

# Operations Review



The Pearl River Delta in southern Guangdong Province has rapidly become one of the world's most important centres of industrial output and is continuing to grow. New port and airport developments and the PRC's World Trade Organisation ("WTO") membership have resulted in increasing foreign investment in manufacturing facilities in the region and have contributed to its continuous rise in GDP. As a result, vehicle production and ownership have continued to grow at record rates. Toll roads, built as part of the Hopewell's vision, are now strategic links in the transportation network that underpins the Pearl River Delta's economic growth.

# INFRASTRUCTURE



*The financial year 2002-2003 has seen Hopewell Holdings reap the results from significant debt reduction over the past five years and a strong infrastructure business. These, together with a focused approach to the strengths of our other key business elements – property and hotels – and the positioning of those businesses within the geographical context of Hong Kong and Pearl River Delta, have laid the foundation for the Group’s future investment and development strategies.*

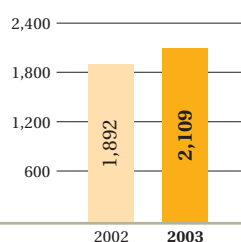
The Group, through co-operative joint venture arrangements, has invested in five toll road projects across the Pearl River Delta (“PRD”) . Four of these projects, namely, the Guangzhou-Shenzhen Superhighway, Guangzhou ESW Ring Road, Shunde Roads and Shunde 105 Road, with a combined road length of over 300 km, are operational and have exhibited remarkable strength in terms of traffic volume and toll revenue growth over the year. The fifth toll road project, Western Delta Route (Phase 1), is a 14.7km dual three lane expressway from Guangzhou to Shunde that is expected to be completed by mid-2004. The Group is actively pursuing the development of two further phased extensions to this stretch of the expressway.



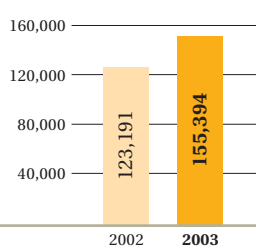
## GUANGZHOU-SHENZHEN SUPERHIGHWAY (“GS SUPERHIGHWAY”)

In view of the strong economic growth in the Guangdong Province, especially in the PRD region, the Guangzhou-Shenzhen Superhighway continues its robust growth in terms of both traffic volume and toll revenue. The GS Superhighway is a 122.8 km, dual three lane toll expressway with 18 toll stations along the route. During the financial year, average daily traffic reached 155,394, a 26% growth over the previous year. Total toll revenue reached RMB 2.1 billion, an 11% increase over 2002. With the Huanggang border crossing with Hong Kong open on a 24-hour basis as of January 2003, and with the PRC’s WTO membership and the Closer Economic Partnership Arrangement (“CEPA”) signed in June 2003, we expect continued growth on this expressway.

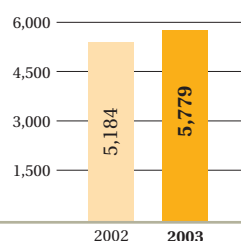
**Toll Revenue**  
(RMBm)



**Average Daily Traffic**  
(No. of vehicles)



**Average Daily Toll Revenue** (RMB'000)



The toll collection system along the northbound section of the expressway has been upgraded from a magnetic card toll collection system to a contactless Integrated Circuit (IC) card system. This will enhance operational efficiency by reducing toll processing time as well as enabling us to efficiently gather data on road usage trends. Work on upgrading the system along the southbound section of the expressway will be completed by 2004.

Although the GS Superhighway still has capacity to handle further increase in traffic, additional toll lanes have been added at particularly busy toll stations such as Huangtien, Nantou and Baoan, to improve traffic capacity. The main alignment between Hezhou and Huangtien interchanges is being expanded with an additional lane in each direction to increase capacity along this busy 2.7 km section of the expressway. Further, over 50 km of road surface was re-paved during the year as part of a three-year major repairing programme which will cover virtually the whole expressway.

The Joint Venture company was also awarded the ISO9001 quality standard this year – a recognition of operational and management standards that are applied to the expressway.

