Reaping the Reward of

a Bountiful Year

Laying Solid

Foundations for the Future

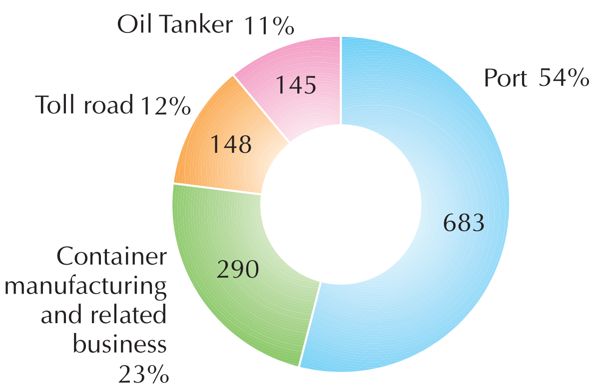
Mr. Li Yi
Managing Director

PERFORMANCE REVIEW

During the Current Year, the Group's core business – ports operation made great progress in terms of investment, construction and operating management. This has further strengthened the position of the Group as the "The leading port operator in China".

In 2003, the profit indicators of the company and its subsidiaries all grew by over 60% compared with 2002. Consolidated profit after taxes and minority interests for the Current Year amounted to HK$1,466 million, representing an increase of 66.1% over the HK$882 million achieved in the preceding year. After deducting an exceptional gain of HK$204 million from the sale of the shares in CM Shekou Holdings and a further issue of shares in relation to CIMC, the profit for the year was HK$1,261 million, an increase of by 26.9% when compared to the profits for the year of HK$994 million for the previous year (excluding exceptional gains from the sale of three toll roads and the provision of impairment loss on land and buildings). Earnings per share for the Current Year was HK69.86 cents and HK69.67 cents respectively on basic and diluted bases, as

Profit Contribution from each business (Unit: HK$ million)



compared to earnings per share of HK42.93 cents and HK42.64 cents on basic and diluted bases in the previous year, representing an increase of 62.7% and 63.4% respectively. Turnover for the Current Year was HK$2,130 million, combining the share of turnover of the associates and jointly controlled entities amounted to HK$7,906 million, representing an increase of 26.1% and 22.8% respectively.

In 2003, a profit of HK$683 million was made from the port business of the Group, which accounted for 54% of the overall profit. A profit of HK$290 million was made from container manufacturing and the related businesses and accounted for 23%. Contribution to the profit from the toll road business was HK$148 million, and accounted for 12% of the profit taken as a whole, whilst contribution to the profit from the oil tanker business was HK$145 million and accounted for 11% of the profit taken as a whole.

PORT BUSINESS

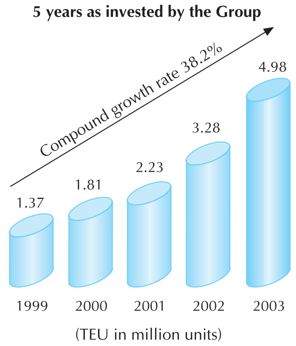
In the Current Year, HK$683 million of profit was achieved from the Group's port operations, an increase of 31% over HK$522 million of the previous year. Revenue from port operations was HK$592 million, which included the turnover from the newly acquired Zhangzhou CM Port between November and December of 2003, amounting to HK$18 million, the share of turnover of associates and jointly controlled entities, turnover amounted to HK$3,035 million, an increase of 54.2% and 25.8% respectively over those of the previous year.

Growth rates in throughput at the terminals invested in by the Group were, in general, substantially above the growth rates of the regions where those terminals are located thereby increasing market share as a whole.

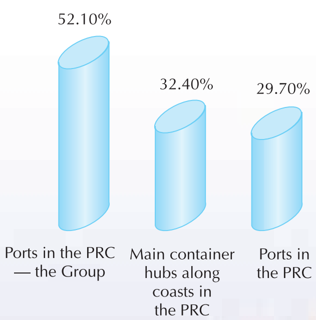
CONTAINER TERMINAL OPERATION

During the Current Year, the container throughput handled by the Group was over 9,950,000 TEU in total, which was an increase of 31.3% compared with the preceeding year. The year-on-year growth rates of container throughput for the container terminals as invested by the Group in China and Hong Kong were 52.1% and 15.5% respectively. Meanwhile, the throughput for the Group's terminals in China was 4,980,000 TEU, exceeding for the first time the throughput of the Group's terminals in Hong Kong which is 4,970,000 TEU. Such rate of growth ranked first among all container hubs within China, and accounted for 12% of the throughput of containers for the coastal port area of the PRC. Following the completion of the construction and commencement of operations of the terminals invested by the Group, contribution from the terminals in the PRC to the Group's port business and profits as a whole will continue to increase and will become the most important profit centre of the Group.

