The stage is set for another dramatic transformation of the Pearl River Delta in Guangdong Province, next to Hong Kong. Mainland Chinese authorities have resolved to create an ultra-modern megalopolis that once again will lead the nation in innovation and progress. Hutchison Whampoa Limited, notably with its newly listed port trust, is playing a leading role in unlocking the region's greater potential as a new era dawns for the Delta.

New Dawn for the Delta

IMAGINE A MEGA REGION covering hundreds of kilometres, larger than any other urban area, with some 120 million residents – equivalent, nearly, to the entire population of Japan. Imagine the scale of infrastructure connecting the different parts of this urban cluster, stretching from the provincial capital Guangzhou to Hong Kong, and the enormity of its combined economic output. The existence of such a mega region is not tomorrow's fantasy but today's reality according to Habitat, the United Nations agency for human settlements.

Now, the foundations for an even more integrated Pearl River Delta are being laid, where residents of an interlocking chain of impressive cities will pursue the highest living standards in China's history. As Mainland economists and policy makers have seen the Pearl River Delta's established "world factory" model become increasingly outdated and unsustainable, they have sought to articulate a new development paradigm through a series of far-reaching plans.

Among the outcomes are the 2008 Outline of the Plan for the Reform and Development of the Pearl River Delta, a 2009 Study on the Action Plan for Bay Area of the Pearl River Estuary and more recently, the much-anticipated 12th Five-Year Plan, for 2011 to 2015, which – as with Beijing's previous 11 five-year plans - maps the Chinese Government's strategies and detailed guidelines for the nation's further economic development.

The bland titles of these official documents hardly do justice to the dazzling visions within. Their ambitious authors envisage the Pearl River Delta as a hyper-connected, highly urbanised, modernised region, enjoying first-world standards in quality of life.

Great expectations

By 2020, according to the National Development and Reform Commission's 2008 plan, people will live to 80 years old and enjoy comprehensive and effective social insurance. Many will work in rapidly maturing

Almost all residents will live in **clean** and **energy-efficient** residential areas. Most will enjoy the use of **top-quality** consumer products developed locally and high-end imported goods.

service industries such as finance, logistics, creative industries and conferences and exhibitions, contributing RMB135,000 (USD20,750) each per year to a booming economy.

Others will work in advanced manufacturing, helping to produce the next generation of industrial equipment, petrochemicals and computer software for the global market. Some might work for one of the 20-odd home grown and globally renowned Mainland brands expected to be earning over RMB100 billion (USD15.3 billion) in annual revenue.

Almost all will live in clean and energy-efficient residential areas, commuting each day via state-of-the-art, ultra-efficient mass transport systems. At home, most will enjoy the use of top-quality consumer products developed locally and

high-end imported goods. Long gone will be the days of polluting, resource heavy and labour intensive manufacturing industries. Energy consumption per capita of gross domestic product and environmental quality are slated to meet the most advanced global standards within the next decade in a future "green" Pearl River Delta.

"If you really want to understand the various plans for the Pearl River Delta, all you have to do is look at the high speed rail system," observed Dr Victor Fung, Chairman of the Greater Pearl River Delta Business Council in Hong Kong.

