



Modern Terminals

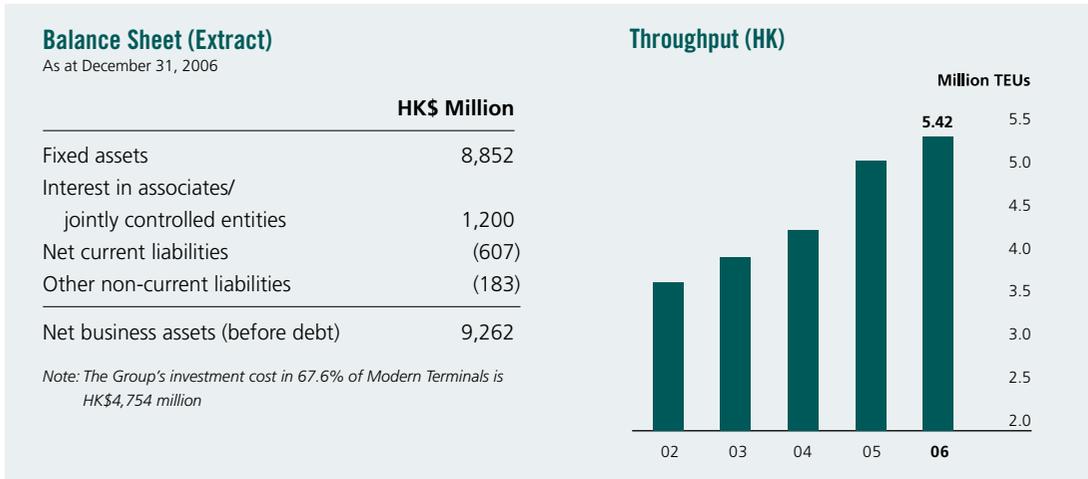


Modern Terminals' investment in Mainland ports accelerates, with the first two berths of Dachan Bay in Shenzhen due to open for business at the end of 2007. A framework agreement on strategic cooperation for the development of Dayaowan terminals in Dalian was signed in March 2007.

The transformation of Modern Terminals from operating at a single port (Hong Kong) to a portfolio of strategic ports is rapidly taking shape. Taicang in the Yangtze River Delta has been in operation since 2004. Dachan Bay in the Pearl River Delta will be commissioned at the end of 2007. A framework agreement on strategic cooperation for the development of Dayaowan terminals in Dalian was also recently signed.

Despite a 7% throughput growth, Modern Terminals' revenue and operating profit decreased by 2% and 4% respectively in 2006, as a result of box mix shift in favour of trans-shipment and feeder cargos, and increasing competition in Hong Kong and South China. Performance in the first half was particularly soft with only marginal throughput growth. Business activities returned to normal in the second half but the shortfall of the earlier half could not be fully recouped.

(Main) The first two berths of Dachan Bay will commence operation towards the end of 2007
(the computer rendering shows its optimum handling capacity)
(Small) Taicang in Suzhou



For the South China region, buoyant export supported a 15% throughput growth in 2006. Throughput at the Shenzhen terminals recorded an 18% growth, versus 12% at Kwai Chung. Market share in Shenzhen terminals slightly grew from 50% to 51% in 2006, while Kwai Chung was down to 49% by the end of 2006.

Global trade growth continues, and China is an influential trade partner, not only with US, but also with many other European and Asian countries. Trade flow generates steady demand for the terminal businesses.

Hong Kong Operation

Full year throughput was up by 7% to 5.42 million TEUs in 2006. Feeder, trans-shipment and intra-Asia volume continued to be the main drivers of throughput growth.

Modern Terminals currently operates 7.5 berths with total handling capacity of 7.0 million TEUs. The facility upgrade at CT1, 2 and 5, geared towards enhancement of operational efficiency and handling capacity, is progressing in accordance with plan. Modern Terminals' market share in Kwai Chung was maintained at 33.8% at the end of 2006.

China Investments

Pearl River Delta remains the largest trade region for China and Modern Terminals is increasing its investments in the area.

Chiwan Container Terminal, in which Modern Terminals effectively holds an 8% stake, handled 3.9 million TEUs, while Shekou Container Terminals ("SCT") Phases I and II, 10% and 9.8% owned by Modern Terminals respectively, handled 2.0 million TEUs.

In December 2006, Modern Terminals entered into an agreement with China Merchants Holdings (International) Company Limited (“China Merchants”) in relation to the rationalisation of interests in SCT Phases I, II and III. As a result of that and subsequent to the end of the year, Modern Terminals increased its interest in Mega SCT, which owns 100% of Phases I, II and III, to 30% for a consideration of HK\$3,168 million and injection of its interests in SCT Phases I and II into Mega SCT, with China Merchants owning the balance. Modern Terminals’ interest in Mega SCT will be gradually diluted to 20% when additional capacity for SCT Phase III is completed in stages by China Merchants at its cost.

Phase I of the Dachan Bay project in Shenzhen West, 65%-owned by Modern Terminals, consists of five berths with an estimated capacity of 2.5 million TEUs. Dachan Bay is ideally located in the Pan-Pearl River Delta catchment area with established transportation network to capture cargoes from various manufacturing bases in Guangdong Province, as well as from cities in neighbouring provinces. It will increase Modern Terminals’ own operating capacity in Pearl River Delta from 7.5 to 12.5 berths.

Construction of the quay deck and other infrastructures are in advanced progress and key equipment ordered. Transfer of Modern Terminals’ IT expertise on operation control, planning and information services, as well as personnel recruitment and training, have started. The first two berths of Dachan Bay will commence operation towards the end of 2007.

Taicang, a joint-venture with the Suzhou Government and Cosco, is a pioneer project marking Modern Terminals’ expansion into the Yangtze River Delta, which is fast-growing to become another international shipping hub of China. Located at the entrance of the Yangtze River, Taicang serves as an ideal gateway with convenient transport infrastructure to the most developed economic areas in Southern Jiangsu.

Phase I of Taicang, 51%-owned by Modern Terminals, commenced operation in 2004. Throughput for Phase I grew substantially by 86% to 467,000 TEUs in 2006, reflecting strong growth in intra-Asia trade. The first berth of Phase II, 70%-owned by Modern Terminals, commenced operation in November 2006. Phase II comprises of four berths and is scheduled for full completion by the end of 2007.

Market Share (HK)



Key Operating and Financial Highlights (HK)

	2002	2003	2004	2005	2006
Container Handling Capacity (TEUs in millions)	4.20	4.36	5.09	5.50	7.00
Throughput (TEUs in millions)	3.61	3.99	4.35	5.04	5.42
Headcount	1,176	1,186	1,199	1,198	1,215
TEUs per Headcount	3,072	3,365	3,630	4,212	4,460
Market Share	30.3%	33.1%	32.5%	35.3%	33.8%