Container throughput of the ports for last 5 years as invested by the Group



Comparison of growth rate in container throughput in 2003 — PRC



Throughput of the terminals as invested in and managed by the Group in 2003

	2003 ('000 TEU)	2002 ('000 TEU)	Growth rate
Port area in the Western Shenzhen	**4,936**	3,262	51.3%
Other terminals in China	**48**	14	242.9%
Subtotal for the Group's terminals in the PRC	**4,984**	3,276	52.1%
Subtotal for the Group's terminals in Hong Kong	**4,971**	4,303	15.5%
Total for the Group's terminals	**9,955**	7,579	31.3%

Throughput of the port area in the Western Shenzhen grew by over 50%, 10 percentage points higher than the average growth rate of 39.9% in Shenzhen Port. Its share of market in Shenzhen Port increased from 42.8% in 2002 to 46.3%. Shenzhen Port was ranked as the fourth largest container port in the world. This achievement was brought about by the growth in ports business in Shenzhen as discussed above.

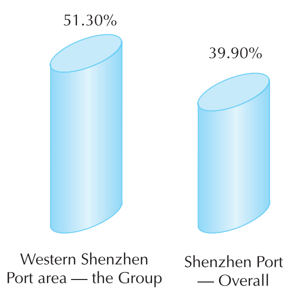
Throughput at Shekou Container Terminals breakthrough the 1,000,000 TEUs benchmark

Berths No.3 and No.4 of Shekou Container Terminals (Phase II) owned by the Group completed construction and commenced operation in August and December 2003, respectively. Berth No. 3 delivered a profit at a satisfactory level within the same year. One new berth commenced operation in each of CMPS, the Chiwan Container Terminals, and the Mawan Project. This significantly enhanced the operating capacity and profitability of the port area in western Shenzhen.

Container throughput in Western Shenzhen as invested in and managed by the Group in 2003

	2003 (TEU)	2002 (TEU)	Growth rate	**2003 Market share in Shenzhen Port**	2002 Market share in Shenzhen Port
Shekou Container Terminals (Phase I and II)	**1,527,361**	883,572	72.9%	**14.3%**	11.6%
Chiwan Container Terminals	**1,634,631**	1,142,233	43.1%	**15.3%**	15.0%
CMPS (including Berth 0# of Mawan)	**871,800**	600,800	45.1%	**8.2%**	7.9%
Chiwan Wharf	**600,915**	406,532	47.8%	**5.6%**	5.3%
Haixing Harbour	**301,085**	228,868	31.6%	**2.8%**	3.0%
Subtotal for the Group's terminals in Western Shenzhen port area	**4,935,792**	3,262,005	51.3%	**46.3%**	42.8%
Total for Shenzhen Port	**10,649,950**	7,613,754	39.9%	**100.0%**	100.0%

Comparison of growth rate in container throughput in 2003 — Shenzhen



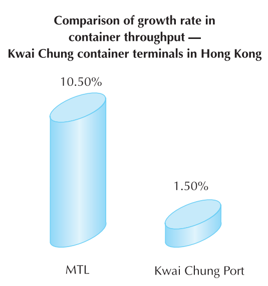
Chiwan Container Terminals

Berths No.4, No.5 and the 61,000 square meter container depot of Zhangzhou CM Port owned by the Group commenced operation during the year. Berths No.1, No.2 and No.7 also commenced construction during the year, and will have a substantial container operating capacity. In the same year, a throughput of 48,300 TEU was processed with its contribution recorded accordingly.

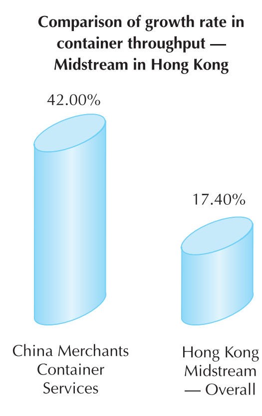
In the Current Year, the port business in Hong Kong experienced low growth. However, growth in the throughput of MTL as invested by the Group was 7 times higher than the overall growth rate of Kwai Chung container terminals. Growth in the throughput of China Merchants Container Services, wholly owned by the Group, was in general also over 2 times higher than the overall growth rate of the Midstream market in Hong Kong, which hereby further increased the market share of the terminals invested in by the Group.

