



Dr. Fu Yuning
Chairman

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Chairman's Statement

It gives me great pleasure to present the Group's annual report and audited financial statements for the year ended 31 December 2005.

During the year under review, the Group has effectively completed its strategic positioning of its port investments it has established along the coastline of Mainland China. Stemmed from this solid operation platform, the Group has strived to implement centralised operational control over, and align strategies for, the ports assets in which the Group is interested with a view to optimising the impact of scale expansion and to creating synergy values therefrom. In addition, through the refinement of its marine logistics infrastructure resources, the Group has established a fully-integrated and customer-oriented marine logistics capability that centres around ports and terminals and that offers cost-efficient and value-enhancing services to its marine-logistics customers. This capability has helped to successfully anchored its port-based logistics business.

New assets added to the Group's ports portfolio during the year have immediately increased its handling capacity, further reflecting the Group's strategy to adhere to ports operations as its core business. Driven by the strong growth shown by both the ports and ports-related operations, the Group has achieved excellent operating results, evidencing yet another year of record performance.

Operating results

For the year ended 31 December, 2005, the Group recorded a profit attributable to shareholders of HK\$2,364 million, representing an increase of 15.1% over that of last year. Excluding one-off gains (net of tax)

of HK\$224 million from the disposal of PPG Coatings (Hong Kong) Co., Ltd ("PPG"), DiChain Holding Limited ("DiChain") and CMF Technology Fund I Limited ("CMF Technology Fund") and from property revaluation for the year, the Group's recurrent profit amounted to HK\$2,140 million, representing an increase of 30.2% over the corresponding figure of HK\$1,644 million (excluding operating profit and gain on disposal from discontinued operation) for the previous year. The Group's basic earnings per share for the year were 107.94 HK cents, an increase of 12.5% over that of the same period last year.

Turnover of the Group (including share of turnover of its associates and jointly controlled entities) rose 33.7% from HK\$10,610 million last year to HK\$14,186 million in 2005.

Dividends

To reward shareholders for the strong support they have constantly shown, the Board of Directors have recommended the payment of a final scrip dividend for the year ended 31 December 2005 of 33 HK cents per share (2004: 30 HK cents), payable on or around 5 July 2006 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2006 Annual General Meeting, with an alternative to the shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2006 Annual General Meeting, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 8 June 2006. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to shareholders on or around 5 July 2006.

Review of the year

During the year under review, the economy of the PRC has continued to exhibit a trend of rapid growth with industry-specific macro-economic measures adopted and strategically implemented by the PRC Government having effectively stabilised the economy for long term sustainable growth. According to the census by the National Statistics Bureau of China, Mainland China's GDP in 2005 grew 9.9% in constant prices terms, staying close to the 10% annual growth seen for three consecutive years since 2003. Sustainable economic growth in the PRC and continuing globalisation, which combined have caused flows and exchanges in business and trading activities to increasingly intensify, have benefited the Group's business. Its core ports operations grew satisfactorily in 2005, as reflected in all key performance indicators achieved by this sector.

In 2005, the growth momentum of the core ports business sustained from the previous year has further strengthened. EBIT (Earnings before interest and tax, unallocated income less expenses, profit from discontinued operation and minority interest, if

applicable, ("Adjusted Earnings") for the Company and its subsidiaries, and its share of Adjusted Earnings of associates and jointly controlled entities) contributed from the ports operations increased by 71% over that of last year.

EBIT	2005 HK\$'million	2004 HK\$'million	Changes
Ports operations	1,888	1,104	71.0%
Ports-related operations	902	752	19.9%
Other operations	343	157	118.5%
Total	3,133	2,013	55.6%

The container throughput handled by the terminals in Mainland China and Hong Kong in which the Group is interested has maintained its double-digit growth, totaling 24.49 million TEUs, an increase of approximately 92% over the corresponding figure for 2005. Of this volume, that handled by the Group's terminals in Shenzhen grew by nearly 19% year-on-year. Together with that handled by Shanghai International Ports (Group) Company Limited ("SIPG") in the second half of 2005, the container throughput handled by the Group's terminals in Mainland China amounted to 18.12 million TEUs, an increase of 154% when compared with the same a year ago. In addition, the container terminals in Hong Kong in which the Group is interested have handled a total of 6.38 million TEUs, which was nearly 14% more than that of last year and was higher than the Hong Kong market's average. Fueled by the strong market demand, the Group's container manufacturing and other ports-related operations have all recorded sustainable and significant growth in their operations, the EBIT contribution from which rose 19.9% from that of last year.

The Group has during the year under review put significant efforts in streamlining its business structure with a view to further enhancing its operational efficiency. Continuous divestment of its non-core businesses has further sharpened the Group's focus on ports operations as its core business. In addition, the Group has, through consolidation of equity interests, integration of business mix or implementation of various internal control initiatives, reinforced its overall operational control over the projects in which it has either management or equity control. For projects in which it has minority interests, the Group has, as appropriate and to the extent possible, adopted and/or applied suitable measures to align the interests of the respective shareholders of these projects with a view to ensuring that the Group's interests in these projects are appropriately reflected, thereby further consolidating the Group's position in attaining better control in its ports operations.

