)

	PRC	Guangdong Province
Expressways	16,314	1,186
First Class Highways	20,088	5,391
Second Class Highways	152,672	13,396

Source: China Statistical Yearbook 2001

Transportation infrastructure network of Hopewell in Guangdong Province, PRC



Guangzhou-Shenzhen Superhighway 122.8km																
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ESW Ring Road 38km												
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Shunde Roads	102.4km
32 Xihai	33 Desheng
34 Liangcun	35 Sanzhou
36 Shunde Interchange	37 Xianting
38 Baizhang	39 Qijiao

Shunde 105 Road	32m
30 Sanhongqi	31 Rongqi

Guangzhou-Zhuhai West Superhighway	58km	
27 Nanya	28 Shizhou	29 Bijiang



Property

The Group's property portfolio is mainly composed of commercial and residential premises in Hong Kong. These consist of more than 3.14 million square feet of gross floor area and another 80,000 square feet site area of land reserve. Property business contributed 24% of the Group's earnings before interest and tax, representing a stable source of cash income.





Property

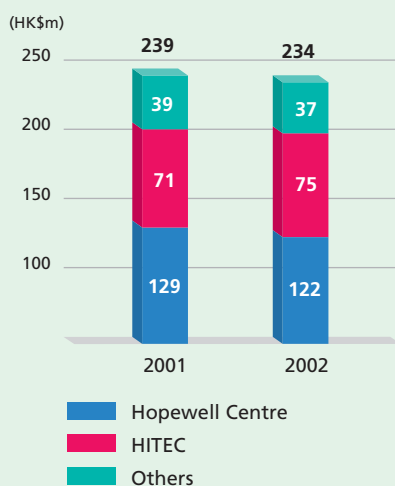


Hopewell Centre in Wanchai

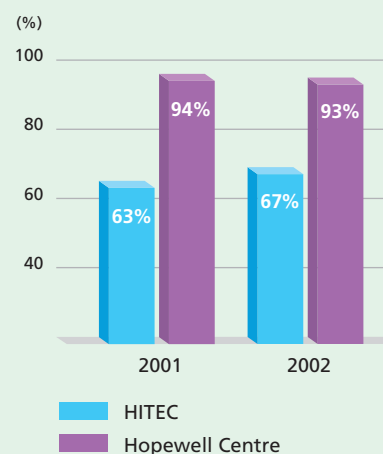
Hopewell Centre

Affected by the continued weakening of the local economy and the sluggish global economic performances, the leasing market for office space during the year remained lackluster. However, Hopewell Centre was able to maintain an average occupancy rate of 93%, a decrease of 1% from the previous year. Rental income showed a slight decrease by 3%.

Hong Kong rental property Earnings before interest and tax



Average occupancy rate Hopewell Centre and HITEC



Retail shops at Hopewell Centre

Hongkong International Trade and Exhibition Centre (HITEC)



Trade exhibitions at HITEC

Located in Kowloon Bay, the Hongkong International Trade and Exhibition Centre recorded an average occupancy rate of 67%, an increase of 4% over the comparable period the year earlier. Equipped with advanced convention facilities, HITEC is an ideal venue for trade exhibitions.

To diversify the development of HITEC, the Group decided to incorporate commercial uses into the Centre. The Group has applied to the Town Planning Board and when retail exhibition function is implemented, the occupancy rate of HITEC is expected to increase further.

Nova Taipa Gardens

Nova Taipa Gardens is a residential property project invested by the Group in Macau. After the change of sovereignty, the Macau SAR Government has actively procured local economic development. Together with the influx of foreign investment due to the open policy of the betting rights, the Macau property market became active again. More than 200,000 square feet of residential units of the project were sold during the year, representing a 70% increase in terms of number of units sold last year. It is believed

that the Macau property market can continue to benefit from the gradual economic recovery.

Huanggang Service Area

To rationalize its non-core business, the Group reached an agreement with the PRC partner to end the joint venture relationship involving the development of the Huanggang Service Area. An agreement transferring all the Group's rights in the project to the PRC partner has been signed, and the agreement became effective in June of this year following the approval of the relevant government authorities.



Hospitality

Visitor arrivals from the Mainland have increased substantially due to growth in per capita income and the relaxation in outbound travel policies, thus raising the hotel occupancy rate. On the other hand, visitor arrivals to Hong Kong from Japan, Europe and USA decreased substantially as a result of the weak economies in these countries. The Group owns hotels in Hong Kong and Guangzhou. Hotel and food operations accounted for 3% of the Group's earnings before interest and tax.



Hospitality



Suite at Panda Hotel



The newly renovated ballroom at Panda Hotel can capture more local banquet business



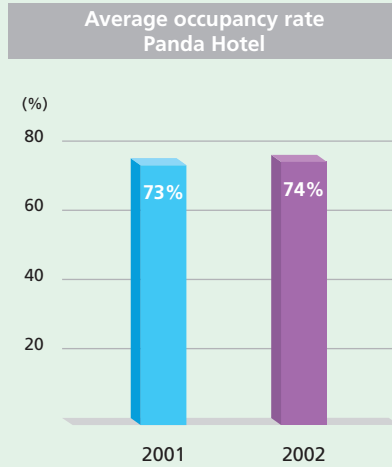
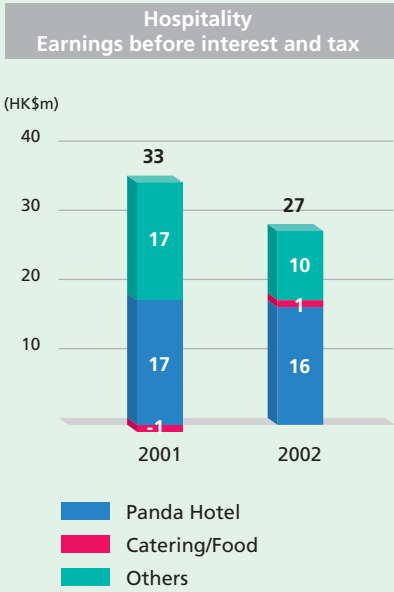
Panda Hotel

Panda Hotel

During the year, the average occupancy rate of Panda Hotel reached 74%, an increase of 1% from the previous year. Nevertheless, the average room rate declined by 8% due

to intense competition within the local hotel industry.

Mainland visitors made up the majority of hotel guests. In addition to tourists, corporate and long-staying guests also contributed to the steady flow of guest arrivals.



China Hotel

In Guangzhou, China Hotel recorded satisfactory performance with the average room occupancy reaching 72%, an increase of 5% from the previous year, but room rates trended downward slightly over the same period. Most of the guests were from Mainland China and other Asian countries. Located in the commercial district, China Hotel is a popular choice to business travellers.



China Hotel in Guangzhou

Food and Beverage

The Group has been adopting stringent cost control strategy for its food and beverage business. While the operating environment was very difficult due to the weak local demand, the Group's food and beverage business still managed to record a slight profit.

Construction & Engineering

The Group continued its efforts to complete the construction works of several government school projects previously undertaken, with a total gross floor area of 577,000 square feet, and the construction works are expected to be completed by the end of August 2002.

During the year, the Group was awarded a sub-contract of a commercial building, applying the 'slip-climbform' construction method by adopting an environmental-friendly construction technique.





Other Developments

Tanjung Jati B Power Station, Indonesia

Negotiations continued with the relevant parties of the project hoping to reach a resolution to dispose of the project and recoup part of the investment.

Bangkok Elevated Road and Train System, Thailand

The Group continued discussions with the Thai Government over the Bangkok Elevated Road and Train System in an effort to reach an amicable resolution.