



# Operational Review

from Deputy Chairman



This is the first full year of financial reporting since the purchase of a stake in Pacific Ports Company Limited ("PPC") by New World Infrastructure Limited ("NWI"), the largest shareholder of PPC. During this year PPC consolidated the income stream from the port-related assets injected by NWI. A broadening of the business scope combined with solid gains in core areas of operations produced the best year in corporate history.



The profit attributable to shareholders of the Group reached HK\$276.1 million for the year ended 30th June 2001, compared to HK\$65.8 million for the previous financial period, which accounts for an 18-month period. While all segments made considerable gains the main profit contributors were the associated companies and jointly controlled entities in Hong Kong and Tianjin. With this foundation in place PPC can enhance profitability and set the stage for expansion.

### Hong Kong Review

CSX World Terminals Hong Kong Limited ("CSXWT Hong Kong"), formerly Sea-Land Orient Terminals Limited, operator of Container Terminal No.3, handled 1.74 million TEUs for the year. This 5% rise over the volumes of the same period last year was due to strong growth in container handling business and improvements in efficiency.

ATL Logistics Centre Hong Kong Limited ("ATL"), formerly Asia Terminals Limited, registered an average occupancy rate of 92.7% for the year. Due to a limited supply of warehouse space and rising trade volumes, the rental market remains strong despite a general slow-down in activity on the global port scene. In addition, PPC can report that Asia Container Terminals Limited ("ACT"), one of three developers of Container Terminal No. 9 ("CT 9"), is on schedule to complete new facilities.

### Mainland China Review

Sea-Land Orient (Tianjin) Container Terminals Co., Limited ("SLOTT") reported an attributable operating profit ("AOP") of HK\$15.2 million for the year. The throughput handled was 767,000 TEUs, a 22% increase over the same period last year. This was due to growth in the PRC market, the government plan to build infrastructure in West China and the addition of a new customer.

Xiamen Xiangyu Quay Co., Ltd. ("Xiangyu"), operator of Berth No.12 in Xiamen Port, achieved an AOP of HK\$19.6 million. This is a substantial improvement from the previous year. The result was powered by a rise in volume throughput at Xiangyu, where the number of TEUs handled rose by 68% compared to the same period last year. This was accomplished due to cargo base growth and activity generated by new customers.

Other developments in Xiamen were positive. The commissioning of new equipment was completed for Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. ("Huijian") operator of Berths No.13 and No.14. The construction of Berth No.14 should be complete in 2001. Xiamen Xinyuan Container Terminal Co., Ltd. turned a profit this period, reporting an AOP of HK\$1.3 million, compared to a loss in the previous financial period. The improvement was due to a change in business strategy that enhanced capacity utilisation. Meanwhile, Xiamen New World Xiangyu Warehouse & Processing Zone Limited is commencing construction on a regional logistics centre. All these developments will improve PPC productivity at Xiamen Port.

### Growth Strategy

This year PPC completed the integration of NWI port-related assets into the business stream. With this challenging consolidation task complete, the company is prepared to follow through on its expansion strategy. Currently, PPC is looking at opportunities to expand operations in the China mainland market as well as to build operations in other port facilities across Asia and around the world.

Due to the dominant size of the Hong Kong port business, the SAR will remain a key contributor to AOP. As the world's largest container port and the Gateway to China, Hong Kong is a central hub and a solid base of operations. With the increase in Hong Kong trade and the solid track record of strategic partner CSXWT Hong Kong, PPC has ambitious plans for growth. In addition, with one new crane installed in early 2001 there is ample opportunity to increase AOP. In 2003 the completion of ACT will further enhance earnings and improve capacity.

### China Card

The mature port-related business in Hong Kong is supported by the potential for growth that exists in the Mainland. In coming years the contribution from the PPC hub ports of Tianjin and Xiamen will expand. One catalyst for this improvement is expected to be China's accession to the World Trade Organisation and the opening of the economy in the run-up to the 2008 Olympic Games. Another is the usage of Tianjin Port as an important link in the government's plan to develop western provinces. A container block train

service operating between Tianjin and inland China will direct a considerable amount of activity westward.

Other Mainland port plays are developing nicely as Xiamen and Tianjin. The "Three Links" policy between the Mainland and Taiwan has steadily increased activity in Xiamen Port. This strengthening of trade ties increases activity between Xiamen and Taiwan. When the solid performance of Xiamen Port operations is coupled with the commencement of Huijian operations, the contribution to AOP should improve. The same promise of expanded activity holds true for Tianjin Port. One of the fastest growing ports in China, Tianjin serves the industrial northern hinterland and the expansion plans for this ambitious port are impressive.

### 2002 Outlook

In the coming fiscal year, PPC will diversify its activities and augment its presence in Mainland China and around the world. In China, PPC will broaden its geographic spread by investing in distribution networks and cargo handling facilities. Hong Kong will continue to be a central platform from which to expand operations in the global arena and support the flow of China trade. All in all, the coming year promises to be one filled with activity and excitement as much energy is expended to build PPC into a leading regional and global force.

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