The bonded logistics parks business has also made substantial progress in 2005. The Group always regards these parks to be a principal component in the logistics service chain. Besides, it firmly believes that the operation of the parks is auxiliary to, and is a key driver that will enhance the overall competitiveness of its ports operations. These parks have been designed and developed in accordance with the Group's overall development strategies and specification for its ports and terminals operations such that their functions connect with those of the terminals, this ensures that the Group's ports-logistics chain of capabilities in each location offers comprehensive and value-adding services to its customers. The Group maintains that these bonded logistics parks form a solid platform that supplements its entire marine logistics chain, with which the Group is now able to offer its customers

ports logistics services that is extensive and integrated. The Group expects the supportive effect from the operation of these bonded logistics parks to become more evident in 2006.

Future prospects

Leading research organisations in the world generally hold the belief that global economic growth in 2006 will remain largely the same as that for 2005. As much as the world economy and international trade could potentially be threatened by factors such as high oil prices, possible property bubble in the United States, uneven development pace in international trade, and possible outbreak of avian flu, and so on, the Board is of the view that there will unlikely be any material change in the fundamental economic factors which could have an impact on the world economy. In Asia from which the Group operates, the regional economy is expected to continue to be driven by the robust export activities and grow at a relatively rapid but steady pace. Against this stable external environment, therefore, the Board expects the PRC to likely see its economy expand rapidly in the light of the country's economic scale already established, further fueled by a strong and continuing domestic demand. All in all, the Group remains optimistic towards the outlook for Mainland China in 2006.

This coming year will be the first year in which the Group maps its ports business across all major economic regions in the PRC. To support the expansion of its ports network in a co-ordinated manner, the Group will continue to devote its efforts towards consolidating existing resources through, among other things, streamlining its businesses and enhancing the value of its network. Based on the



strategic positioning along the coastline of the PRC already anchored, the Group will work towards further raising the operational capacity of new berths. By means of consolidating and securing relationships with its customer groups, the Group aims to enhance the operational efficiency for existing assets as well as to capture the organic growth from new berths, thereby optimising the benefits to be drawn from an expanding capacity scale. Whilst the external market environment in which it operates may change from time to time, the Group will endeavour to maintain a rapidly growing and sustainable recurrent profitability by mobilising its competitive edges in market knowledge and in technical innovation, and by adopting a proactive approach in its operations alongside emphasis on market development and operational cost control.

Looking ahead, I believe that the fast-expanding economy attained by the PRC as well as the rapid growth of its international export-import trade will continue to support and facilitate the future development of the Group's core ports business. The Group will therefore leverage on its competitive advantages in the already-established network resources, prudent development strategies, extensive

development and operational experiences in ports, and the continuously improving ability in ports management to keep on increasing its production efficiency and operation effectiveness, which will collectively result in delivering better investment return to its shareholders.

Investor relations

The Group always places high emphasis on its relations with the investment community. It clearly understands the importance to keep shareholders communicated promptly and seamlessly on all corporate developments, including the Group's goal of enhancing its business values and, in turn, optimising return to shareholders. Through multiple channels of communications and releases, including but not limited to media, internet and roadshows, or by complying with corporate governance principles or providing feedbacks on issues of concern where appropriate, the Group has kept and intends to keep shareholders informed at all times of its business progress. The Group would like to assure shareholders that it will continue to pursue an effective communication with all investors so as to ensure an





increasing level of transparency in return for investors' understanding and recognition of the Group.

Smooth investor relations and open channels of communication do not only help to disseminate the Group's information more fully and timely to the public, but also facilitate investors in acquiring a thorough understanding about the intrinsic value of the Group. During the year under review, the stock of the Company has recorded significant appreciation in value, which reflects the recognition and endorsement by the investment community towards the Group's performance.

Credit rating

The Group's credit ratings by Standard & Poor's and Moody's are presently maintained at BBB and Baa2 respectively.

Appreciation

I am very pleased with the results achieved by the Group in 2005, with which the Group enters into a new development phase in 2006 when it sees its businesses begin to operate across all regions in the PRC. The Group expects to have its internal resources further

streamlined. Together with all my staff, I pledge to continue to adopt, as before, a prudent and practical approach to our businesses. With an efficient working attitude and operating within the framework acceptable by the market, we will devote our full efforts towards optimising the interests of our shareholders.

The Group's successful expansion and growth its proactive approach during the year under review were a combined result of the hard work of our staff and support from parties to whom the Group is related or with whom the Group works. I would like to take this opportunity to express my sincere appreciation to our shareholders and the public at large for their understanding and support. In addition, let me send my heart-felt gratitude to all my fellow directors and all staff members of the Group for their dedication and their outstanding performance, without which the Group would not have become what it is today.

Dr. Fu Yuning
Chairman

Hong Kong, 3 April 2006