



I am pleased to present the 2004 Annual Report and the audited financial statements for the year ended 31 December 2004.

The Group's layout of ports investments along the coastal line of Mainland China obtained remarkable progress in 2004. Being driven by the strong growth in ports and ports-related business, the Group recorded substantial growth and its operating results surpassed historical highs. In addition, sufficient recognition was gained from the capital market on the operating performance of the Group and it was selected to be a constituent stock of the Hang Seng Index on 6 September 2004.

Operating results

The Group recorded consolidated profit after taxes and minority interests of HK\$2,057 million for the year, representing an increase of 40.4% over that of the same period last year. After deducting an exceptional gain of HK\$274 million from the disposal of oil tanker during the year, profit from ordinary activities amounted to HK\$1,783 million, as compared to that of HK\$1,261 million for the preceding year (excluding exceptional gains from the sale of China Merchants Property Development Co., Ltd., and a further issue of shares by CIMC Group), representing an increase of 41.4%. Basic earnings per share for the year was HK96.09 cents,



Dr. Fu Yuning
Chairman

representing an increase of 37.5% over that of the same period last year.

Turnover of the Group reached HK\$2,409 million in 2004, which together with share of turnover of the Group's associates and jointly controlled entities added up to an amount of HK\$10,960 million, representing an increase by 13.1% and 38.6% respectively over those of the same period last year.



Dividends

In order to reward the constant support of the shareholders, the board of directors intends to recommend in the forthcoming annual general meeting the distribution of a final dividend at the rate of HK30 cents which, together with the interim dividend of HK15 cents already paid, will make a total dividend per share of HK45 cents for this year, representing an increase of HK3 cents over that of the same period last year. Dividend payout was 46.8%. The final dividend will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect such final dividend (or part thereof) in cash in lieu of such allotment. Subject to shareholders' approval at the forthcoming general meeting of shareholders, the final dividend will be payable on or about 28 June 2005 to shareholders whose names appear on the register of members of the Company on 10 May 2005.

Review of the year

2004 was the thirteenth year in the history of the Group's development, which was also an important milestone. Benefiting from global economic recovery and the economy of the PRC sustaining rapid growth, and thanks to the effort of our colleagues, the Group once again achieved outstanding results in various business segments. The momentum for the growth of

the core ports business remained strong. Profit from the ports business increased by 39.1% over that of the same period last year. Double-digit growth was recorded for containers throughput of the terminals in Mainland China and Hong Kong as invested by the Group. Container throughput of the Group's ports business in Shenzhen increased significantly by 43% over that of the same period last year and accounted for 52% of the market share for Shenzhen. At the same time, growth of the container throughput of the ports business in Hong Kong as invested by the Group exceeded the average performance in the market. Operating results for the Group's ports-related businesses, such as manufacturing of containers, continued to increase rapidly under the favourable environment of a booming global shipping market. Profit contribution for the year increased substantially by 38.5% over that of the same period last year.

In 2004, the Group further consolidated its strategic layout of ports in Mainland China. Signified by the acquisition of interests in Shanghai International (Port) Group, the Group initially completed its strategic layout of ports in Mainland China. The network of ports as invested in and managed or jointly controlled by the Group covered the three largest economic areas and a regional economic area in Mainland China, namely, Pearl River Delta Area, Yangtze River Delta Area, Bohai Coastal Area and Xiamen Bay Area. Apart from the core ports business,

the Group's bonded and logistic park business operation commenced. The initial completion for the strategic layout of ports, as well as the expansion and enhancement of the ports business functions not only assure the sustainable development of the Group's core ports business, but also lay a solid foundation for the provision of nationwide network of port logistics services by the Group to its customers.

Following by the disposal of oil tanker business and restructuring of toll road business in the mainland, the composition of the Group's various business segments was further optimised through the change and adjustment of strategies during the recent years. The business structure was further optimised and the principal operations are more distinct, contribution from the profit of the core businesses increased significantly and the Group's control capabilities for the operational management got further strengthened. The Group was also active in the international capital market, was widely recognised in the market, and created a new state for the sustainable development of its ever growing core ports business.