### PROJECT SUMMARY

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

## GUANGZHOU ESW RING ROAD PROJECT (“ESW RING ROAD”)

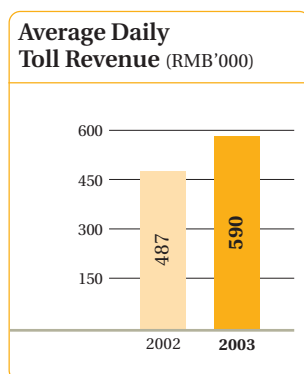
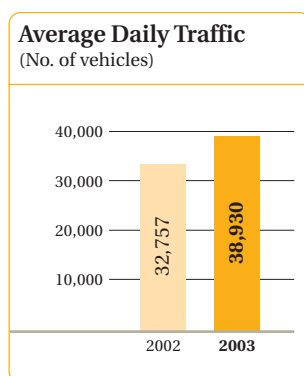
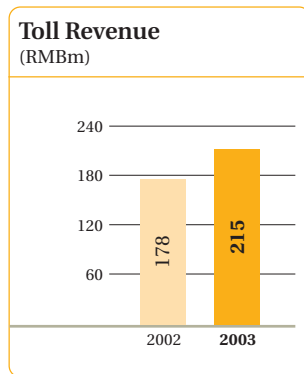
The Guangzhou ESW Ring Road, is a 38 km long expressway with dual three lane and 10 interchanges equipped with computerised toll collection and traffic surveillance systems. It is connected to the Guangzhou Northern Ring Road to form a complete expressway around the major centres of Guangzhou. There are also several connecting expressways and highways along the ESW Ring Road which ensure that traffic is able to reach a wide network of destinations. During the year, it continued to record steady growth. Its average daily toll traffic figure stood at 38,930, 19% higher than last year’s figures. Annual toll revenue reached RMB 215 million, 21% higher than the previous financial year.



The gradual completion of connecting highways and expressways and the development of districts in the northern and southern part of Guangzhou have contributed to the increase in traffic flows along the expressway.

The Group and its joint venture partners continue to plan ahead. A connecting road at the Huangqi interchange linking with the Guangfo Highway will be completed before the end of 2003 and the Western Delta Route (Phase 1), now under construction, will connect to the ESW Ring Road when completed in mid-2004.

Other links are being built at Xinzhou Interchange and Luntou Interchange to complete connections with both the Guangzhou East Expressway and the Guangzhou Southern Expressway.



### PROJECT SUMMARY

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



## SHUNDE ROADS AND SHUNDE 105 ROAD

The Shunde Roads are a system of four interconnecting dual three lane highways which form the core road network around the Shunde District of Foshan Municipality; whereas, Shunde 105 is a separate major route through the District, providing vital access to neighbouring municipalities. Both projects are open-system highways.

The joint venture companies of the Shunde Roads and Shunde 105 have reached agreements with the Foshan Municipal Roads and Bridges Company (“Foshan Company”), a company 100%-owned by the Foshan Municipal Government, that the Foshan Company has been entrusted to collect tolls on their behalf since March, 2003. Under the agreed arrangement, effective from 15th March, 2003, the Foshan Company has been paying each of the joint venture companies every month the equivalent of its monthly average toll revenue of 2002 over the remainder of the cooperation period, plus an annual growth rate to be mutually agreed.

The Group is of the view that the arrangement is beneficial to the joint venture companies for not only securing reasonable income growth but also reducing operating expenses.

### SHUNDE ROADS PROJECT SUMMARY

<b>Location</b>	Shunde, Guangdong, PRC
<b>Length</b>	102.4km
<b>Lane</b>	Dual three lane
<b>Class</b>	Class 1 Highway
<b>JV Contractual Operation Period</b>	Aug 1996 – Aug 2026
<b>Profit Sharing Ratio</b>	25%

### SHUNDE 105 ROAD PROJECT SUMMARY

<b>Location</b>	Shunde, Guangdong, PRC
<b>Length</b>	40km
<b>Lane</b>	Dual three lane
<b>Class</b>	Class 1 Highway
<b>JV Contractual Operation Period</b>	Jan 2001 – Dec 2025
<b>Profit Sharing Ratio</b>	30%

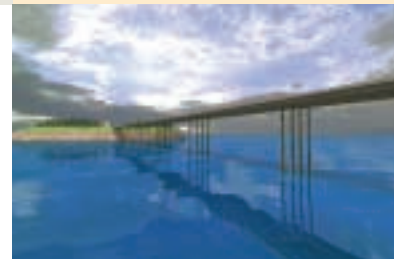
## WESTERN DELTA ROUTE (PHASE 1)

This 14.7km dual three lane, closed system expressway is under construction and due for completion in mid-2004. It will be the only expressway linking Guangzhou and Shunde and will bring travelling time between the two cities to 10 to 15 minutes - a reduction of 25 to 30 minutes by using the existing highways.