Container throughput of the terminals in Hong Kong as invested in and managed by the Group in 2003

	2003 ('000 TEU)	2002 ('000 TEU)	Growth rate	**2003 Market share in Kwai Chung**	2002 Market share in Kwai Chung
MTL	**3,991**	3,613	10.5%	**33.1%**	30.4%
Total throughput of Kwai Chung container terminals	**12,070**	11,892	1.5%	**100.0%**	100.0%



	2003 ('000 TEU)	2002 ('000 TEU)	Growth rate	**2003 Market share in Midstream market in Hong Kong**	2002 Market share in Midstream market in Hong Kong
China Merchants Container Services	**980**	690	42.0%	**25.1%**	20.7%
Total throughput of Midstream in Hong Kong	**3,904**	3,326	17.4%	**100.0%**	100.0%



BULK CARGOES OPERATION

A throughput of 31,710,000 tones of bulk cargo was processed by the terminals invested in and managed by the Group for the Current Year, which was over 95% of the Shenzhen Port, bulk cargo operation, representing an increase of 19.8% as compared with the throughput of the corresponding period last year.

Throughput of bulk cargoes at the terminals invested in and managed by the Group in 2003

	2003 ('000 tone)	2002 ('000 tone)	Growth rate
CMPS	11,490	10,250	12.1%
Chiwan Wharf	8,540	7,270	17.5%
Haixing Harbour	8,800	6,880	27.9%
Subtotal for the Group's terminals in western Shenzhen	**28,830**	**24,400**	**18.2%**
Zhangzhou CM Port	2,420	1,630	48.5%
Total for the Group's terminals invested in and managed by the Group in the PRC	**31,250**	**26,030**	**20.1%**
AAT	460	430	7.0%
Total for the Group's terminals	**31,710**	**26,460**	**19.8%**

CONTAINER MANUFACTURING AND RELATED BUSINESSES

Growth in the Group's container manufacturing and related businesses was encouraging during the Current Year. A total profit of HK$451 million was recorded, an increase of 102% over HK$223 million in the preceeding year. After deduction of extraordinary profits of HK$161 million, the annual profit from the business operation was HK$290 million, up 30%.

Container depot of CMIC Group

CIMC, invested by the Group, is the market leader in the industry. In the Current Year, it sold over 1,000,000 TEU of containers with sale revenues exceeding HK$ 10 billion for the first time. In 2003, it accounted for 53% of the global container manufacturing market and ranked first in the industry for the eighth consecutive year.

Sales of Hempel-Hai Hong (owned by the Group), exceeded HK$ 1 billion for the first time with a total volume of over 70 million liters sold, an increase of 27.3% over 55 million liters of paint sold in the previous year. In 2003, its market share in terms of container paint and vessel paint accounted for 36% and 30% in the market and ranked first in the PRC for the third consecutive year.

Traffic flow in Toll road business of the Group grew steadily

TOLL ROAD BUSINESS

In the same year, the toll road businesses both in China and Hong Kong were affected by SARS, in particular, as most of the Group's five toll roads and 1 toll tunnel are located in the tourist districts, causing certain impact to the traffic volume. However, the Group successfully overcame the unfavorable factors and took effective measures and thereby maintained the increase in traffic flow. The profit from the toll road business of the Group amounted to HK$148 million, a decrease of 1.33% over HK$150 million achieved in the previous year. The decrease was partially due to the fact that the profit for 2002 included profit contributions of three disposed toll roads for the first half of last year.

Traffic flow in 2003 of the toll roads invested in by the Group

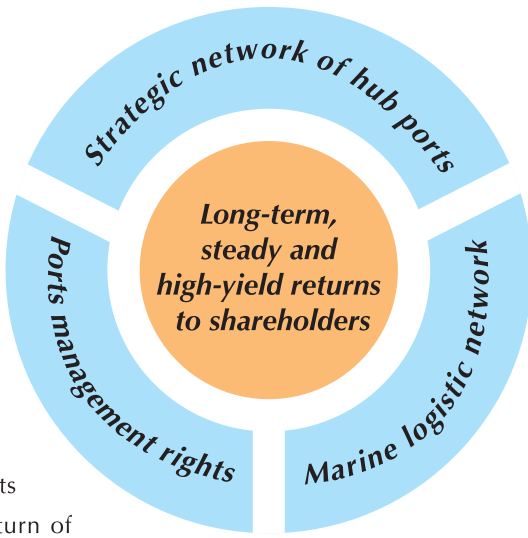
	2003 ('000 vehicles)	2002 ('000 vehicles)	Growth rate
Ning-Zhen-Luo Expressway	**2,610**	2,160	21.1%
Gui-Liu Expressway	**2,240**	2,140	4.7%
Gui-Huang Expressway	**13,970**	12,680	10.2%
Yu-Yao Expressway	**7,600**	7,220	5.3%
Luo-Mei Expressway	**1,430**	1,160	23.3%
Subtotal of Expressway	**27,850**	25,360	9.8%
Hong Kong Western Harbour Tunnel	**13,600**	14,610	(6.9)%
Total of Expressway and tunnel	**41,450**	39,970	3.7%

OIL TANKER BUSINESS

The performance of oil tanker business of the Group was remarkable. A profit of HK$145 million was achieved, an increase of 16% compared with HK$125 million for the previous year.

