# 2008 Annual Report

## 廈門國際港務股份有限公司
## XIAMEN INTERNATIONAL PORT CO., LTD*

Stock Code: 3378

The largest port terminal operator in Xiamen


* For identification only


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# Contents

# Corporate Information

## Executive Directors[1]
ZHENG Yongen *(Chairman)*[2]
CHEN Dingyu[3]
FANG Yao
HUANG Zirong
HONG Lijuan[4]

## Non-executive Directors[1]
FU Chengjing*
MIAO Luping
LIN Kaibiao
KE Dong

## Independent Non-executive Directors[1]
HUANG Shizhong*
ZHEN Hong*
HUI Wang Chuen

* Members of the Audit Committee[5]

## Supervisors[1]
FANG Zuhui[6]
LUO Jianzhong
WU Jianliang
WU Weijian[7]
TANG Jinmu
HE Shaoping

## Company Secretary[8]
HONG Lijuan

## Qualified Accountant
ZHANG Yibing ACCA

## Authorised Representatives
FANG Yao
HONG Lijuan

## Registered Office
No. 127 Dongdu Road
Xiamen, Fujian Province, the PRC

## Principal Place of Business in Hong Kong
8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## Auditors
*International auditors:*
PricewaterhouseCoopers
Certified Public Accountants

*PRC auditors:*
PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Limited Company

## Legal Advisers
*as to Hong Kong law:*
Vincent T. K. Cheung, Yap & Co.
(from 26 February 2008)

*as to PRC law:*
King & Wood

## Principal Bankers
Industrial & Commercial Bank of China
China Construction Bank
Communications Bank of China
Bank of China
China Merchants Bank

## Hong Kong H Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Stock Code on the Main Board of The Stock Exchange of Hong Kong Limited
3378

## Listing Date
19 December 2005

Notes:

1 As at 29 February 2008, all the Executive Directors, Non-executive Directors and Independent Non-executive Directors of the first session of the Board of the Company were re-elected and appointed as the Directors of the second session of the Board of the Company. On the same day, all members of the first session of the Supervisory Committee of the Company were re-elected and appointed as the Supervisors of the second session of the Supervisory Committee of the Company.

2 Mr. ZHENG Yongen was appointed as the Chairman of the second session of the Board of the Company on 29 February 2008.

3 Mr. CHEN Dingyu was appointed as the deputy Chairman of the second session of the Board of the Company on 29 February 2008.

4 Ms. HONG Lijuan was appointed as the Secretary of the Board to the second session of the Board of the Company on 29 February 2008.

5 All members of the Audit Committee of the Company were re-elected and appointed as the members of the second session of the Audit Committee of the Company on 29 February 2008.

6 Mr. FANG Zuhui was appointed as the Chairman of the second session of the Supervisory Committee of the Company on 29 February 2008.

7 Mr. WU Weijian was newly elected as a Staff Representative Supervisor of the second session of the Supervisory Committee at the Staff Representative Meeting of the Company held on 23 October 2008.

8 Ms. HONG Lijuan, one of the joint company secretaries of the Company, met the requirements of a Company Secretary under Rule 8.17(3) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") upon confirmation from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Pursuant to the resolution passed at the sixth meeting of the second session of the Board of the Company on 16 December 2008, Ms. HONG Lijuan served as the sole Company Secretary of the Company with effect from 18 December 2008. As such, Mr. NGAI Wai Fung resigned as one of the joint Company Secretaries of the Company with effect from 18 December 2008.

# Corporate Profile

Xiamen International Port Co., Ltd. ("Xiamen Port Co." or the "Company") and its subsidiaries (collectively referred to as the "Group") is the largest port terminal operator in Xiamen, the People's Republic of China (the "PRC" or "China"). It is also the only company providing full scale ancillary value-added port services in Xiamen. The Group is principally engaged in container loading and unloading and storage for international and domestic trade, bulk/general cargo loading and unloading and storage and ancillary value-added port services, including port-related logistics, tugboat services, shipping agency and tallying as well as the manufacturing, processing and selling of building materials and the trading of industrial products in Xiamen. The Group currently operates three international container terminals, namely the Haitian Container Terminal, Xiamen International Container Terminal ("XICT") and Hairun Terminal and the Dongdu terminal, a terminal which provides container loading and unloading in respect of domestic trade and bulk/general cargo loading and unloading in respect of both international and domestic trade. The Group currently operates an aggregate of 16 berths, among which, the completed marine structure terminal of berth No. 1 of Haicang port area of the Group has been under operations unification with XICT since 1 September 2008. The aforesaid terminals are capable of accommodating the largest container vessels of the world. Shipping routes have been developed from the container terminals to Europe, United States, the Mediterranean, Australia, Southeast Asia and Japan. The container terminals are also connected to major domestic shipping routes.

The Group currently operates three international container terminals, namely the Haitian Container Terminal, Xiamen International Container Terminal and Hairun Terminal and the Dongdu terminal, a terminal which provides container loading and unloading in respect of domestic trade and bulk/ general cargo loading and unloading in respect of both international and domestic trade.