## HK-ZHUHAI-MACAU BRIDGE-TUNNEL

The proposed Y-shaped 29 km bridge-tunnel linking Hong Kong's western Lantau Island to the cities of Macau and Zhuhai on mainland China, is designed to spur logistics, tourism and economic activities within the western Pearl River Delta. The Group has been an early and strong advocate of this idea, its necessity and viability, and we remain confident that we will play a vital role in this project through Hopewell Highway Infrastructure Limited, our recently listed subsidiary.





*Property development and investment is one of the core businesses of the Hopewell Group. In addition to the past successful track record and over 30 years of accumulated experience and expertise in property development, the Group has a well balanced portfolio of developed and under development property projects spreading over Hong Kong, Macau and Guangdong, including :*

# PROPERTY

<i>Project</i>	<i>Location</i>	<i>Description</i>	<i>Status</i>
<b>HONG KONG SAR</b>			
Hopewell Centre	Wanchai, Hong Kong Island	A 66-storey commercial building with GFA of about 78,000 sq.m.	Completed since 1980 and presently held by the Group as rental property.
Hongkong International Trade and Exhibition Centre	Kowloon Bay, Kowloon	A 18-storey building with conference, exhibition, restaurant, showroom office & carpark facilities with GFA of about 163,700 sq.m.	Completed since 1995 and presently held by the Group as rental property.  Application for change of use to more flexible office/commercial uses has been approved and negotiation with Government on premium is ongoing.
Mega Tower Hotel	Wanchai, Hong Kong Island, near Hopewell Centre	A planned site of about 13,000 sq.m. under various approval process for the development of a hotel and shopping complex with convention facilities	Under going various process for Town Planning Board's approval
214-224 Queen's Road East and 9-19 Sam Pan Street	Wanchai, Hong Kong Island, near Hopewell Centre	Presently a 19-storey building with site area of about 1,080 sq.m. due to be demolished for redevelopment	Demolition for redevelopment is presently planned to be in early 2004
196-206 Queen's Road East	Wanchai, Hong Kong Island, near Hopewell Centre	A vacant site of about 460 sq.m. presently used for car parking open to the public.	Available for commercial/office redevelopment.
<b>MACAU SAR</b>			
Nova Taipa Gardens	Nova Taipa Island, Macau	A joint venture with Shun Tak and STD M of which the Group has a 50% interest.	Phase 1 with 2,228 residential units completed since 1997 and development of phase 2 is under planning. Construction of 552 residential units as part of phase 2 is presently underway.
<b>GUANGZHOU CITY - GUANGDONG PROVINCE, PRC</b>			
Huadu development	Huadu, Guangzhou, PRC, near the new international airport of Guangzhou	The Group has 95% interest in the project with a site of about 733,000 sq.m. for a composite development with residential, logistic and commercial developments.	Under development by phases. Present plan is for construction of Phase 1 to commence before the end of 2003.



## INVESTMENT PROPERTY

### HOPEWELL CENTRE



Hopewell Centre remains a Hong Kong landmark. It retains a steady list of long-term tenants and its occupancy levels in the shopping arcade and throughout the office tower, have remained consistent at 92% - just 1% lower than the previous financial year. Earnings before interest and tax for the year stood at HK\$113 million, 7.4% down on the previous year.