Extending Coverage of Ports from South to North Creating a Blue Print for Leading the Port Industry

STRATEGY IMPLEMENTATION



BUILDING UP A STRATEGIC NETWORK OF HUB PORTS

The Group aims to be the leading port operator in China. During the recent years, expansion into ports has been proactively and systematically facilitated so as to configure a network of core ports. The Group's Strategy is to invest in the major hub ports in the most developed regions in China with high return of investment, and at the same time to obtain management rights to the invested terminals. Through standardizing the operation and management of the terminals it has invested, the Group is able to deliver excellent synergistic effect. At the same time, this will also ensure that the new berths will provide decent profit to the group as soon as their operations commence.

The Pearl River Delta, Yangtze River Delta and Bohai Coastal Area are the three most developed and active economic areas in China. The GDP of these three areas in total contributes to more than 60% of the national GDP in aggregate and over 80% of imports and exports in total. Strong economic capabilities, good geographic conditions and a developed market have fostered the development of these three major port clusters in China. The top ten container ports in China are all located in these three areas. As such, the Group concentrates on investing in these three areas, in particular seizing business opportunities arising from the container hub ports in the western part of Shenzhen, Shanghai, Ningbo, Qiangdao and Tianjin, all of which are important strategic positions.

Top ten container ports along the coast line of China in 2003

Ranking	Name of port	**Throughput in 2003 ('000 TEU)**	Increase from corresponding period (%)
1	Shanghai	**11,280**	31
2	Shenzhen	**10,650**	40
3	Qingdao	**4,240**	24
4	Tianjin	**3,020**	25
5	Ningbo	**2,760**	49
6	Guangzhou	**2,760**	27
7	Xiamen	**2,330**	33
8	Dalian	**1,670**	24
9	Zhongshan	**760**	18
10	Jiangmen	**740**	153

In 2003, the Group made a substantial breakthrough in its strategic layout. Container terminal projects in western Shenzhen, Ningbo, Qingdao, and Tianjin commenced or proceeded as scheduled. The strategic layout for the three most economically active areas in China has gradually been formed. A nationwide port network system was initially constructed.

So far, the Group has succeeded in obtaining operation or management rights to terminals in four of the top five container ports in China. This has fulfilled the Group's strategic aim of operating in key container hub ports through obtaining operation or management rights. This also laid a solid foundation for the further expansion and perfection of a quality port network. The Group is confident that its terminals will grow at a rate of over 20% per annum for the coming five years.

Pearl River Delta and Xiamen Gulf Area

The Pearl River Delta and Xiamen Gulf area have become one of the most important processing manufacturing and export centres in the world. These areas have sustained rapid economic growth and formed the most important base for the Group's development of its port business. In order to consolidate its predominant position in the Pearl River Delta and Xiamen Gulf area,

Map on the distribution of ports at the Pearl River Delta the Group continues to expand and optimize its investment in the area. In 2003, 8 berths were completed and commenced operation. These include two container berths in SCT Phase II, which is 51% owned by the Group, Container berth No. 12 in Chiwan Container Terminals, of which the Group is the largest shareholder, Container berth No. 12 in CMPS, which is wholly owned by the Group, Berth No. 0 in Mawan Port owned by the Group, Berths No. 4 and 5 in Zhangzhou CM Port owned by the Group, and one berth in No. 9 Terminal of MTL, in which the Group invests. At the end of 2003, the Group owned 45 operating berths in this area, among which 24 are container berths. At the same time, 15 container berths are under construction in this area. The Group's operating capacity will be increased by about 10 million TEU within the next five years.

The Yangtze River Delta Area

Planning sketch for Ningbo Daxie China Merchants International Terminals

During recent years, the Yangtze River Delta area has experienced rapid economic development. In particular, strong growth has been recorded in foreign direct investment as well as in imports and exports, which in turn has created huge sources of cargoes in terms of outbound containers for ports in this area. Shanghai Port and Ningbo Port are the most important container hub ports in this area. During the past five years, growth in container throughput of Ningbo Port remained over 50% on average.