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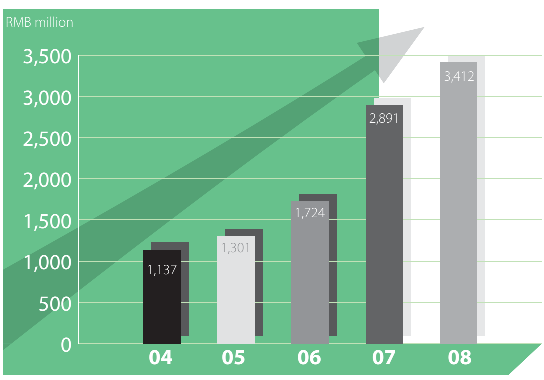
# Financial Highlights

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004<br>RMB'000 | 2005<br>RMB'000 | 2006<br>RMB'000 | 2007<br>RMB'000 | **2008**<br>**RMB'000** |
| Revenues | 1,136,923 | 1,300,586 | 1,724,361 | 2,890,969 | **3,411,524** |
| Gross profit | 508,665 | 555,673 | 606,945 | 640,570 | **611,518** |
| Operating profit | 387,676 | 425,875 | 493,014 | 548,218 | **506,146** |
| Profit before income tax expense | 365,237 | 415,202 | 504,588 | 563,207 | **502,067** |
| Profit for the year | 293,511 | 343,793 | 410,600 | 506,575 | **474,259** |
| Profit attributable to equity holders of the Company | 232,712 | 243,554 | 280,985 | 374,417 | **376,659** |
| Earnings per share for profit attributable to the equity holders of the Company during the year — Basic and diluted (in RMB cents) | 12.89 | 13.33 | 10.31 | 13.73 | **13.82** |

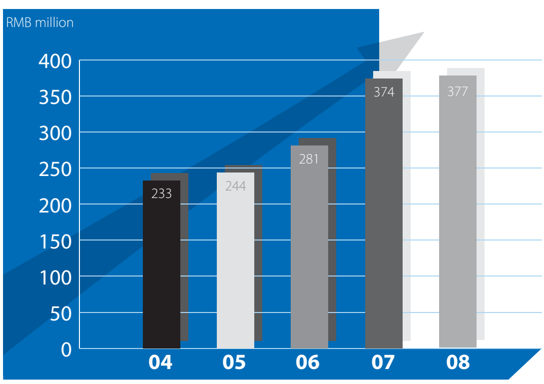
## Revenues

Year ended 31 December




## Profit Attributable to Equity Holders of the Company

Year ended 31 December

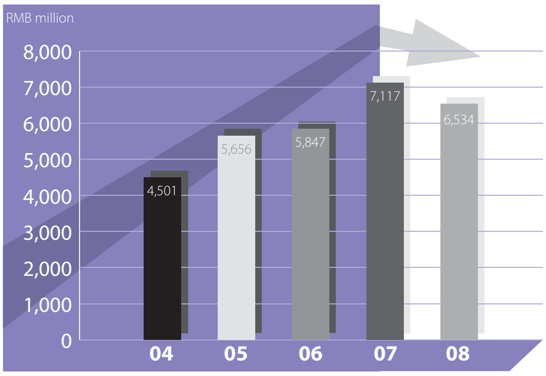


| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Total assets | 4,500,540 | 5,655,773 | 5,847,266 | 7,116,875 | **6,534,122** |
| Equity attributable to the Company's equity holders | 1,577,087 | 2,855,795 | 3,311,644 | 3,602,147 | **3,743,916** |
| Total liabilities | 2,268,825 | 2,075,702 | 1,729,495 | 2,633,915 | **1,870,399** |
| Cash and cash equivalents | 482,847 | 1,099,589 | 594,687 | 1,001,285 | **844,665** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Current ratio (times) | 1.31 | 1.77 | 1.84 | 1.36 | **1.52** |
| Net debt to equity (%) | 35.06 | (4.6) | 0.06 | 0.13 | **(4.03)** |
| Inventory turnover days | 40 | 37 | 40 | 42 | **34** |
| Accounts receivable turnover days | 110 | 99 | 96 | 62 | **55** |

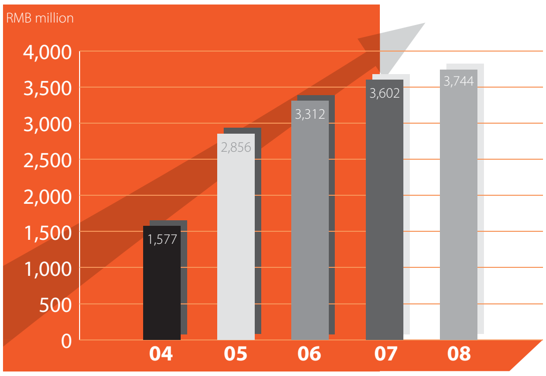
## Total Assets

As at 31 December




## Equity Attributable to the Company's Equity Holders

As at 31 December



# Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2008.