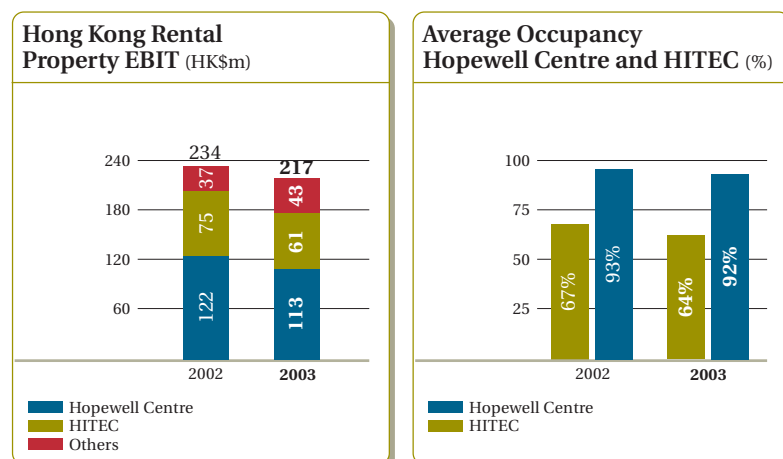
The increasing supply of office space in both the Central and Wanchai districts and strong rental incentives being offered by major landlords to retain tenants, can place pressure on our rental rates. Our turnover for the year stood at HK\$157 million, just HK\$5 million less than last year. To ensure the building remains increasingly attractive to tenants we are undertaking a major renovation programme focusing on upgrading common areas including main lobbies, and the installation of an additional lift.

### HONGKONG INTERNATIONAL TRADE AND EXHIBITION CENTRE (HITEC)



This property is located in Kowloon Bay and has a broad range of showroom office, event facilities, clubhouse and restaurants. HITEC's average occupancy for the year was kept at 64%, compared to 67% last year.

In June 2003, the District Lands Conference consented to our proposed lease modification to non-industrial use, which will permit us to rent out space for office, retail and recreational purposes. Our advanced convention and exhibition facilities and a new marketing strategy aimed at attracting more local events to the centre proved successful during the year. Revenue losses were successfully minimized.



## PROPERTY DEVELOPMENT

### NOVA TAIPA GARDENS

Nova Taipa Gardens is a joint venture multi-phase development of residential, commercial, social amenities, offices and a hotel on a 176,000 sq.m. site on Taipa Island, in Macau. Phase I of the development was completed in 1997. Phase II will consist of 13 high-rise residential towers. The foundation work for this phase has been completed and the construction licence for the superstructure was obtained. The design of the complex has been refined to meet current market conditions and construction work on five towers will commence soon.

### HUADU DEVELOPMENT

The Group has acquired a 95% interest in this composite development containing residential, commercial and logistic developments on a site of about 733,000 sq.m. in Huadu, Guangzhou, strategically located not far from the new international airport of Guangzhou. Huadu is a fast developing district of Guangzhou with a number of old and new industries, e.g. Dongfeng Motor Co Ltd (a joint venture with Japan's Nissan Motor), ShiLing International Leather & Leather Products Town and China Huadu (International) Jewelry Town. With the opening of the new international airport, which is scheduled for 2004, a further impetus to its economic development, it is estimated that there will be a robust demand for residential, commercial and logistic developments in the Huadu District.

This project is planned to be developed by phases. Site formation and preliminary soil investigation for the first phase of the development has been completed and design is underway. The present plan is to commence construction before the end of 2003 of the first phase consisting of primarily of row houses with gardens and apartment blocks.



### MEGA TOWER HOTEL

Mega Tower Hotel is the Group's latest hotel development. Located on Kennedy Road, and covering a proposed site area of over 13,000 sq.m. to the west of Hopewell Centre, the Group plans to develop a major hotel complex with convention facilities. The complex will also incorporate recreation, shopping, restaurant and other commercial facilities.

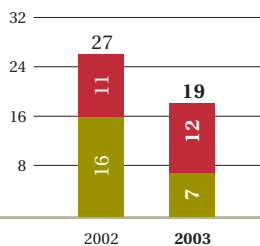
During the year, the master layout plan for the project was submitted to the Town Planning Board for approval. Comments were received from various government departments, and the Group is considering and refining the master layout plan.