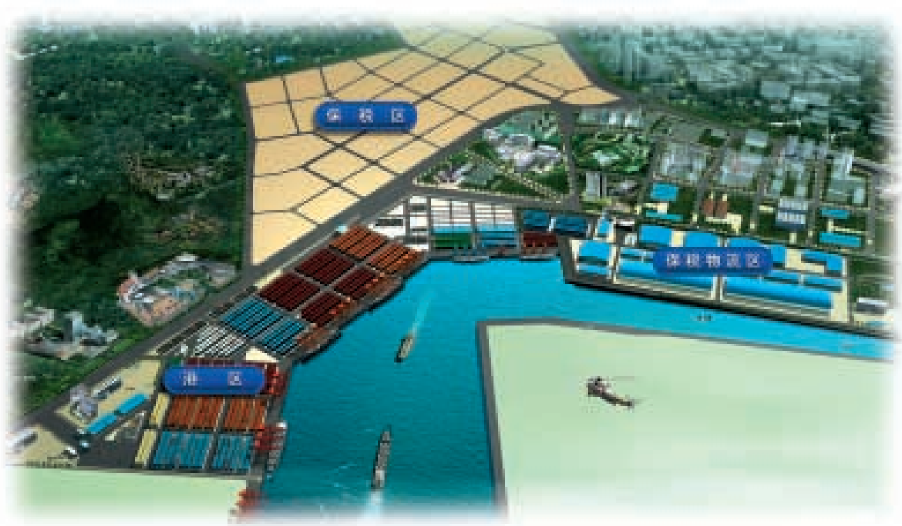
In May 2003, the Group entered into a cooperative agreement with Ningbo Port Affairs Bureau and Ningbo Daxie Development Zone to develop the Ningbo Daxie China Merchants International Terminals project which includes at least four berths. The Group is the largest shareholder of the project. The execution of the contract for this project was a milestone for the Group in terms of successfully seizing a stake in the

Yangtze River Delta Area. At the same time, the Group is also very interested in and is actively seeking opportunities for investment and development of the terminals in Shanghai.

Bohai Coastal Area

Qingdao Port and Tianjin Port are the most important hub ports in the Bohai Coastal Area, ranking third and fourth in terms of container throughput in the PRC and enjoying the fastest rate of growth in northern China. Hence, the Group considers Qingdao Port and Tianjin Port as two locations essential to its nationwide port network.

In September 2003, the Group entered into a joint venture contract with Qingdao



Planning sketch for Qingdao Qianwan International Logistics Park

Bonded Zone in relation to Qingdao Qianwan International Logistics Park. The Group has a 90.1% interest in this project and will invest in the construction of seven berths. In December 2003, the contract for the container terminal in the northern side of Dongtu Bank, Tianjin Port was duly executed. This terminal consists of four container berths, with an operation capacity of 1.5 million TEUs per annum. The Group has a 14% interest in this project. Construction of these four berths have been completed and some of them have already been put into operation by the end of 2003.

ADDING VALUE IN ORDER TO INCREASE PROFITABILITY

The Group's management fully recognize that, through the provision of auxiliary value-added services at ports and the establishment of a logistic chain with the port as the core will not only provide better services to customers, but also enhance the core competitiveness of the terminals and expand the source of profit for the Group to facilitate sustainable development. During the year, the Group advanced a series of value-added services for ports mainly around to two aspects, namely innovation in business and IT support.

Port-Bond Zone collaboration

Port-bond Zone collaboration, which has recently been developed in China, is a major business model being applied for the transition of ports into free ports or free trade zones. The Group places great emphasis on this business model for the development of its port business.

The Group's Qingdao Qianwan International Modern Logistic Park is located at Qianwan, adjacent to Qingdao Bonded Zone. Its total area is 2.7 square kilometers, consisting of a terminal area and bonded and logistic areas. Through such collaboration, the bonded zone is linked to the port and is able to provide integrated services that are different from that of its competitors. Due to the lack of such integrated services in northern China, over 2,500,000 TEUs of inbound and outbound containers are transferred to other Asian countries for transhipment. The Group's Qingdao Logistics Park will attract some transferring containers back to Qingdao Port, which will bring significant strategic meaning to the establishment of Qingdao Port as an international shipping centre. Qingdao Logistics Park project commenced construction in December 2003.

Planning sketch for Shenzhen Qianhaiwan Logistic Park

In order to establish Shenzhen Port as one of the global shipping centres, Shenzhen Municipal Government designated 3.5 square kilometers of land in the Qianwan area adjacent to the port area in western Shenzhen as an integrated logistics park, so as to facilitate the implementation of preferential services offered by Port-bond Zone collaboration. China Merchants Group and its subsidiaries are solely responsible for the development of the logistic park, of which an added-value service area of 2.5 sq.km will be developed and constructed by the Group. The development of Shenzhen Qianwan Logistic Park will promote the development of the port area in western Shenzhen as an international container hub port to a material extent, allowing it to take on an important role as a world-class port.