ZHENG Yongen | Chairman

# Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2008.

In 2008, the international financial crisis arising from the US sub-prime mortgage loan crisis rapidly spread over the real economies; China's economic growth has slowed down, foreign trade and the demand for port services were also dampened gradually. In face of such a challenging economic environment, the Group has deployed its resources in a flexible manner and capitalized on its competitive edges in terms of operation scale and integrated logistics services in a bid to develop the core port business, enhance its capital operation and strengthen its refined management. With the consistent and effective implementation of various measures, the Group managed to maintain steady growth in 2008.

For the year ended 31 December 2008, the revenue of Xiamen Port Co. was approximately RMB3,411,524,000, which increased by approximately 18.0% over the previous year; the profit after tax of Xiamen Port Co. was approximately RMB474,259,000, which decreased by approximately 6.4% over the previous year; and the profit attributable to equity holders of the Company was approximately RMB376,659,000 which increased by approximately 0.6% over the previous year . Earnings per share for 2008 was RMB13.82 cents.

The Board of directors (the "Board") recommended the payment of a final dividend of RMB5.5 cents per share, amounting to a total dividend of RMB149,941,000, in line with the dividend payout ratio indicated in the prospectus of the Company dated 6 December 2005.

In 2008, the Group has continued to implement its overall sales and marketing strategy in response to changes in global economic situations by innovating sales and marketing strategies, developing hinterland and nurturing new business growth segments, which drove the development of the Group's core port business. Firstly, the Group leveraged on the opportunities brought by the launch of the Customs' International Transit System Version 3.0 and the Lighterage Transfer System, and by capturing the trend of growth in domestic demand, the Group with full force set in motion the developments in respect of its international container transshipment business, domestic route business and domestic trade container business, which were for the development of "Costal Hinterland". The international container transshipment business and domestic trade container business grew by 2.6% and 22.6% respectively when compared with the corresponding period of last year. Secondly, the Group has innovated its services in a flexible manner to cater to customers' demands and provided its core customers with refined services. For instance, VIP service windows were formed jointly by terminals and shipping agencies. Thirdly, the Group has strengthened its strategic alliance with large integrated logistics service providers, and targeting at the cargo market, the Group sought for suitable cargo sources, increased the proportion of loaded container business and the income from every container. Fourthly, the Group has enhanced its capability of providing value-added services, and developed "Continental Hinterland". The sea-rail joint transportation container business which the Group has actively promoted achieved breakthrough in both terms of turnover and the expansion of business network after overcoming negative effects brought on by the snow storm in the beginning of 2008. The business model in the Bonded Logistics Park has been innovated on an on-going basis. Major businesses such as "One Day Clearance" grew rapidly and the bonded logistics warehouse business inside the Park achieved increasingly remarkable performance. During the period under review, the container and bulk/general cargos handled by the Group increased continuously to approximately 2.779 million Twenty-foot Equivalent Units ("TEUs"), and 4.820 million tonnes respectively (in which the throughput of the aforesaid businesses of XICT were included on a 51% basis). The Group maintained its market leadership position in Xiamen City and Fujian Province by capturing 64.5% and 43.73% respectively of the total containers handled in Xiamen City and Fujian Province.

# Chairman's Statement

During the year, the Group strived to step up resource integration in related terminals in Haicang port, so as to enhance the utilization efficiency of terminal assets. According to the relevant agreements entered into before the listing of the Group, the Company has officially transferred to Xiamen Haicang International Container Terminals Ltd. ("XHICT") the ownership of the terminal marine work of No.1 berth in Haicang port during the year, and has completed the relevant assets transfer procedures. Meanwhile, under the coordination of the Company, No.1 berth in Haicang port and No.2 and No.3 berths in Haicang port formally implemented unified operations and management since September 2008. Through the said capital operation, No.1 berth in Haicang port can commence operation in a timely manner, and the overall operation capability of No.1 berth in Haicang port and No.2 and No.3 berths in Haicang port was improved while the operating cost of these terminals was reduced.

The Group continued to advance corporate governance and refined management. During the year, the Company completed the election of the new sessions of the Board of Directors, the Supervisory Committee and the three specialized committees under the Board of Directors and also handled the succession of senior management staff in accordance with applicable procedures. The Group also improved corporate governance by amending the articles of association (the "Articles") of the Company in accordance with the relevant requirements of the Company Law of the People's Republic of China ("the Company Law") implemented since 1 January 2006. In view of the challenging economic environment brought on by the global financial crisis, the Company strived to carry forward reforms on the mechanism of remunerations and performance management while strengthening risk control. During the year, the Company improved relevant systems such as the wage management and staff performance appraisal systems

pursuant to the relevant procedures, and has began implementing enterprise annuity system in compliance with the relevant regulations of the government, so as to improve the staff pension insurance system. The Company took into consideration of its account receivables and concerns of its Audit Committee and auditors and inspected, tracked or tested the related internal control work. The Company further regulated the risk control processes in relation to new share subscription and capital management, and stepped up efforts in comprehensive budget management. In respect of equipment management, the energy saving and consumption controlling project on which the Company has focused has yielded fruitful results. During the year, the Group has implemented the technological transformation of "the electrification of fossil fuel systems" for 24 Rubber-tyred Gantry Cranes (RTG) used for handling containers in its Haitian Terminal and Dongdu Terminal, and the energy save rate had reached 54%–60% after the transformation, which helped save fuel cost by 2/3. The project was therefore listed as a pivotal transformation project on energy saving in Fujian Province in 2008 and was awarded financially by the Fujian Province. Due to its achievement in energy saving, the Company was commended and accredited as one of the "Ten Best Energy Saving Advanced Entities in Xiamen in 2008" by the Xiamen Municipal Government .

