Management Discussion and Analysis

Performance Review

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 the exceptional gain of HK$274 million from the disposal of oil tanker business 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 the CIMC Group), representing an increase of 41.4%. Basic earnings per share for the year was HK96.09 cents, representing an increase of 37.5% over that of the same period last year.

Mr. Li Yi
Managing Director

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.

Gross domestic product in Mainland China achieved RMB13,650 billion in 2004, representing an increase of 9.5% over that of the same period last year. The gross amount for import and export trade reached US$1,150 billion in 2004, representing an increase of 35.7% over that of the same period last year. Economic growth in Hong Kong reached 7.5%. It is expected that growth in the import and export foreign trade volume in 2004 will exceed 14%. Rapid expansion in the maritime transportation business was driven by global economic recovery as well as new demands from international markets. The Group's operations span across Mainland China and Hong Kong. By leveraging on the favourable external environment, timely implementation of strategic plans and effective utilisation of the Group's resources, the Group's various businesses, with ports business being the core one, recorded substantial growth in the year.

Ports business

In 2004, the Group's ports business achieved a profit contribution of HK$950 million, an increase of 39.1% over that of HK$683 million in the preceding year. Revenue contribution from ports business was HK$732 million, representing an increase of 23.7% over that of the same period in the previous year.

During the year, the container throughput handled by the terminals invested and managed or jointly controlled by the Group in Mainland China and Hong Kong reached 12.8 million TEUs, representing an increase of 28.4% over that of the same period of the preceding year. The container throughput for the terminals invested by the Group in Shenzhen reached 7,090,000 TEUs, representing a substantial increase of 43% as compared with that of the same period in the previous year. In 2004, these terminals accounted for about 52% of the container market of Shenzhen in terms of throughput. The container throughput for the terminals invested by the Group in Hong Kong reached 5.61 million TEUs, representing an increase of 12.8% over that of the same period in the previous year, while the estimated growth rate for Hong Kong market as a whole was 7.3%. The Group's bulk cargo business also recorded impressive growth in 2004. A throughput of 35.71 million tonnes of bulk cargoes was processed by the terminals invested by the Group for the year, representing an increase of 10.7 % as compared with that of the corresponding period last year.

The operation of the air freight terminal invested by the Group in Hong Kong processed 0.55 million tonnes of cargoes, a growth of 19.8% as compared with that of the same period last year exceeding the overall market growth rate of 13.9% for handling volumes of the air cargo terminals in Hong Kong.

Container throughput in Western Shenzhen as invested and managed or jointly controlled by the Group for 2004

	2004 ('000 TEU)	2003 ('000 TEU)	Growth rate	Market share in Shenzhen Port for 2004	Market share in Shenzhen Port for 2003
Shekou Container Terminals (Phase I and II)	**2,123**	1,527	39.0%	**15.5%**	14.3%
Chiwan Container Terminals	**2,660**	1,639	62.2%	**19.4%**	15.3%
China Merchants Ports Services	**1,150**	872	32.0%	**8.4%**	8.2%
Chiwan Wharf	**812**	601	35.1%	**5.9%**	5.6%
Haixing Harbour	**340**	301	13.1%	**2.5%**	2.8%
Subtotal for the Group's terminals in Western Shenzhen port area	**7,085**	4,940	43.4%	**51.7%**	46.3%
Total for Shenzhen Port	**13,694**	10,661	28.5%	**100.0%**	100.0%

Ports-related business

On the back of strong growth by the CIMC Group, the Group's ports related business grew significantly over that of the same period last year which contributed HK$624 million profit to the Group for the year, representing an increase of 38.5% over that of the previous year.

The CIMC Group, invested by the Group, maintained its leading position in the global container manufacturing market. Benefiting from the continuous booming of global maritime transportation business, growth in China's import and export foreign trade, as well as the remarkable results from the strategic roll-out of production bases, the CIMC Group further consolidated and strengthened its leading position in the industry. In the year, the operation of the CIMC Group once again recorded high flying growth. 1,570,000 TEUs of containers were sold, representing an increase of 33.9% over that of the same period last year. Profit contribution to the Group amounted to HK$521 million, representing an increase of 53.2% over that of the same period last year. Comparing to the profit from ordinary activities of the CIMC Group after deducting the exceptional gain from a further issue of shares in relation to the CIMC Group in the last year, contribution of profit from ordinary activities of the CIMC Group for the year increased by 191.1%.