Barge shuttle network

The port area in western Shenzhen is located where the Pearl River connects to the sea. It is linked with the cargo sources in the Pearl River Delta through the Pearl River System. This is the unique advantage enjoyed by the port area in western Shenzhen as compared with other ports in the region. The Group has promoted the development of barge shuttle service in the Pearl River Delta (PRD Shuttle) by its subsidiaries, attracting cargo owners to conduct transshipment in the port area in western Shenzhen through the introduction of feeder services provided by barges between the port area in western Shenzhen and PRD. It will also attract major marine routes to designate Shenzhen as their homeport. PRD Shuttle, which has fully leveraged the unique advantages of the port area in western Shenzhen, has expanded into the hinterland of the port area in western Shenzhen, increasing the port area's attractiveness to the market. At present, the coverage of PRD Shuttle has extended to Huangpu, Shunde, Jiangmen, Zhongshan, Nanhai, Foshan Zhanjiang and other ports along the feeder routes and the same kind of service is preparing to commence operation in Zhuhai, Panyu, Huadu, Maoming, and Guangxi. With the ever-increasing coverage of its operation, PRD

Route map on the shuttle service within the port area of western Shenzhen

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Wu Yi, deputy premier of the State Council, visited SCT

Shuttle is now renamed as South China Shuttle. It is expected that growth in barge traffic will double in 2004 and will become a major driving force for the rapid growth of the port area in western Shenzhen.

As for the new port projects in Ningbo, Qingdao, and Tianjin, the Group will capitalize on the successful experience it has derived from the operation at the port area in western Shenzhen and will gradually establish the barge transportation network as the feeder services between terminals within the area. The attractiveness and competitiveness of the port to its hinterland market will thus be increased.

Electronic data interchange platform at ports

The Group promoted and established Shenzhen Cyber-Harbour, which will be engaged in the provision of professional IT technology support and services to its terminals. In 2003, the Company developed several kinds of IT system such as electronic data interchange systems with customs, the monitoring system concerning examination and quarantine at the port area in western Shenzhen and the empty container quick inspection and release system. This has enhanced efficiency in custom clearance and turnover efficiency of empty containers at the port area in western Shenzhen. At the same time, in response to the CSI plan proposed by USA customs in 2002, the SST/CSI project was initiated in early 2003. As the port area in western Shenzhen is promoted to be one of the first few ports in China participating in the CSI plan, this will attract cargo being transported to the USA and on route to the USA to use the port to a material extent. In order to accommodate the Group's development of the port-bond Zone collaboration business, a data exchange platform at the logistics park will be established so as to provide means of technical support for the port-bond zone collaboration.

Signing ceremony for SST project

ADVANCE IN MANAGEMENT CONTROL TO BRING GREATER EFFICIENCY

Outstanding performance of the management is the ultimate driving force of the Group in achieving its promising results. It is the Group's consistent belief that efficiency can be enhanced through management in the course of operation. During the year, the Group explored the inherent potential of existing resources and enhanced the synergies within the business, achieving remarkable results.

Industry integration

During the year, integration of the industry were strengthened within the area. In particular the performance achieved at the port area in western Shenzhen as controlled by the Group is most significant. Under the support of customs and other port authorities, the cooperation of various zones at the port area of western Shenzhen entered into a new historical era under the coordination of the Group. Cooperation in various forms that has commenced or will commence include the cooperation by CMPS and SCT for the shuttle services and the exchange of berths between SCT and CCT. These activities will further expedite reasonable utilization of resources, thereby enhancing efficiency.

In addition, in order to accommodate the progress for the Group's implementation of industry strategic layout activities, cooperation among different areas in the industry were fostered so as to obtain a greater edge in resource allocation to a greater extent and establish an operation network within the industry. For example, joints of marine routes operated by CMPS and Zhangzhou CM Port as well as China Merchants Container Services in Hong Kong were instituted. The Group's well developed terminal companies were channeled to provide support to the new terminals with respect to construction, commercial activities and operations. These measures accelerate the construction of new terminals and their move towards achieving normal operation.

Management platform

Results indicate orientation and workflow indicate certainty of management. In order to achieve efficiency in operation, one of the important tactics has been the strengthening of workflow management. The Group flexibly applied the concepts of workflow re-engineering in its management activities during the year. A platform for the management of port enterprises has been innovatively created on the basis of the actual port operation and has promoted the use of information by management in these enterprises. This management platform, in addition to directly producing economic profit, can also provide fundamental support to the Group in resource management, performance management, strategic decision-making and investment decision-making.