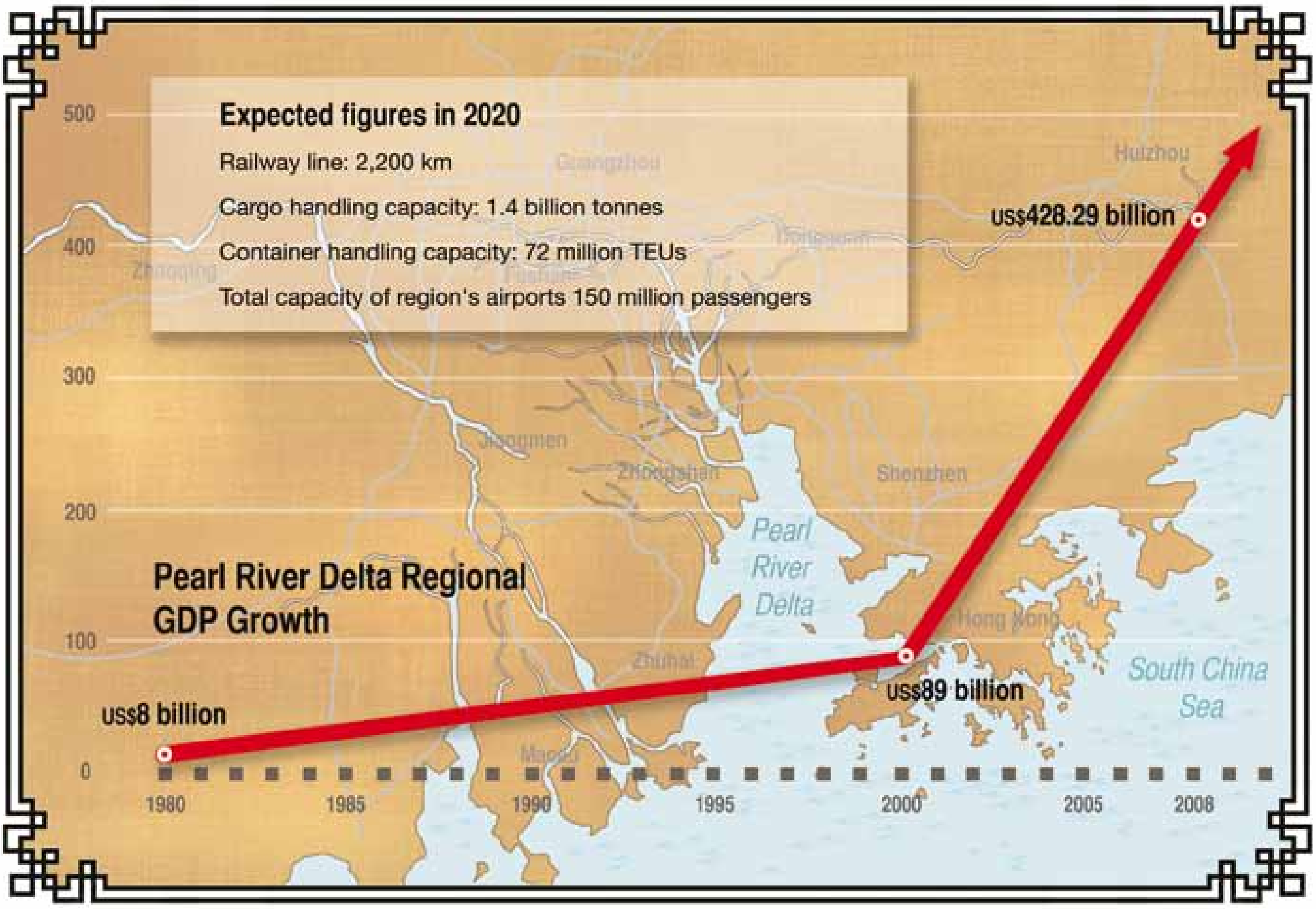
"Traditionally, people and goods in China moved along rivers, east to west, from the coast to the inland. With the Mainland's expanding rail network, all that is changing. There is greater connectivity between north and south as well as east and west. Rail lines radiating from the Pearl River Delta to southwest China will allow even closer economic integration between the two regions and between them and Southeast Asia."

Delivering on plans

According to the 2008 plan, by 2020, railway line construction across the Pearl River Delta will top 2,200 km; the cargo handling capacity of the ports, 1.4 billion tonnes; the container handling capacity, 72 million twenty-foot equivalent units (TEUs); and the capacity of the region's airports, 150 million passengers. A modernised, high grade waterway network will span the region, while ports at Guangzhou, Shenzhen and Zhuhai will be enhanced, consolidating the development of a world-class cluster of ports with complementary, yet varied, functions.

"While the targets may seem ambitious, it is worth remembering that China has almost always succeeded in delivering on major economic plans, especially its five-year plans," said Dr Fung.

Other key mega projects underway include the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macau Bridge, the Zhongshan-Shenzhen Passage, the Guizhou-



Guangzhou and Nanning-Guangzhou railways, and mass public transit infrastructure in Guangzhou, Shenzhen, Foshan and Dongguan. When complete, these projects will shrink actual distances to create an unprecedented level of integration between existing cities.