Units of container sold by the CIMC Group as invested by the Group for 2004

	2004 ('000 TEU)	2003 ('000 TEU)	Growth rate
Dry cargo container	**1,448**	1,076	34.6%
Reefer	**56**	56	-0.8%
Special cargo container	**67**	41	63.9%
Total	**1,571**	1,173	33.9%

Toll road business

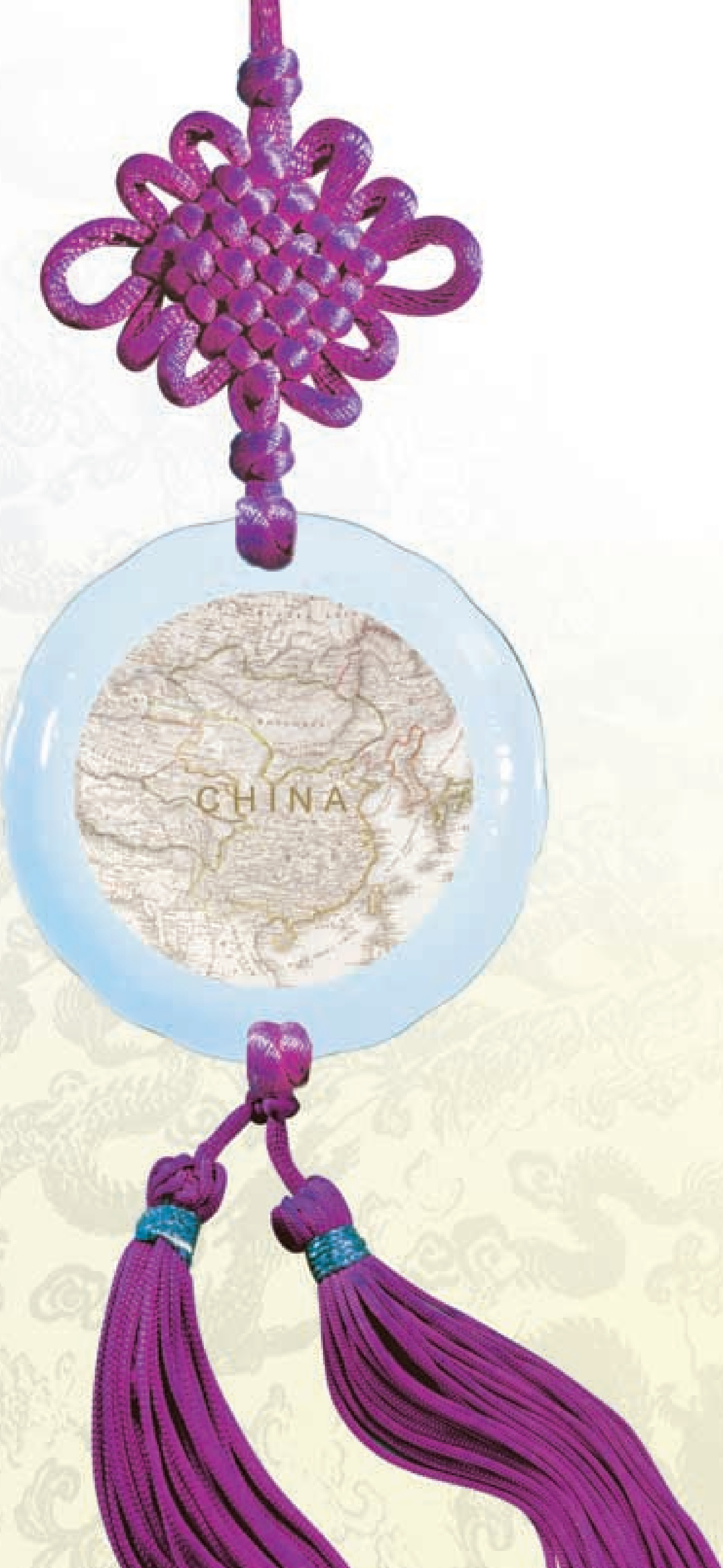
The Group completed restructuring of its interests in five toll roads in Mainland China on 30 December 2004. The toll road business was transferred to CMHP, which is listed on the Singapore Exchange Securities Trading Limited. Post restructuring, the Group now holds its interests in these toll roads through CMHP.

The Group's toll roads in Mainland China and Hong Kong Western Harbour Tunnel invested by the Group in Hong Kong recorded a total traffic flow of 43,320,000 vehicles for the year, representing an increase of 4.6% as compared with that of the same period last year. Profit contribution from toll road business for the year was HK$152 million.

The majority of the Group's toll roads benefited from the increase in traffic volume resulting from the fast growth in the economy of the PRC and the rapid surge in car ownership per capita.