Brand management

By adopting a practical, meticulous and professional management style, the Group further improved brand management in a practical manner during the year. The Group held the seminar "The Creation of an Internationally Competitive Port Enterprise in the PRC" at Diaoyutai State Guest House in Beijing in December 2003. Participants of the seminar represented relevant government departments for port operation in the PRC, as well as government and independent academic research bodies and industry associations. Through this conference, the Group's reputation and status in the port industry has been significantly raised.

Risk management

Effective risk management is essential for enterprises to guarantee the security of assets for shareholders. It will also ensure the steady and continuous development of enterprises. The Group has conducted a comprehensive appraisal on the risks it may be subject to and has formulated mechanisms to monitor risk, alert risk and respond promptly so as to strengthen risk management. The effective containment of risk on shareholder equity added value for shareholders. During the outbreak of SARS, no case was recorded in relation to the Group. Under the fierce attack of Typhoon Cuckoo, no company under the Group suffered any major loss. Such mechanisms ensured the normal operation of the Group.

Human resources

The Group insisted on a human resources-oriented concept in the course of its development. We have consistently striven to improve further human resources management and strengthen the establishment of a corporate culture. During the year, the Group conducted a series of staff training activities and established motivation mechanisms for employees so as to encourage their participation in continuing education for the purpose of improving their quality. The Group also recruited, at various levels, overseas and local employees in accordance with its business development requirements, thus significantly upgrading the human resources of the Group both in terms of quantity and quality. At present, the Group has formed a responsible, experience-rich and skillful employee team. The team meets the needs of current business development and provides a necessary and excellent reserve in human resources for its long-term development.

The Group's Spring Festival Celebration Party in January 2004.

Building corporate culture

With the aim of upholding the excellent corporate culture of China Merchants Group and integrating the unique values of the Group, much effort was dedicated to research and practical measures to build corporate culture during the year. At present, the Group is gradually establishing a culture of "cooperation, good faith, efficiency and innovation". It has been demonstrated in practice that the coherence and loyalty of the employees to the Group have been strengthened. At the same time, the establishment of and guidance provided by such a corporate culture has practical implication for the improvement of management effectiveness.

Well Prepared for Great Work

PROSPECTS AND OUTLOOK

Forecast on new berths in 2002 – 2006

Terminals	2002 Existing berth	**2003 Additional**	2004 Additional	2005 Additional	2006 Additional
MTL (Hong Kong)	6	**1**	1		
MTL (Tai Cang, PRC)			6	2	
CMPS	12	**1**	1		1
SCT Phase I	2				
SCT Phase 2		**2**			
SCT Phase 3				2	1
CCT	3	**1**		1	
Chiwan Wharf	8				
Haixing Harbour	4				
Mawan project		**1**	1	1	1
Zhangzhou Port	2	**2**	1	2	2
Ningbo Daixie			1	1	2
Tianjin		**4**			
Qingdao				2	2~3
Sub-total of additional berths for each year		**12**	11	11	9~10
Total of berths of the Group by the end of each year	37	**49**	60	71	80~81

As estimated in 2004, the economy of China will continue to grow around 7%, the imports and exports of foreign trade will be sustainably active, and the implementation of CEPA (close economic partnership arrangement) between China and Hong Kong will further improve Hong Kong's economy. Responding to market demand for the steady growth of China's ports, the Group will continue to optimize business composition and divest non-core business in an orderly manner, so as to concentrate resources with a competitive edge on the development of port business and its auxiliary services.

As to its core businesses, the Group will continue to consolidate its leading position in the port industry in China and the world on the basis of three themes, namely investing and developing port-related projects, innovative business models and advances in management. The Group is determined to provide high quality integrated marine logistics services with port business as its core through a worldwide port business network.

In addition to the 12 berths built in 2003 that will become new profit centres in 2004, the Group will proceed with the construction of ports and berths in Ningbo, Qingdao, Shenzhen and Zhangzhou in 2004. It is expected that in 2004, 11 berths will be completed and commence operation. In the next three years, the Group expect over 10 new berths for operation in each year. As a result, the container handling capacity of the Group will lead the industry, and a nationwide port business network with remarkable synergistic effect will be further reinforced, ensuring high-speed and sustainable growth of the Group.

The Group will gradually break through the traditional business model of solely engaging in the provision of stevedore services by ports, and provide multi-level state-of-the-art marine logistic integrated services with ports as its core, which will establish the unique competitive advantage of the Group's ports. In 2004, the Group will make new breakthroughs in its linkage business in Qingdao and Shenzhen, and gradually extend to other investment ports such as Ningbo and Tianjin. While continuously improving "South China Shuttle" service in the port area of western Shenzhen, the Group will discuss setting up similar barge shuttle network services in newly invested ports such as Ningbo and Qingdao. In addition, it will continue to strengthen IT service and support to its ports.