It is expected that global economy will still be in the recessions in 2009, but China may be the first to recover from this financial crisis. According to the forecast of the Chinese government and relevant departments, the national economic growth of China will be approximately 8% in 2009 and China should maintain continuous growth in its economy and foreign trade. With Chinese government's implementation of macroeconomic policies targeting at "maintaining economic growth, boosting domestic demand and adjusting structures" together with the fostering of economic and trade exchanges after the establishment of "Three Direct Links" across the Taiwan Straits, we expect that the overall economy of the Economic Zone on the Western Coast of the Taiwan Straits, including Fujian Province and Xiamen City, and its demand for port services will gradually rebound. However, as the construction of other terminals in Xiamen port becomes complete and commence operation, and with port businesses being affected by the cyclical downturn of the global economy and the shipping industry, port operators may face numerous challenges in their operation.

Looking ahead, for the purposes of the sustainable development and maximizing the overall interests of shareholders, we will continue to enhance corporate governance and enforce risks management in such areas such as business, finance and investment. Also, we will improve our refined management and comprehensive budgeting system, strengthen revenue generation and minimize expenditure and to adhere to energy saving schemes for maximizing the effect of cost control. At the same time, the Group enhances the overall sales performance by proactively exploring the business, speeding up the optimization of the business network, enforcing the cooperation with strategic partners and utilizing our advantages in operational scale and integrated logistics service, in order to maintain and solidify the Group's leading position in respect of port container loading and unloading service and related supporting value-added services . Also, we will upgrade our port technologies and services to offer customers with greater quality and comprehensive services in a timely manner. In doing so, the growth of the Group's results will be supported strongly, and with our strong efforts to enhance operational effectiveness and corporate value, we aim to realize the maximum returns for our shareholders.

On behalf of the Board, I would like to take this chance to express my sincere appreciation for the supports of all the shareholders and the diligence of the staff of the Group in such a significant year. 2009 will be a year of both opportunities and challenges. I am confident that the Group will reach a new height with the combined efforts of all the staff and the great supports of all the shareholders.

**ZHENG Yongen**
*Chairman*

Xiamen, the PRC
17 April 2009

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

### A slowdown of the China's container trade

In 2008, the international financial crisis arising from the US subprime mortgage loan crisis quickly spread over real economies. Primarily under the effects of the crisis, the economic growth of the PRC was gradually turning downwards, with the growth in import and export of foreign trades decreasing. According to the relevant information released by the National Bureau of Statistics of the PRC, the total import and export volume of goods for the PRC in 2008 increased by 17.8% to approximately USD2,561.6 billion, of which the growth was approximately 5.7% lower than that of 23.5% in 2007. Out of this amount, exports increased by 17.2% to approximately USD1,428.5 billion whereas imports increased by 18.5% to approximately USD1,133.1 billion. The trade surplus (exports less imports) of the year was USD295.4 billion in aggregate. The growth of foreign trade for the first time fell to less than 20% since the PRC joined the World Trade Organisation. Likewise, in 2008, although China's port cargo and container throughputs ranked first in the world for six consecutive years, its container port recorded a throughput of 128.35 million TEUs, only representing a growth of approximately 12.2%, which was approximately 9.3% less than that of 21.5% in 2007.

### Foreign trade of Fujian and Ports in Xiamen

With gradual emerging of early positive effects brought on by the Economic Zone on the Western Coast of the Taiwan Straits, the economic growth in Fujian Province generally showed a momentum of continuous development. However, due to the international financial crisis, external demand decreased substantially. Based on the data provided by Fujian Provincial Government, the gross domestic product of Fujian Province in 2008 amounted to approximately RMB1,082.3 billion, increased by 13.0% over last year. The total value of exports and imports of foreign trade was approximately USD84.83 billion, representing a year-on-year growth of 13.9%. The growth of two indices has decreased. Cargo throughput accounted for 274 million tonnes, an increase of 14.8% over last year, while container throughput reached 7.425 million TEUs, representing an increase of 8.2% only, of which the growth of container throughput was approximately 8.4% less than that of 16.6% in 2007.