Poised for the new opportunities that greater integration and affluence will bring, Hutchison has a strong presence in the Pearl River Delta in key sectors. It is currently involved, for example, in a total of 15 high-end residential and two up-market commercial property developments in seven Delta cities. Supermarket chain PARKnSHOP runs 38 stores throughout the region and, in anticipation of future demand, has already introduced its high-end TASTE supermarket to Guangzhou.

Port potential

These are particularly exciting times for subsidiary, Hutchison Port Holdings (HPH), whose network of port operations spans across eight cities in the Pearl River Delta, including deep-water container port facilities in Hong Kong and Shenzhen – two of the world's busiest ports.

The major assets in Hong Kong and Shenzhen under-took an Initial Public Offering recently under HPH Trust, the world's first publicly traded container port business trust.

Floated on the Singapore exchange in March this year, the IPO was well received – despite the uncertain market sentiments created by the geopolitical unrest in the Middle East and North Africa and the earthquake and tsunami in

HIT has gradually shifted to handling **international transshipment** and more **intra-Asia** trade.

Japan – providing impetus for further investment in Pearl River Delta port facilities, among other opportunities.

"The Pearl River Delta will continue to be the leading export manufacturing zone in China," said HPH Executive Director, Eric Ip. "It will take some years before other regions in China can catch up."

Underscoring this fact, HPH continues to service export growth each year, particularly into new markets in the Middle East and South America. In addition, said Mr Ip, greater wealth in southern China means higher domestic demand for imported goods. "We expect to see an increase in import volume, not just from the US and Europe, but from all over the world." The beginnings of substantial growth are likely to be seen in intra-Asian imports, added Mr Ip, now that China has scrapped tariffs on most products exported by Association of Southeast Asian Nations countries.

Changes are emerging also from the rapid upgrading of the region's manufacturing base. "Pearl River Delta factories are becoming more effective because they bring in automation to increase productivity," said Mr Ip. "They are also turning out higher value items. More traditional export processing, meanwhile, is gaining momentum on the less developed west bank of the Pearl River Delta, where HPH's river ports are concentrated, as well as other parts of Guangdong Province and southwest China.

As the Pearl River Delta aims for super connectivity, the new railways and highways extending further into southwest China will open the way for a more efficient, reliable "southern" route for goods leaving the Mainland's interior which, in turn, will maximise the combined advantages of HPH's network of river and coastal ports.

For example, although the "move west" programme is centred around the upper reaches of the Yangtze River, its most direct route to the sea is via the Pearl River Delta. "Once all the new infrastructure and systems are in place, HPH Trust's ports, due to their good connectivity especially our dedicated Pingyan Railway line, are ideally positioned to provide service for time and price sensitive cargo and become an important window to the outside world for these hinterland areas", affirmed Ms Hai Chi-yuet, CEO of Hutchison Port Holdings Management Pte Limited, the Trustee-Manager of HPH Trust.

Division of roles

Ports in Hong Kong and Shenzhen combined moved 39.2 million TEUs in 2009, making the region the world's largest trading hub by throughput. This compares with 25.9 million for Singapore and 25.2 million for Shanghai.

Yantian (Shenzhen) gateway is the only other natural deep sea port in the region besides Hong Kong and Yantian International Container Terminals' (YICT) primarily deep-sea service is focused on exports to major markets in the US and Europe. With several new berths under construction, YICT is particularly well placed to capitalise on growing demand for port services created by the Pearl River Delta's next stage of development.

Whereas Hongkong International Terminals (HIT), the largest container terminal operator in Kwai Tsing Port, has gradually shifted towards handling international transshipment and in particular more intra-Asia trade. In catering to increased regional demand from shipping lines, it is also able to leverage barge traffic from HPH river ports at Jiangmen, Nanhai and Zhuhai (Jiuzhou). HIT no longer just handles shipping from China to elsewhere. Much like Hong Kong's international airport, HIT now handles cargo from everywhere to everywhere, overseeing the efficient and reliable transfer of just about every product imaginable from vessel to vessel. An added benefit derives from HIT's market leadership in Hong Kong. The world's top 30 global shipping lines call at HIT's facilities, enabling it to offer a unique and flexible platform for its customers to interact under one roof.