Oil tanker business

The Group disposed of its seven Aframax oil tankers, the Group's entire interests in oil tanker business, on 18 October 2004. Including the exceptional gain arising from the disposal of oil tanker business, the contribution from this business as a whole was HK$410 million for 2004, representing an increase of 182.8% as compared to that of the same period last year.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Other Information

Major Strategy Deployed

The Group announced on 29 December 2004 that it would acquire a 30% stake in Shanghai International Port (Group) for HK$5.26 billion, whereby the Group tapped into the largest port in Mainland China and the third largest container port in the world. This acquisition brings substantial strategic importance and economic benefits to the Group. It will not only provide the Group with a stable source of profits, but will also perfect the strategic layout of the Company's ports network in Mainland China. At the same time, the Group can immediately benefit from the fast growing port market at Yangtze River Delta and its surrounding cities. The acquisition is expected to be completed as early as the end of the first quarter of 2005. The acquisition also marks the initial completion of the establishment by the Group of a strategic layout of container hub ports along the coast line of Mainland China.

Major fund raising event

On 7 March 2005, CMHI Finance (Cayman) Inc., a wholly owned subsidiary of the Group, raised US$ 500 million from the international capital market by way of issuing a 5.375% fixed rate coupon 10-year bond due 2015. Investors include banks, funds and insurance companies, etc. The issue was underwritten by a syndicate co-led by BOCI, HSBC and Merrill Lynch. The bonds are listed and traded on The Stock Exchange of Hong Kong Limited. Proceeds from the issue will be applied for general working capital purpose, including the repayment of its existing debts, and funding the investments of ports and ports-related businesses. The Company had provided guarantee for the bonds as to its repayment.

Management and control of operations

In order to cope with the development of its core ports business, efforts were continuously devoted by the Group to improve the management of its existing operations. On the basis of the existing internal control and financial management system, the Group further perfected its information infrastructure for supervising the operations work flow of its ports business in 2004. In addition, plans were being formulated to introduce a centralised information management system as part of the on-going engineering initiative. Such system is aimed to further capture the synergies within the Group, and to match strides with the Group's overall strategic development

and resources utilisation. The Group believes that, with the adoption and implementation of various management and control measures, it will further perfect its system management mechanism, and transform its core competitive advantage into a key driving force for the constant future growth.

Liquidity and treasury policies

As of 31 December 2004, the Group held approximately HK$2 billion in cash, 74% of which was denominated in Hong Kong dollars, 9.7% in U.S. dollars, 7.6% in Renminbi and 8.7% in other currencies.

The Group's source of funds are income from its operation, investment returns, and dividends from its associates and jointly controlled companies, totalling more than HK$1.2 billion. In addition, HK$1.3 billion in cash was received as an exceptional item upon the disposal of its seven Aframax oil tankers. During the year, the Group invested more than HK$2.3 billion in cash for port projects, of which HK$1.7 billion was financed by bank loans, HK$12 million was applied to repay short term bank borrowing, and HK$942 million was applied to pay dividends. Cash in hand balance for the year increased by HK$1.1 billion as compared with that of the same period last year, notwithstanding additions in capital expenditure.

Given the stable source of income and the relatively low gearing ratio, the Group maintained a sound financial position to meet its daily operating needs. As the Group's existing bank borrowings are mainly comprised of medium and long term borrowings, there is not much pressure on debt servicing in the short term.

Capital and financial resources

As of 31 December 2004, the Company had issued 2,142,192,974 shares. During the year, HK$10 million was received from the issue of 2,050,000 shares as a result of exercise of share options. Apart from the above, the Company did not issue any new shares in the current year.

As of 31 December 2004, the Group had total outstanding bank loans of HK$1.77 billion, of which HK$254 million was bank loans repayable within one year, whilst the remaining HK$1.51 billion was medium to long term borrowings. Existing bank loans equivalent to HK$106 million was pledged with the assets of a subsidiary. The remaining bank loans were unsecured and bear interest at floating rates.

As of 31 December 2004, the Group's gearing ratio (dividing interest bearing bank loans by net assets) was about 12.7%.

73.9% of the bank loans were denominated in HK dollars, with the balance in Reminbi or local currencies, which were borrowed by its project companies, and may be repaid in Renminbi. As such, the Group does not need any financial instruments to hedge the currency risk.

The Group held its assets mainly in HK dollars and Renminbi. The Board is of the view that as the possibility for Renminbi to depreciate in the future is limited, it is not necessary to arrange for hedging of the foreign currency investments.