In 2008, with a total container throughput of 5.035 million TEUs, Xiamen Port's position in the international shipping network was further improved. It ranked, for the first time, in the Top 20 Global Container Ports as the 19th place in the world and remained in the 7th place in terms of container throughput of the PRC ports, accounting for approximately 67.8% of total container throughput in Fujian Province, which basically maintained the same market share of last year. However, due to the impact of the international financial storm over the global port development and the weakening of the international shipping market, the container throughput of Xiamen Port in 2008 only increased by approximately 8.8% over of that in 2007 while the growth of the same deceased by approximately 6.5% over that of 15.3% in 2007.

## BUSINESS REVIEW

For the year ended 31 December 2008, the Group engaged in port terminal operations including container ports operation, bulk/general cargo ports operation and ancillary value-added port services in the terminals at the Dongdu and Haicang port areas in Xiamen. In addition, the Group also operated the manufacturing, processing and selling of building materials as well as the trading of industrial products (such as chemical products and steel).

## Scale of operations

For the year ended 31 December 2008, the Group operated four terminals with a total of 16 berths for international and domestic containers and bulk/general cargos, with a total berth length of approximately 3,761 metres and a depth alongside ranging from 9.9 metres to 17.5 metres. At the same time, the Group had large area of warehousing facilities inside and outside the terminal areas.

Of which, the Group operated three international container terminals, namely, the Haitian Terminal with seven berths (Dongdu berths No. 5 to No. 11) in the Dongdu port area, the XICT with two berths (Haicang berths No. 2 and No. 3) in the Haicang port area and the Hairun Terminal with two berths (Haicang berths No. 4 and No. 5) in the same Haicang port area. The Group also owned berth No. 1 in the Haicang port area, which is under construction and is able to accommodate vessels of up to 100,000 dwt and a carrying capacity of 12,000 TEUs. The berth marine structure engineering work of berth No.1 was completed and has commenced its operations in unification with XICT since September 2008, which further enhanced the Group's container throughput and competitiveness.

In addition, the Group also operated the Dongdu Terminal with four berths (Dongdu berths No. 1 to No. 4) in the Dongdu port area for bulk/general cargo loading and unloading in respect of both international and domestic trade and container loading and unloading in respect of domestic trade.

## Container port business

During the year under review, a container throughput of 2,778,700 TEUs was achieved by the Group as follows:

| | Container Throughput | | |
|---|---|---|---|
| | **2008 (TEUs)** | 2007 (TEUs) | Increase/ (Decrease) |
| The Haitian Terminal, Hairun Terminal and berth No. 1 of Dongdu Terminal of the Group (international and domestic trade) | **2,291,095** | 2,051,552 | 11.68% |
| XICT (international trade)* | **487,605** | 586,562 | (16.87%) |
| Total Throughput | **2,778,700** | 2,638,114 | 5.33% |

* XICT is a jointly controlled entity between Xiamen Haicang Port Co., Ltd ("XHPC"), one of the Company's subsidiaries, and Hutchison Ports Xiamen Limited. Through Xiamen Haicang, the Company holds a 51% interest in XICT. The financial results of XICT have been proportionately consolidated in the Group's financial statements. On the other hand, in terms of the operational statistics set out herein, such as those in relation to TEUs and cargo throughput, the Group has included 51% of XICT's figures. In addition, since 1 September 2008, due to the commencement of operations in unification between XICT and XHICT, the relevant operation information of XICT also contains the information of XHICT.

In the reporting period, the container throughput of the Group increased slightly by 5.33%. This was mainly due to the continuous effect of the global financial crisis looming since September 2008, which led to the quick drop in the container import and export volume of foreign trades for Xiamen Port. As XICT's shipping routes were mainly sea routes for the Western United States and Europe, it was affected rather significantly with a decrease of nearly 200,000 TEUs, which made an impact on the overall growth of our container business. On the other hand, benefited from the continuous growth in domestic trade business of the PRC as well as the improved productivity and marketing exploration of Hairun Terminal, the container businesses at Dongdu Terminal and Hairun Terminal continued to maintain a fast trend of growth, which has supported our container business to grow on an ongoing basis.

### Bulk/general cargo port businesses

In 2008, the bulk/general cargo throughput handled by the Group in the year amounted to 4,820,086 tonnes with the details as follows:

| | Bulk/general cargo throughput | | |
|---|---|---|---|
| | **2008 (tonnes)** | 2007 (tonnes) | Increase/ (Decrease) |
| Berths No. 2 to No. 4 of Dongdu Terminal | **4,770,095** | 4,274,352 | 11.60% |
| XICT | **49,991** | 96,311 | (48.09)% |
| Total Throughput | **4,820,086** | 4,370,663 | 10.28% |

During the reporting period, the Group's bulk/general cargo port business continued to grow, with a surging growth rate of 10.28% from last year. However, the business was facing increasingly intense market competition. Although throughput of Dongdu Terminal increased by 11.60%, its stone product business was affected by objective factors such as geographical location, government support and competition in loading and unloading fees, some of the stone business gradually encountered competition pressure from nearby ports and other terminals within the same port area. However, the business in relation to the export of river sand with lower loading and unloading fees grew significantly. Also, affected by the appreciation of Renminbi and the reduction of export tax rebate, export of steel products declined drastically, and correspondingly general cargos handled by XICT continued to decline.