# HOSPITALITY

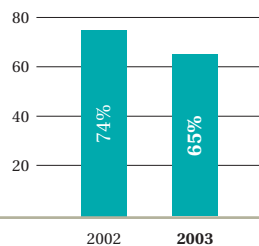
*Although the first half yearly results were better than that of last year's, the SARS outbreak saw visitor numbers fall dramatically between March and May 2003 and the second half yearly result of the Group's hospitality business was significantly affected. However, we took this opportunity to renovate and upgrade facilities and to implement new staff training and customer service programmes in preparation for the market upswing.*



**Hospitality EBIT (HK\$m)**



**Average Occupancy Panda Hotel (%)**

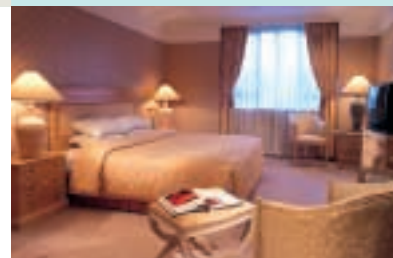


## PANDA HOTEL

Mainland visitors made up the majority of guests at the Panda Hotel, located in the heart of Tsuen Wan. The open policies from the PRC such as the introduction of a Guangzhou-Hong Kong permit in January 2003 improved our occupancy rates and average room rates. The outbreak of SARS in late-March resulted in room cancellations across Hong Kong's hotel sector. However, our yearly average room occupancy stood at 65%, only 9% below the previous year's figures, and the average room rate increased by 4%. Food and beverage outlets at the hotel are undergoing a major renovation programme. A facelift to the ballroom has been completed and the four restaurants are now being upgraded, along with a gradual refit of guest rooms.

Once Hong Kong was delisted as a SARS-affected area on 23 June 2003, Hong Kong's tourism industry began to recover. Air passenger arrival numbers grew and visitor arrival figures from the Hong Kong Tourism Board indicate a continued steady revival of visitor interest from the Panda Hotel's key markets – Mainland China, and Southeast Asia. We expect an improved demand for rooms from corporate clients such as those involved in projects nearby and other infrastructure projects in the Tsuen Wan area. Also targeted are independent travellers on both long and short haul trips through positioning Panda a hotel offering comfort and elegance and with easy access to transport links to the rest of Hong Kong. Group tours from Mainland China will continue to make up the major segment of our market and will remain a service focus for the hotel. However, similar markets in Japan, Korea and Southeast Asia will also be tapped.

Tsuen Wan's population provides a natural clientele catchment for the Panda's restaurants and bars. Good value and quality food, plus an innovatively designed sports bar, are expected to attract both local residents as well as staff from companies based in the area.



## RESTAURANTS AND CATERING SERVICES

In addition to the soft market conditions for restaurants and catering services, the Group's business was further affected by the impact of SARS during the latter part of the year. To mitigate the difficult circumstances, the Group has designed and launched a series of innovative promotions, including special value menus and different cuisine influences to draw guests back into the restaurants.



## CONSTRUCTION & ASSOCIATED DEVELOPMENTS



It has been a low-key financial year for our construction business. Revenue was down HK\$105 million to HK\$172 million. Project work focused on the completion of four projects for five Government schools. The economic climate resulted in a loss of performance by some sub-contractors on these projects. To honour its contractual obligations, Hopewell Construction stepped in with extra resources to ensure that the projects could be completed with minimum loss of time. New sub-contracts include work on a residential project in MacDonnell Road, Hong Kong Island, and two commercial buildings in Mongkok and Kwun Tong where the slip climbform construction method was applied.

## TANJUNG JATI B POWER PLANT PROJECT

By way of background, the Group entered into the Power Purchase Agreements relating to the financing, construction, operation and subsequent transfer of the Tanjung Jati B Power Plant project in Indonesia. Following the Asian economic crisis in 1997, construction on the site of the Tanjung Jati B Power Plant project was suspended in mid-1998. Subsequently, PLN (a state-owned electricity corporation) commenced a programme to rationalise its power purchase agreements with developers of independent power producer projects. The persistent effort of the Group over the past few years has finally resulted in a satisfactory resolution of the project. Subsequent to the year-end date, the disposal of the power plant project was concluded and the first instalment of consideration was received on 5th August 2003 by the Group.

The aggregate cash consideration, payable in instalments, for the power plant project is approximately HK\$2,388 million. The Group is entitled to receive an aggregate net proceeds of approximately HK\$1,680 million after repayment of liabilities relating to the power plant project, of which approximately HK\$686 million has already been received.