With the innovation and diversity of strengths on offer, the new Pearl River Delta can continue to rely on HPH to deliver world-class port services fit for a world-class region.

Flashback:

The Pearl River Delta's first transformation

Farmers and fishermen in the sleepy rural backwater of the Pearl River Delta 30-odd years ago could scarcely have imagined what the future had in store. In 1979, the Chinese Government launched its "open door policy", a bold economic experiment that dictated a blistering pace of development and permanently altered China's economic course. Since that monumental year, there has been no turning back for this regional economic powerhouse.

The first big steps were the establishment in 1980 of Special Economic Zones (SEZs) in Shenzhen, adjoining Hong Kong, and Zhuhai, next to Macau. The zones were trailblazers for a new era of development fuelled by foreign direct investment, mainly from Hong Kong.

The new policies brought about dramatic changes in the region's rural economy. Farm labourers walked off fields and onto production lines as export processing activities burgeoned across the landscape. The rise of local township and village enterprises further ramped up output, dramatically decreasing the Delta's reliance on agricultural industries, boosting incomes and contributing to the export processing boom.

The success of these early experiments led to the establishment of the Pearl River Delta Economic Zone in 1994. The new structure aimed to harmonise development and increase coordination between local governments, with the guidance of the region's leading urban centres, Guangzhou and Shenzhen. The region was officially seen as the testing ground for market-based policies that would pioneer a new economic age.

The pace of ongoing transformation was boosted by delegation to provincial authorities of increased responsibility for setting economic policy. Unprecedented autonomy paved the way for the implementation of novel initiatives, such as the Shenzhen Stock Exchange, new land lease systems and experiments in privatisation. All were nurturing the development of a market oriented culture that would be integral to the region's competitiveness and sustained success.

The 1990s saw increased diversification in the manufacturing base through investment in high value added industries such as computers, information technology and biological engineering. By 2001, the Pearl River Delta was producing close to five per cent of the world's goods, with an export value totalling USD289 billion. In categories such as toys it was the world's main source. Around this time, the region became justifiably recognised as the "world's factory".

Thirty years of stellar economic results are testament to the extent of the Pearl River Delta's development miracle. Regional gross domestic product, standing at just USD8 billion in 1980, rose to USD89 billion in 2000 and nearly USD428.29 billion in 2008, according to a report commissioned by Invest Hong Kong. With such an illustrious record, solid foundations in place, and a far-reaching vision underpinned by clear targets, the Delta is positioned for another era of impressive growth.

Port milestones

1976

- Hongkong International Terminals (HIT) commences operations at Terminal 4 at Kwai Chung container port.

1978

- China announced its open door economic policy, throughput at HIT is just under 500,000 TEUs.

1989

- HIT completes Terminal 6 at Kwai Chung, by which time throughput at HIT is more than 1.5 million TEUs.

1990

- HIT's Terminal 7 opens, uniting all HIT's Terminals (4, 6 and 7) into one integrated facility.

1993

- The Group signs a contract to form a joint venture to own, operate and further develop the Port of Yantian in Shenzhen.

1994

- The first berth of Terminal 8 East at the Kwai Chung Port is completed and starts operation.
- Hutchison Port Holdings Limited (HPH) is established to manage HWL's interests in port and related businesses in Hong Kong, the Mainland and overseas.
- HPH forms a new subsidiary, Hutchison Delta Ports Limited, to hold and manage its river/coastal ports and related facilities in the Mainland.

1995

- Hutchison Delta Ports forms a joint venture with Jiangmen Shipping Company to own and operate Gaosha Cargo Terminals in Jiangmen.

1996

- The River Trade Terminal Company, in which HPH owns a 37 per cent stake, is awarded the contract to design, develop and operate the River Trade Terminal in Tuen Mun; the Government awards two berths at Container Terminal Nine (CT9) to HIT.

1998

- The Guanlan Inland Container Depot is set up to facilitate the growth of import and export trade in the South China region.

2001

- HPH signs agreements with the Shenzhen Government and Yantian Port Group to jointly develop Phase III of Yantian International Container Terminals.