In response to the above circumstances, the Group adopted numerous timely measures. Firstly, the Group strengthened its alliance with stone product owners and strived to establish strategic cooperation relationship through various means. Secondly, six new grain warehouses (silos), giving an additional storage capacity of approximately 50,000 tonnes, were constructed in Dongdu Terminal during the Year, which significantly enhanced the terminal's capability in the loading, unloading and warehousing of the grains. Meanwhile, investment was made to transform relevant depots in Dongdu Terminal to proactively develop other cargo business such as copper concentrate ore cargos. It is expected that the improvement of the above infrastructure facilities will effectively promote the development of cargo businesses, such as food cargos.

### Ancillary value-added port services

The Group's ancillary value-added port services mainly include numerous services such as shipping agency, tallying, tugboat berthing and unberthing and port-related logistics services. Complementary development between such ancillary services and the Group's terminal loading and unloading business has become one of the major competitive edges of the Group. During the year under review, with the effective implementation of the overall sales and marketing strategy, the effects of the complementary development between the Group's terminal loading and unloading business and the above ancillary value-added port services were significant, which helped to enhance the competitive capability of the Group and maintain the market share of the Group's major businesses. Meanwhile, the Group also strived to develop port hinterland and nurtured new business growth points. In 2008, the Group's sea-rail joint transportation container business continued to develop, with volume of transported containers exceeding 10,000 TEUs for the first time, representing a growth of more than 64% over last year. The Group has also explored a new business area in Xinyu, Jiangxi Province and has steadily developed the port hinterland in that area. The business model in Xiamen Bonded Logistics Park continued to innovate and business model like the "One-day Customers Clearance" and the container business volume inside the Park increased by 24% and 139% respectively from the corresponding period in 2007. Business of No. 1 bonded warehouse inside the Park has basically reached saturation point and the Group is building new warehouse facilities to meet the increasing customer demand.

### Trading business of industrial products

In 2008, the Group's industrial products trading business continued its rapid development. Although the development of this business facilitated the growth of the port business and the overall revenue of the Group, it has recorded a gross profit margin far below that of other port businesses. The industrial products trading business has taken up a large portion of the Group's resources, so the Group was at hand to replan its development direction. Meanwhile, taking into account the impact of the global financial crisis in respect of the risk of international trade, the Group further improved its trade business management workflow and strengthened its controls in the risks arising from trade during the year.

## FINANCIAL REVIEW

### Revenues

The Group's revenues increased by approximately 18.0% from approximately RMB2,890,969,000 for the year ended 31 December 2007 to approximately RMB3,411,524,000 for the year ended 31 December 2008. The increase was primarily due to increases in revenues of the Group's container loading and unloading and storage business, ancillary value-added port services and the trading of industrial products, which were partially offset by decrease in revenues of manufacturing and selling of building materials and bulk/general cargo loading and unloading business.

— Revenues of the Group's container loading and unloading and storage business increased by approximately 3.7% from approximately RMB715,571,000 for the year ended 31 December 2007 to approximately RMB741,967,000 for the year ended 31 December 2008. It was primarily due to the increases in container throughput handled by the Group's Haicang berths No. 4 and 5 during the Year.

— Revenues of the Group's bulk/general cargo loading and unloading business decreased by approximately 17.3% from approximately RMB172,291,000 for the year ended 31 December 2007 to approximately RMB142,537,000 for the year ended 31 December 2008. The decrease was primarily due to decrease in cargoes of the higher tariff like stone products handled by the Group.

— Revenues of the Group's ancillary value-added port services increased by approximately 11.2% from approximately RMB477,555,000 for the year ended 31 December 2007 to approximately RMB530,932,000 for the year ended 31 December 2008. The increase was primarily due to increases in container and bulk/general cargo throughput handled by Xiamen port, which led to corresponding increase in the demand for the Group's ancillary value-added port services.

— Revenues of the Group's manufacturing and selling of building materials decreased by approximately 19.6% from approximately RMB353,221,000 for the year ended 31 December 2007 to approximately RMB283,931,000 for the year ended 31 December 2008. The decrease was primarily due to significant decrease in general market demand on concrete in Xiamen due to the decrease in the investments in the construction of infrastructure facilities during 2008 as compared to 2007.

— Revenues of the Group's industrial products trading increased by approximately 46.0% from approximately RMB1,172,331,000 for the year ended 31 December 2007 to approximately RMB1,712,157,000 for the year ended 31 December 2008. The increase was primarily due to the Group's great effort made to the development of industrial products trading business with the aim at increasing the port throughput.

### Cost of sales

Cost of sales increased by approximately 24.4% from approximately RMB2,250,399,000 for the year ended 31 December 2007 to approximately RMB2,800,006,000 for the year ended 31 December 2008. The increase was primarily due to increases in cost of inventories consumed, depreciation, amortization and employee benefit expenses.

