

## CHAIRMAN'S STATEMENT

In 2006, not only has the Group achieved satisfactory operating results, it has also integrated and re-aligned the equity interests of certain key assets in the Western Shenzhen Ports Zone, thereby establishing a solid base from which for the Group to operate in the years to come.

Intensifying its efforts in market development would help the Group realize, over time, the synergistic benefits expected to derive from integrating assets and optimizing operational leverage.

I firmly believe that, in 2007, with its port assets having fully panned out in all major economic zones in China, the Group will continue to grow at a rapid, steady pace from the solid foundation already established, fueled by China's strong economic momentum.

Together with all our staff, I will, through adhering to the already-adopted prudent, pragmatic and result-oriented approach and complying with market principles, continue to fully devote our efforts towards optimizing the interests of our shareholders.



Dr. Fu Yuning

I hereby present the Group's 2006 annual report and audited financial statements for the year ended 31 December 2006.

2006 marked a year of break-through and innovation insofar as the Group's corporate development is concerned. During the year under review, the Group has completed or agreed to complete a series of important transactions, including the acquisition of lands both at or behind the shore-line area of terminals at the Western Shenzhen Ports Zone, the acquisition of equity stakes in port assets held by Nanyou Group, and the re-alignment of equity interests among shareholders in Phases I, II and III of Shekou Container Terminal. Not only have these transactions enabled meaningful and significant progress to be made in the Group's efforts towards integrating its ports assets in Western Shenzhen. The completion of these transactions has also advantaged and strengthened the Group's positioning, which is essential for the Group in seeking further integration or development of its existing business or in pursuing further expansion. In addition, the Group has, in accordance with the planned development schedule,

successively launched and put to service a number of new berths and enhanced or upgraded certain ports-related ancillary service functions - all of which helped to continue to enhance the capability and competitiveness of the Group's core port operation. Following the official launch of its terminal project in Qingdao, the Group has, for the first time in its corporate history, its ports operation presence firmly and fully established in all of the four key economic zones in China.

In the year of 2006, the Group has devoted most of its efforts towards consolidating the equity interests in the Western Shenzhen Ports Zone and raising the capabilities of the different terminals it operates through co-ordinating the use between different ports assets. At the same time, at the headquarter level, the Group has also stepped up its operational and internal control measures for, and reinforced its guidance on matters of strategic issues to, various investee companies. In addition, the Group seeks to supplement the services offered by its ports with those to be offered by the ports-related logistics parks currently under construction in Shenzhen and Qingdao

with a view to achieving an enhanced level of customer satisfaction. The Group expects that such extended and integrated range of services will enable the Group to foster a closer and mutually beneficial relationship between terminals and customers. Having promptly made a series of significant and strategic investments within the last few years, to ensure the operational leverage of both existing and new ports assets continues to improve has become a key task of the Group. I am of the view that 2006 has been a year for the Group to have streamlined and enhanced the allocation of its resources, from which a solid foundation for its core businesses has been established.

### Operating results

In 2006, the Group recorded a recurrent profit of HK\$2,621 million, representing an increase of 22.5% over the corresponding figure of HK\$2,140 million in the previous year. The Group's basic earnings per share for the year under review were 109.43 HK cents, an increase of 1.4% over that of the last year.

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Turnover of the Group amounted to HK\$4,365 million and, when the share of the turnover of its associates and jointly controlled entities was included, to HK\$18,037 million, an increase of respectively 46.9% and 27.1% over the corresponding figures for the previous year.

### Dividends

To reward shareholders for the strong support they have constantly given to the Group, the Board of Directors have resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 36 HK cents which, together with an interim dividend of 17 HK cents, will give a total dividend of 53 HK cents for the whole year (pay-out ratio of 48.62%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 4 July 2007 to shareholders whose names appear on the register of members of the Company as at 25 May 2007.

### Review for the year

According to economic data released by the State Statistics Bureau of China, the GDP of Mainland China in 2006 amounted to RMB20,940.7 billion, a

growth of 10.7% over the corresponding figure for the previous year. Being the world's fourth largest economy, China has, for the fourth consecutive year, surpassed the 10% annual growth rate benchmark in 2006. Fixed assets investments and foreign trade totals have become the major forces in stimulating the economy and driving its rapid growth. Benefiting from China's continuing economic growth and the trends of globalization in world trade, the Group's core ports operations have in 2006 gathered strong momentum and have displayed encouraging growth in many performance indices.

For the year under review, the Group's business operation has continued its rapid growth with profits from the core segment of ports operations increased by 41.7% over that of the previous year. Container throughputs handled by the ports in Mainland China and Hong Kong which the Group invests in and/or manages totalled 40.24 million TEUs, an increase of approximately 64% over the corresponding figure last year. The throughputs handled by the Group's ports in respectively Mainland China and Hong Kong were approximately 33.5 million TEUs and 6.74 million TEUs,

representing increases of approximately 85% and 6% over the respective figures for last year. The Group's bulk cargo handling business has also recorded satisfactory growth. Also taking into account that handled by Shanghai International Port (Group) Co., Ltd. ("SIPG"), the Group handled a total of approximately 149 million tons of bulk cargo, an increase of 69% over that of the previous year. Fueled by the strong market demand revived during the second half of 2006, the Group's ports-related operations, inclusive of container box manufacturing, have demonstrated noticeable growth with profits contributed by this segment for the whole year rose 7.9% when compared to the corresponding figure of last year (excluding PPG's profit contribution).