A shared future:

Hong Kong's role in the new Pearl River Delta

For many in booming Hong Kong at the end of the 70s, the Pearl River Delta seemed remote and insignificant – the rural fringe of a closed, mysterious and struggling nation. Not so for the city's manufacturers. These entrepreneurial visionaries quickly saw the Chinese government's "opening of the door" to southern China for what it was – a lifeline.

At the time, Hong Kong was a preeminent manufacturing hub, with close to a million people employed in manufacturing. But it was running out of both space and workers for labour intensive industries. With domestic costs soaring, Hong Kong was rapidly losing ground to competitors elsewhere in Asia. The Mainland's new economic openness enabled the city's manufacturers to establish a new – and far bigger – industrial hinterland in the Pearl River Delta.

Suddenly, Hong Kong became more competitive. Its manufacturers could offer greater production capacity at significantly lower cost. In Hong Kong, itself, they upgraded capabilities in design, logistics and marketing. The "shop-in-front, factory-in-the back" model which Hong Kong businesses pioneered with their Pearl River Delta partners became Asia's new paradigm for supplying ever cheaper products to Western consumers.

Hong Kong's influence cannot be overstated; from 1993 to 2001, utilised foreign direct investment in Guangdong Province totalled USD121.2 billion, of which Hong Kong accounted for more than 68 per cent. By 2002, the number of labourers employed by Hong Kong factories in the Delta had reached over 10 million – with only 200,000 left in Hong Kong's own factories.

To deepen cooperation, in 2003, Hong Kong and the Mainland signed the Closer Economic Partnership Arrangement, which has since been regularly supplemented. By 2010, foreign invested enterprises, mostly from Hong Kong, accounted for a staggering 62.2 per cent of Guangdong's total exports, according to the Hong Kong Trade Development Council (HKTDC).

The HKTDC believes that Hong Kong must embrace the opportunities arising from the Mainland's new economic direction and determination to expand and modernise its service sector.

In particular, according to the HKTDC, financial reforms will permit the "new" Pearl River Delta to leverage expertise from Hong Kong to build a more integrated financial system. Construction has started on a new financial services zone across the boundary at nearby Qianhai. Already dubbed the Delta's "Manhattan", many see it as providing a lower-cost support base for expanded financial activities in Hong Kong, helping to facilitate Hong Kong's continued development as an international financial centre.

From Beijing to Hong Kong, planners and commentators envisage Hong Kong, with its wealth of technical, management and marketing know-how, contributing to a revolution in advanced manufacturing and services across the Delta. They anticipate that the city's existing strengths in finance, law, shipping, logistics and regional headquarters/professional services, underpinned by its profound international knowledge and service ethos, will again come to the fore as the region seeks to achieve greater global preeminence across a wider spectrum of economic activity.

Thirty years after rice paddies gave way to factories, it is an opportunity for members of Hong Kong's enterprising and adaptable business community to reprise their role as drivers of change and transformation in a new, green Pearl River Delta.

2003
- HIT announces the launch of CT9, Hong Kong's newest container handling facility; throughput from HPH's operations at Yantian reaches more than 5.25 million TEUs.

2004
- HIT surpasses the 80 million TEU milestone.

2006
- HIT handles its 100 millionth TEU.

2007
- HPH and Huizhou Port Affairs Group Company sign a joint venture agreement to operate Huizhou Port International Container Terminal.

2008
- HPH enters an agreement to develop Shenzhen Yantian East Port Phase I Container Terminal Project; trial operations begin at Phase II of Zhuhai International Container Terminals (Gaolan).

2009
- HPH and Huizhou Port Affairs Group Company Limited break ground on a facility that will become Huizhou Port's first dedicated container terminal.

2010
- The total TEU throughput of HPH's Pearl River Delta ports reaches nearly 25 million, while throughput at HPH's facilities in Kwai Tsing Port tops 11.04 million, of which transshipment accounts for close to 60 per cent.

2011
- HPH's deep-water container port businesses in Guangdong Province, Hong Kong and Macau are spun off in March and listed in Singapore as Hutchison Port Holdings Trust.