— Cost of inventories consumed increased by approximately 29.8% from approximately RMB1,549,519,000 for the year ended 31 December 2007 to approximately RMB2,011,970,000 for the year ended 31 December 2008. The increase was mainly due to significant growth in the Group's businesses of industrial products trading, which led to the corresponding increases in cost of inventories consumed which was partially offset by decrease in business of manufacturing and selling of building materials.

## Management Discussion and Analysis

— Depreciation and amortization increased by approximately 10.4% from approximately RMB168,915,000 for the year ended 31 December 2007 to approximately RMB186,493,000 for the year ended 31 December 2008. The increase was mainly due to operation commencements of the Group's Bonded Logistics Park in the first half of 2008 as well as the increase in equipments to meet the need of the overall business growth.

— Employee benefit expenses increased by approximately 15.1% from approximately RMB280,536,000 for the year ended 31 December 2007 to approximately RMB322,977,000 for the year ended 31 December 2008. It was primarily due to overall growth in the Group's business volume which led to corresponding increases in employee benefit expenses.

### Gross profit

As a result of the foregoing reasons, the Group's gross profit decreased by approximately 4.5% from approximately RMB640,570,000 for the year ended 31 December 2007 to approximately RMB611,518,000 for the year ended 31 December 2008. Gross profit margin of the Group was approximately 22.2% for the year ended 31 December 2007 and approximately 17.9% for the year ended 31 December 2008. The decrease in gross profit margin was mainly due to the dilution of the overall gross profit margin as a result of the rapid growth of industrial products trading business which has a lower gross profit margin. Its revenues during the year increased by 46.0% of total revenues and its percentage of total revenues increased from approximately 40.6% for the year ended 31 December 2007 to approximately 50.2% for the year ended 31 December 2008. In addition, the decrease in the throughput of cargoes of higher tariff such as stone products handled by the Group also led to the decrease in gross profit.

### Operating expenses

The Group's operating expenses increased by approximately 8.2% from approximately RMB188,370,000 for the year ended 31 December 2007 to approximately RMB203,863,000 for the year ended 31 December 2008. The increase was primarily due to increase in the Group's employee benefit expenses in 2008.

### Operating profit

The Group's operating profit decreased by approximately 7.7% from approximately RMB548,218,000 for the year ended 31 December 2007 to approximately RMB506,146,000 for the year ended 31 December 2008. The Group's operating profit margin was approximately 19.0% for the year ended 31 December 2007 and approximately 14.8% for the year ended 31 December 2008. The decrease in operating profit was mainly due to the above mentioned decrease in gross profit and increase in operating expenses.

### Income tax expense

The Group's income tax expense decreased by approximately 50.9% from approximately RMB56,632,000 for the year ended 31 December 2007 to approximately RMB27,808,000 for the year ended 31 December 2008. The decrease was primarily due to that with the implementation of the new CIT Law since 2008, the employee's benefit expenses are fully deductible when calculating the income tax, while prior to 2008, certain employee's benefit expenses were not tax-deductible under the limited deductible salary and wage system.

### Profit for the Year

The Group's profit for the Year decreased by approximately 6.4% from approximately RMB506,575,000 for the year ended 31 December 2007 to approximately RMB474,259,000 for the year ended 31 December 2008. The Group's profit margin for the year was approximately 17.5% for the year ended 31 December 2007 and approximately 13.9% for the year ended 31 December 2008. The decrease was primarily due to the lower gross profit margin as analysed above.

### Profit attributable to minority interests

Profit attributable to minority interests decreased by approximately 26.1% from approximately RMB132,158,000 for the year ended 31 December 2007 to approximately RMB97,600,000 for the year ended 31 December 2008. The decrease was due to decrease in profit from the Group's non-wholly owned subsidiaries.

### Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company increased by approximately 0.6% from approximately RMB374,417,000 for the year ended 31 December 2007 to approximately RMB376,659,000 for the year ended 31 December 2008. The increase was due to increase in profit for the Year.

### Accounts and notes receivable

The Group's net accounts and notes receivable, decreased from approximately RMB546,557,000 as at 31 December 2007 to approximately RMB491,057,000 as at 31 December 2008. The decrease was primarily due to the strengthening of the Group's management of accounts receivable in respect of the industrial products trading business to deal with finance crisis and control credit risk.

# Management Discussion and Analysis

As at 31 December 2008, the Group's accounts and notes receivable were approximately RMB513,806,000, of which, approximately RMB426,228,000 accounts and notes receivable were aged within six months, accounting for approximately 83.0% of the total accounts and notes receivable, approximately RMB39,558,000 were aged between six months to one year, approximately RMB25,634,000 were aged between one year to two years, approximately RMB8,973,000 were aged between two years to three years and approximately RMB13,413,000 were aged over three years.

### Accounts and notes payable

The Group's accounts and notes payable decreased by approximately 45.8% from approximately RMB986,099,000 as at 31 December 2007 to approximately RMB534,459,000 as at 31 December 2008. The decrease was primarily due to quicker settlement of accounts and notes payable in the industrial products trading business and the manufacturing and selling of building materials business. The Group's notes payable decreased by approximately 67.6% from approximately RMB534,116,000 as at 31 December 2007 to approximately RMB172,842,000 as at 31 December 2008.