Charge on assets

As of 31 December 2004, the Company did not have any charge on its assets, whilst assets of HK$448 million were pledged by a subsidiary of the Group for securing its bank borrowings.

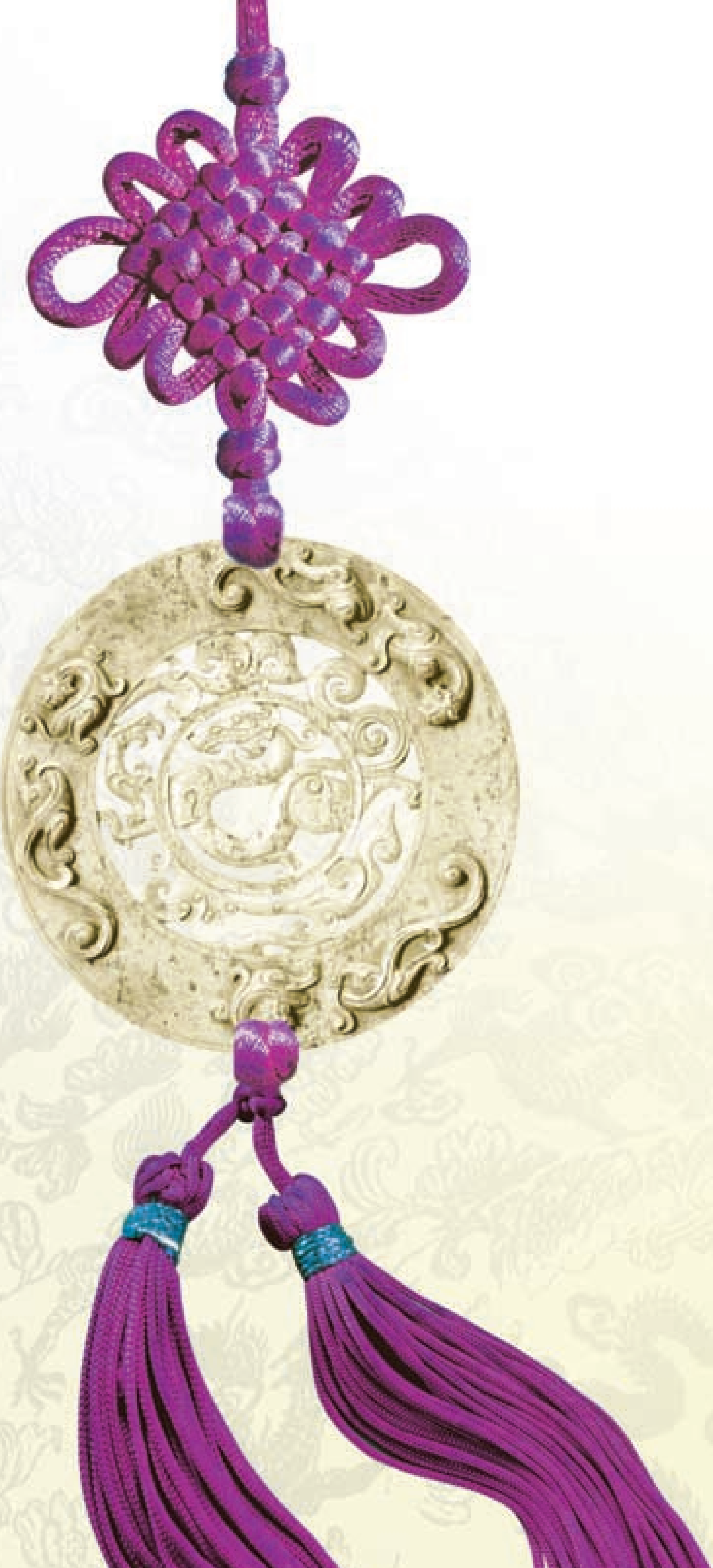
Contingent liabilities

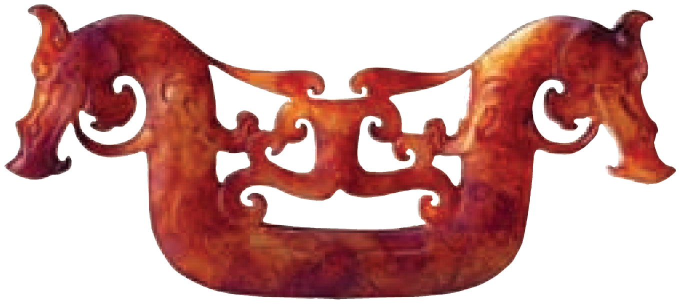
As of 31 December 2004, the amount of bank guarantee given by the Company in respect of its subsidiaries and associates were HK$1.23 billion in total.