The Group will continue to strengthen its management and control over investment at ports and boost synergies between the projects. Whilst implementing its investment in ports, it will continue to consolidate its management in the investment, construction and operation of various projects. By leveraging the overall competitive edge in resources and brand management, the Group will pursue the standardized operation and management of its ports, so that its edge in the operation of ports on a network basis will be fully attained.

With respect to the manufacturing of containers, the Group will promote CIMC Group on the basis of it having the lead market share in the worldwide container manufacturing industry on the one hand, and improving management standards on the other hand, so that it ranks as a fore-runner in terms of profitability in this industry around the world. In addition, for the manufacturing of paint, especially paint for containers and vessels, the Group will maintain its leading position in the market.

With respect to toll road and oil tanker businesses, the Group will continue to optimize asset structure, positively explore various operational and capital operational patterns so as to maximise its shareholders' value.

We are ready for our future. With abundant resources, foremost development strategies, advanced management philosophies, a professional management team and top-notch human resources, we are confident that the Group will become one of the most outstanding listed companies in the port industry, within the Greater China region and in the Hong Kong stock market.

LIQUIDITY AND TREASURY POLICIES

As of 31 December 2003, the Company held more than HK$950 million in cash, 12% of which was denominated in Hong Kong dollars, 19% in U.S. dollars and 69% in Renminbi.

The source funds of the Group mainly come from the returns on operation and returns from its associates and joint venture companies, accounting in total for more than HK$1.4 billion. During the year, the Group had paid out around HK$1 billion in port investments, repaid HK$140 million of bank loans and paid a dividend of HK$590,000,000. As some of the port investments is financed by other shareholders, the Group still maintain a higher amount of cash in hand balance compared with last year figures.

Given the stable source of income and the very low gearing ratio, the Group maintained a sound financial position to meet its daily operating needs and for timely repayment of bank loans.

CAPITAL, CONVERTIBLE BONDS AND FINANCIAL RESOURCES

By 31 December 2003, the group had issued 2,140,142,974 shares. In this period, HK$108 million was received from the issue of 21,560,000 shares as a result of exercise of share options, and otherwise issued 61,997,586 shares for the exchange of Convertible Bonds. The Convertible Bonds issued by the Company in April 1999 was fully converted into shares of the Company. Apart from the above, the Company did not issue any new shares in Current Year.

As of 31 December 2003, the Group had total outstanding loans of HK$40 million, all of which were short-term loan facilities. In view of the financial health of the Group, most of the bank loans were repaid in full during the year in order to reduce the interest expense. The remaining bank loans were unsecured and the interest rate of those bank loans was floating.

As of 31 December 2003, the Group's gearing ratio (dividing interest-bearing liabilities by net assets) was less than 1%.

All bank loans and convertible bonds were denominated in U.S. dollars or HK dollars. As such, the Group did not have any financial instruments to hedge against the abovementioned loans and bonds.

The Group held its assets mainly in HK dollars, U.S. dollars and Renminbi. The Board is of the view that, given the pegged exchange rate between HK and US dollars and the limited possibility for Renminbi to depreciate in the future, it is not necessary to arrange for hedging of the foreign currency investments.

CHARGE ON ASSETS

As of 31 December 2003, the Group did not have any charge on its assets.

CONTINGENT LIABILITIES

As of 31 December 2003, the amount of bank guarantees given by the Group in respect of its subsidiaries, associates, companies in which the Group had made investments, as well as those granted in respect of convertible bonds, totalled HK$82 million.

EMPLOYEES AND REMUNERATION

As of 31 December 2003, the Group employed 2,657 full-time staff, of which 337 worked in Hong Kong, 8 worked overseas and the remaining 2,312 worked in the PRC. The remuneration expenses for Current Year amounted to HK$210,000,000, representing 11.5% of the total operating expenses of the Group. The Group reviews its remuneration policy every year and makes adjustments to staff's remuneration according to the conditions of the human resources market and the economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and enhance their job-related skills. Moreover, the Group gives year-end bonus as an award to the staff for their effort and contribution. The Group also operates a share option scheme under which qualified staff may exercise their options at an agreed price.

CORPORATE GOVERNANCE

The Group has complied throughout Current Year with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting in accordance with the Articles of Association of the Company.

PURCHASE, SALE OR REDEMPTION OF THE GROUP'S LISTED SECURITIES

During Current Year, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities.