

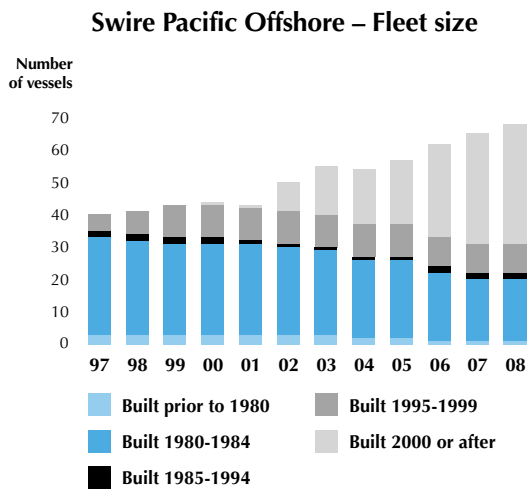
Marine Services Division

The Marine Services Division, through Swire Pacific Offshore, operates a fleet of specialist vessels supporting the offshore oil industry. The division also has interest, through jointly controlled companies, in ship repair and harbour towage services in Hong Kong and overseas and, during the year, in container terminal operations in Mainland China.

Swire Pacific Offshore will be operating 68 vessels, following delivery of their eight newbuildings.

	2006 HK\$M	2005 HK\$M
Swire Pacific Offshore		
Turnover	1,997	1,492
Operating profit	740	413
Attributable profit*	701	467
* Including post-tax profits from jointly controlled and associated companies shown below.		
Profit from sale of an associated company	–	2,270
Share of post-tax profits from jointly controlled and associated companies		
Offshore oil support services*	35	86
HUD group	51	30
Container terminal operations	82	268
	168	384
Attributable profit	834	3,035
	2006	2005
Fleet size (number of vessels)		
Swire Pacific Offshore	62	56
HUD group – Hongkong Salvage & Towage	27	31
Total	89	87





2006 OVERVIEW

The Division's contribution to the group's attributable profits amounted to HK\$834 million compared with HK\$3,035 million in 2005 which had included profits of HK\$2,270 million on disposal of the group's 17.6% interest in Modern Terminals.

There has been strong growth from ongoing operations, in particular from offshore oil support services.

Offshore Oil Support

Swire Pacific Offshore provides marine support services to the offshore oil and construction industry in every major exploration region outside North America. At 31st December 2006 the company had a fleet of 62 vessels, including one on bareboat charter. A further seven vessels, including one on bareboat charter, are owned by an Egyptian associated company.

Firm oil prices led to an increase in exploration in 2006 which boosted both fleet utilisation and charter rates. The company reported an attributable profit of HK\$701 million, compared with HK\$467 million in 2005; an increase of 50%.

During 2006, the company took delivery of three "P" class 4,800 brake horse power (BHP) anchor handlers, two "R" class 7,200 BHP anchor handlers, two large 18,000 BHP ice-class platform supply vessels and two "A" class platform supply vessels (PSV). The company sold three of its older vessels, generating a profit on disposal of HK\$79 million. The net cost of additions in the period was HK\$1.3 billion. A further six "V" class 8,000 BHP anchor handlers and two "A" class PSVs will be delivered over the next 18 months at a total cost of HK\$1.7 billion. High newbuilding prices may act as a deterrent to further orders in the near term.

The company extended its global reach with new contracts in Angola and Tunisia and commenced operations off Sakhalin, Russia, with the two ice-class newbuildings entering long-term employment there.

Prospects in 2007 are promising with forward contracts comprising 60% of the company's fixed capacity at the end of the year and it should continue to benefit from firm charter rates and high vessel utilisation. A burgeoning global newbuilding order book that will bring significant additional supply into the market place in the next few years is clouding the medium term outlook.

HUD group (HUD)

HUD provides ship repair, harbour and sea-going towage, and general engineering services from its facilities based on Tsing Yi Island.

Significantly higher profits were reported by HUD in 2006 due mainly to capital gains on the disposal of four tugs chartered overseas as part of its efforts to focus on core, Hong Kong based, ship repair and towage businesses.

The dockyard continued to achieve high utilisation of its floating dock in 2006, reflecting strong business momentum in the shipping industry.

Hongkong Salvage & Towage (“HKST”) remains the largest towage operator in Hong Kong deploying 13 tugs in the Hong Kong harbour. 2006 saw a record number of harbour tug moves as a result of increased trans-shipment activity and more liner services operating into Hong Kong. HKST also operates eight tugs overseas and manages six container vessels on long-term contracts in Hong Kong.

Container Terminal Operations

Modern Terminals contributed a profit of HK\$156 million in 2005 prior to its disposal.

Following a loss of business from key major customers and increased competition in the Shenzhen area the attributable profit from Shekou Container Terminals I and II (“SCT”) fell 26.8% to HK\$82 million from 2005.

In December 2006 an agreement was reached to dispose of the group’s interest in SCT to the majority shareholder, China Merchants Holdings (International) Company Limited (CMHI). The sale was conditional on the approval of CMHI shareholders which was received in February 2007 and the sale duly completed. A gain on disposal of HK\$1.0 billion will be recognised in the 2007 financial statements.

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