During the year, through streamlining and integrating the Group's resources and reinforcing governance and control systems, the Group has effectively enhanced its competitive advantage, both at regional level as well as for the Group as a whole. Intensifying communications and exchanges with partners has also helped the Group to exert an appropriate level of influence to investee companies not controlled by the



Group. I firmly believe that along with the further pursuance in consolidating both equity and business interests in the investee companies and the enhancement of the Group's ability to govern and control will come the growth and sustainability of the Group's ports business for the long term.

In 2006, the Group continued its efforts to establish the two bonded logistic parks in respectively Shenzhen and Qingdao. These logistics parks, designed and constructed to fit in with the Group's overall development plans for port facilities thus ensuring that these two types of assets combined offer flawlessly integrated and value-adding services to customers, are an integral part of an

extended marine logistics service chain that collaborates with, and supplements the services provided by, the Groups' ports operations. Leveraging on the capabilities of these parks enables the Group to enhance its overall competitiveness in offering total marine logistics services. Response from logistics operators or shipping companies to the services offered by the Group's logistics parks has been encouraging, evidencing an initial realization of the impact of these parks on the ports operations. Occupancy rates for these logistics parks have so far been satisfactory, thus creating sufficient momentum with which to facilitate expanded capability of the Group's ports operations.

### Future prospects

An assessment of the prevailing environment, the Group maintains, suggests that China's economy and foreign trade still tread on strong momentum with little or no factors which may negatively impact the global economy being envisaged. The possibility of the US economy slowing down as suggested by certain recently-released economic data is likely to be off-set by an apparent weakening in the risk of oil price rising further. With economic recovery continued to be detected in the Euro zones and in Japan, it is expected that the growth of Asian region where the Group is located will continue rapidly, driven by import demand from Europe, U.S. and Japan. At the same time, the

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Group expects China's economy to grow steadily and healthily, assured by a series of adjustment and control measures implemented from time to time by Mainland China that would lead to a more balanced trend between China's export and import trades. The Group is, therefore, optimistic about the overall situation in 2007 and confident of the growth prospects of the Group's operations.

In 2007, the Group will continue to focus its efforts in further integrating its ports operation, optimizing its resources, and enhancing the capabilities of its logistics functions. In addition, the Group will implement business development strategies formulated through centrally-co-ordinated marketing campaigns aimed towards promoting the Group's capabilities and cementing customer relationship. Attention will be paid to continually seeking improvements internally, including technical innovations and cost reductions, with a view to enhancing the overall competence of the Group's ports in each respective region. Operating in the current competitive environment in

which opportunities and challenges co-exist, the Group intends to strengthen its market research capabilities with a view to tracking and analysing movements in both macro- and micro- environment, from which to assist the Group to identify opportunities and threats and to position accordingly. The Group also places significant emphasis on maintaining a close and smooth working relationship with its strategic partners and on identifying suitable investment and/or co-operation opportunities. Leveraging on its experience in managing a significant portfolio of ports and on the market position it now possesses, the Group's on-going goal is to optimise profitability and return on assets through efficient and effective utilization of its resources.

China is expected to evidence continuing economic expansion and rapid growth of foreign trade which, in turn, will offer significant and long-term momentum to drive the development of the marine logistics industry evolving around ports. With its ports assets situated at the strategic locations of the China hinterland, the Group expects its core ports operation to continue to benefit

from the momentum so established. The Group maintains that it is equipped and is able to fully capture opportunities for development, and will continue to deliver satisfactory investment return to its shareholders.

### Investor relations

The Group has always placed great emphasis on investor relations, endeavouring to optimize, at all times, corporate value and, in turn, shareholders' interests. The Group seeks to enhance investors' understanding of its business and is fully committed to ensure flawless and prompt communications between investors and the Group's management through all accessible media channels, including newspapers and magazines, electronic circuits, roadshows, etc. By working within the principles of corporate governance, the Group feeds information timely to enquiring or relevant parties on matters relating to the Group's operation and management with a view to delivering as much as practicably possible a high level of transparency.

### Credit rating

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

### Appreciation

In 2006, not only has the Group achieved satisfactory operating results, it has also integrated and re-aligned the equity interests of certain key assets in the Western Shenzhen Ports Zone, thereby establishing a solid operational base from which for the Group to operate in the years to come. Intensifying its efforts in market development would help the Group realize, over time, the synergistic benefits expected to derive from integrating assets and optimizing operational leverage. I firmly believe that, in 2007, with its port assets having fully panned out in all major economic zones in China, the Group will continue to grow at a rapid and steady pace from the solid foundation already established, fueled by China's strong economic momentum. Together with all our staff, I will, through adhering to the already-adopted prudent, pragmatic and result-oriented approach and complying with market principles, continue to fully devote our efforts towards optimizing the interests of our shareholders.

The remarkable progress achieved by the Group thus far was a combined result of China's booming economic development of China, and the hard work and commitment displayed by all our staff and the support from parties to whom the Group is related. I would like to take this opportunity to express my sincere appreciation to our shareholders and all parties concerned for their support and care. In addition, let me send my heartfelt gratitude to my fellow directors and all staff members of the Group for their dedication and outstanding performance.

**Dr. Fu Yuning**

*Chairman*

Hong Kong, 12 April 2007





Operational Leverage  
and Asset Integration  
...Key to Sustainable  
Profitability