



Chairman's Message



BUILDING ON PROSPERITY

The success of any company is largely related to the prosperity of the economy and the markets that it serves. Nowhere does this principle hold truer than in the port sector. In this regard, few Hong Kong port companies are better positioned for expansion than Pacific Ports Company Limited ("PPC"). With a solid foothold in the world's fastest growing economy and a leadership role in Hong Kong - the Gateway to China - Pacific Ports is thriving as the PRC enters the World Trade Organisation ("WTO").

The future potential of PPC is based on a variety of factors ranging from macro-economic fundamentals to the capacity and desire of the average PRC individual to buy imported products. Fortunately for PPC most of these trends have headed in the right direction and will continue to do so in the foreseeable future. One need only look at the changing landscape of China's major cities and their upwardly mobile population to understand the growing prosperity and consumerism sweeping the nation.

In what is referred to by leading economists and financiers alike as the "greatest economic miracle" the modern world has experienced, the face of China is irrevocably altered. The same people that were clamoring for sewing machines, televisions and refrigerators two decades ago are now demanding new cars, portable computers and condominiums. At the same time, outside of China it is practically impossible to pick up a piece of clothing or the latest toys in

leading department stores without noticing the "Made in China" moniker. For those in the port business these are positive signs of the times.

Positioned for Growth

When New World Infrastructure Limited ("NWI") made a major commitment to PPC two years ago it was done to take part in China's growing prosperity. Last year, when NWI took the step to consolidate all port assets in PPC it was to build a global port powerhouse based in the Greater China region. In this the first full year of financial reporting since the restructuring of PPC, the NWI vision is starting to pay off. With positive numbers in almost all areas management has made good on its promise to achieve profitability.

Current developments in both domestic and global economies point to a continuation of positive economic and social trends in the years ahead. Already the impressive increase in the prosperity of the Mainlanders has had an impact on PPC business in large and small ways. Take the case of the inland river port of Suzhou. This port benefits greatly from the government policy to shift the nation's prosperity westward and has witnessed a new level of activity among its steel manufacturing customers.

PPC has gained an advantage from the trend westward by handling the flow of goods to and from the innermost regions of the PRC. Meanwhile, external force has had an impact as well. The ongoing

liberalisation associated with the "Three Links" policy has ramifications for improving trade flows with Taiwan. As Taiwan trade is liberalised PPC operations at Xiamen Port, located on the west coast of the Taiwan Strait, will receive the benefits and rewards.

WTO Opportunity

China is in the strong position whereby the country can grow and prosper based solely on the ability of its enterprises to serve a massive domestic market. However, that does not mean that China is not ready to compete and expand its reach in the global economy. All over the nation, whether owned by private enterprise or the state, companies are feverishly preparing for the new age of WTO. Enterprises are internationalising at an unparalleled pace, adopting global management techniques, new technologies and rethinking business strategy to meet the WTO challenge.

While China will likely improve its already stellar export picture after WTO, the real boon for a company like PPC comes in the two-way flow of goods. WTO will open China's markets to the world and corporations around the globe are eagerly preparing to enter the market in force. With consumption levels rising in urban centres and prosperity beginning to trickle down the economic ladder, PRC consumers are eager for the opportunity to purchase foreign goods and services.

PPC is confident that the way forward for China lies in internationalisation and global integration. With these trends in mind PPC has increased its profile in

the China port business. With the looming specter of WTO, PPC is upgrading facilities, honing its strategic plan and strengthening its balance sheet for another round of expansion. In this phase PPC will enhance and modernise ports, deepen berths and containerise operations. This will be accomplished by seeking partners that are eager to build alliances and invest capital to gain market share in post-WTO China.

The Best is Yet to Come

Over the course of the next decade it is expected that China will once again resume its high growth path, this time on a sounder economic foundation, a more solid legal framework and the experience of two decades of development. PPC is as ready as any enterprise in China to serve a new economic order and the emerging needs of a growing global dynamo. With port assets evenly spread from north to south and a power base in Hong Kong ready to export port management technology and expertise PPC is eager to assume a leadership role.

At this promising juncture in the short history of PPC, I would like to sincerely express my appreciation for all those employees and shareholders that have stayed with us during good times and difficult periods. Now is the moment to reap the benefit of what we have created.

Dr. Cheng Kar-Shun, Henry
Chairman