Future prospects

The Group is very confident as to its future development. It is estimated that in 2005, China's

economy as a whole will continue to preserve its trend of steady development. Growth rate in GDP expects to be more than 8%. The exchange rate of Renminbi will remain stable at a reasonable and stable level. Foreign trade will be further consolidated. Regional economy in Hong Kong will be improved further by Closer Economic Partnership Arrangement and the recovery of US and global economy. The external environment where the Group is subject to is encouraging. Together with the operation of new berths to commence in stages in 2005, the Group's earning base will be further enhanced.

In 2005, the Group will continue to devote its efforts to consolidating existing resources, so as to enhance its control capabilities for the operational management and to promote its scale and synergy for the network of ports, on the basis of initial completion of the strategic layout for ports network in the PRC. At the same time, the Group will continue to expand the port logistics chain that is related to the auxiliary services of the ports business, and to build a modern and centralised port logistics service system around the ports.

Looking to the future, by leveraging on the strong competitive advantages in resources and operation capabilities, foremost development strategies, the ever-perfecting centralised management system for its ports, as well as ever-improving management capabilities, I am fully confident that the Group will continue to bring satisfactory return to its shareholders.

Investor relations

The Group always emphasises on its relations with investors with an aim to maximise shareholders' interests. Through multi-channels of communication, including media, internet and road shows, and by complying with corporate governance principles and feedback on issues concerned when appropriate, the Group does it best to ensure effective communication between investors and the management of the Company, which thereby makes the Company more transparent, and provides with investors thorough understanding about the Group.

Good investor relations and unobstructed channels of communications not only comprehensively and promptly deliver the Group's information to the public, but also facilitate the investors to get thorough understanding about the intrinsic value of the Group. During the year, the Company was selected as a constituent stock of Hang Seng Index,

whose shares had made outstanding performance, and ranked top three in terms of increase in share price during 2004. All of the above evidenced the recognition of the capital market to the operating performance of the Group.

Corporate governance

The Group's board of directors have followed the corporate governance principles under the Rules governing the listing of Securities on The Stock Exchange of Hong Kong Limited, as well as various statutory and non-statutory requirements, including the Hong Kong Companies Ordinance, Securities and Futures Ordinance, and the rules and regulations of the jurisdictions where its other overseas businesses are located. The Group endeavoured to uphold high standard of corporate governance with its various business segments, so as to assure that the Group is executing various policies of the Company pursuant to the laws and regulations under the supervision of the Board of Directors. All transactions are executed only with authorisations through strict internal control and accounting systems. Unauthorised use or appropriations of the Group's assets will be avoided, so as to protect the interests of all shareholders. Corporate information will be published to investors promptly so as to ensure the transparency of the Group.

Credit rating

Through orderly strategic positioning and sound corporate governance policies, the Group's positioning and influence in ports business market became increasingly important. The Group was awarded BBB and Baa2 investment grade ratings by Standard & Poor and Moody's respectively, and is one of the three red chip companies that are awarded investment grade rating by both credit rating agencies. This reflected the recognition of the international capital market on the leading position of the Group's ports business in the industry.

Appreciation

I am very proud of the results obtained by the Group in 2004, and am confident towards the sustainable long term development of the Group in future. Together with all staff, I will continue to abide with the prudent, practical and efficient working style adopted by the Group, and devote our best efforts towards maximization of interests for our shareholders.

I am pleased to witness the continuous evolution and growth of the Group in a proactive and forward thinking manner. I wish to take this opportunity to express my sincere appreciation towards the concern and support of all shareholders of the Group and the public, and my gratefulness towards the outstanding work performed by all fellow directors and each of the staff of the Group.

I, for and on behalf the Board, would like to thank the late Mr. Koo Kou Hwa for his invaluable contribution to the Company during the past.



Dr. Fu Yuning
Chairman

Hong Kong, 22 March 2005