Employees and remuneration

As of 31 December 2004, the Group employed 3,082 full time staff, of which 350 worked in Hong Kong, 10 worked overseas and the remaining 2,722 worked in the PRC. The remuneration expenses for the current year amounted to HK$236 million, representing 10.9% 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.





Prospects and Outlook

Envisaging the future, the PRC economy will continue to grow at a fast but more stable pace in 2005. Growth in gross domestic product is estimated to exceed 8%. At the same time, China will enforce a stabilising monetary policy to maintain the exchange rate of Renminbi at a reasonable and stable level.

The Group will in turn benefit from the steady growth in the economy and foreign trade of the PRC, and will grasp and capitalise on the forthcoming opportunities arising and will enhance the decision and execution process with emphasis on resources management, process control and value cultivation. Management standard will be improved comprehensively so that the advantages of resources derived from the existing ports network will be deployed to its maximum extent.

Following the completion of acquisition of 30% stake in Shanghai International Port (Group) by the Group, initiatives will be taken to strengthen the communication and coordination with our business partners in Shanghai International Port (Group). By leveraging on our participation and establishing co-operation strategies, the synergies within the Group's ports network can be crystalised. Meanwhile, the Group will conduct studies with Shanghai International Port (Group) for the development of a Yangtze River strategy, which will establish the Yangtze River feeder route to capitalise on the river trade potential of Yangtze River. The Group will also leverage on the geographical advantages of Shanghai and Ningbo, the two major port hubs located at the Yangtze River Delta, to complement and further strengthen their synergies. Moreover, the Group will continue to consolidate on its ports business in Pearl River Delta Region to actively pursue and push ahead the inter-modal maritime transportation services along the Pearl River, so as to intensity cooperation between the feeder route network and port hubs.

In 2005, the Group will continue to bring new container berths into operation, that includes SCT Phase 3 Berth # 5 and #6 which are expected to commence operation in March and August respectively; Berth #5 and Berth #6 at Mawan will commence operation in March and July respectively; Berth #13 at CCT is expected to commence operation in March; Berth #4 and #3 at Ningbo Daxie will commence operation in March and September respectively; Berth #1 and Berth #2 of Zhangzhou Port are expected to commence operation in October. With the operation of these berths forthcoming, the handling capacities of the Group's terminal will be further expanded. At the same time, it will provide new stream of profits to the Group and broaden the Group's ports business in terms of business scale and operation capabilities.

As to Shanghai International Port (Group), apart from Waigaoqiao Phase 5 duly coming on stream in 2005, five berths at Yangshan Phase 1 are expected to commence operation by the end of 2005. Other major ports in Mainland China, in particular those feeder ports connecting with inland rivers will continue to expand to accommodate the market needs and requirements.

The Group fully recognises the importance of management control. Following the initial completion of the ports network layout in the PRC, the Group makes it a priority to perfect and integrate value-adding services to its basic ports operations. The logistics centers in the bond zone will be promoted. Through the linkage of its ports with the bond zone, port functions and customer base will be enlarged. Multi-tier modern maritime logistics services will be offered. At the same time, the Group will continue to improve its capability as to the management and control over the entities engaged in the ports business through pooling existing resources. A brand in port management will thus be established proactively by leveraging on the Group's comprehensive competitive advantages.

On the back of the prevailing performance of the CIMC Group, the Group will continue to progress and consolidate on its market leading position. While upholding its market leading position in the industry, the CIMC Group will actively expand into semi-trailer business to generate new profit stream. At the same time, the Group will continue to consolidate its paint manufacturing business, in particular its leading position of the container paints and marine paints industries. Inter-group strategic alliance will be strengthened to fully capitalise on this integrated operation.

It is expected that traffic volume for the toll roads invested by the Group in Mainland China will continue to boost in 2005 on the back of the PRC's economic growth and increase of personal consumption. The Group, through CMHP, will strengthen project control, optimise corporate governance structure, identify new projects for investment, to expand the market and enhance service qualities. The Group's toll road business in 2005 will continue to benefit from the further improvement in both intrinsic and extrinsic environment.

The Group strongly believes that the effective utilisation of abundant resources, timely execution of well defined business strategies, as well as emphasis on human resources development are the key elements that are going to solidify the Group as a leader in its industry and to propel the Group to become one of the best run public companies with the sole aim: to maximise shareholder's value.