As at 31 December 2008, the Group's accounts and notes payable less than one year were approximately RMB523,244,000 accounting for approximately 97.9% and due over one year were approximately RMB11,215,000, accounting for approximately 2.1%.

### Borrowings

The Group's borrowings decreased from approximately RMB1,007,227,000 as at 31 December 2007 to approximately RMB664,007,000 as at 31 December 2008. The decrease was primarily due to the net repayment of the bank loans of RMB343,220,000 by the Group.

As at 31 December 2008, borrowings due within one year were approximately RMB302,780,000, due within one to two years were approximately RMB6,474,000, due within two to five years were approximately RMB62,242,000 and due after five years were approximately RMB292,511,000.

As at 31 December 2008, the Group's guaranteed loans were approximately RMB81,122,000 which were guaranteed by a state-owned bank.

As at 31 December 2008, the Group's secured loans were approximately RMB18,645,000 which were secured by a bank deposit of approximately USD6,500,000 (equivalent to approximately RMB44,425,000).

### Cash flows and working capital

The Group's working capital was primarily derived from cash generated from its operations.

The following table sets out the Group's cash flows derived from operating activities, investing activities and financing activities for the year ended 31 December 2007 and 2008 respectively:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Net cash from operating activities | 551,747 | 355,316 |
| Net cash used in investing activities | (137,968) | (178,722) |
| Net cash (used in)/from financing activities | (563,444) | 230,004 |
| Net (decrease)/increase in cash and cash equivalents | (149,665) | 406,598 |
| Cash and cash equivalents at beginning of year | 1,001,285 | 594,687 |
| Exchange losses on cash and cash equivalents | (6,955) | — |
| Cash and cash equivalents at end of year | 844,665 | 1,001,285 |

### Operating activities

The Group's net cash from operating activities increased by approximately 55.3% from approximately RMB355,316,000 in 2007 to approximately RMB551,747,000 in 2008. The increase in net cash from operating activities in 2008 was mainly due to increase in net cash generated from operations of approximately RMB219,486,000, which were partially offset by increase in interest paid of approximately RMB17,001,000 and increase in income tax paid of approximately RMB6,054,000.

### Investing activities

The Group's net cash used in investing activities decreased from approximately RMB178,722,000 in 2007 to approximately RMB137,968,000 in 2008. Cash used in investment activities in 2008 was mainly from a decrease in cash due to the net increase of RMB92,266,000 in term deposits with initial term of over three months, as well as approximately RMB282,590,000 paid for purchase of property, plant and equipment and intangible assets and land use rights. The cash inflow in investing activities in 2008 was mainly due to the cash increase of RMB199,616,000 from the selling of the marine structure engineering works of Berth No. 1 of Haicang Port area to XHICT.

# Management Discussion and Analysis

## Financing activities

The Group's net cash from financing activities decreased from an inflow of approximately RMB230,004,000 in 2007 to an outflow of approximately RMB563,444,000 in 2008. The net cash used in financing activities in 2008 was primarily due to repayment borrowings of approximately RMB869,866,000 and dividends paid this year of approximately RMB229,217,000 and cash inflow of approximately RMB526,646,000 from the newly borrowed loan.

## Capital expenditure

The Group's capital expenditure in 2007 and 2008 primarily consisted of expenditure on port terminal infrastructure and on purchase of equipments, machineries and land use rights. The following table sets out the Group's capital expenditure in 2007 and 2008:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Total capital expenditure | 377,777 | 571,811 |

## Capital expenditure commitments

As at 31 December 2008, the Group's capital expenditure commitments were approximately RMB390,535,000 primarily consisted of construction expenditure of Haicang berths No. 1, 4 and 5 as well as logistics warehouses and expenditure on purchases of loading and unloading equipment, vessels and other machineries and equipments.

## Net debt to equity ratio

The Group's net debt to equity ratio decreased from approximately 0.13% in 2007 to approximately -4.03% in 2008. The decrease in net debt to equity ratio was primarily due to the advance repayment of the bank loans for Xiamen Port Haicang Port Area Phase I Project.

## Contingent liabilities

As at 31 December 2008, the Group has no significant contingent liabilities.

## Litigation Matter

At the end of January 2008, Xiamen Port Development Co., Ltd have ("Port Development"), a subsidiary of the Company, has discovered that Shantoushi Zhongyu Zhiye Co., Ltd (汕頭市中裕置業有限公司) (hereinafter referred to as "Shantou Zhongyu") and Xiamen Xinqingyi Warehousing Logistics Co., Ltd (廈門欣輕藝倉儲物流有限公司) (hereinafter referred to as "Xiamen Xinqingyi") have, without Port Development's consent, negotiated amongst themselves and have taken away certain goods amounting to RMB24,971,700, which were previously stored by Port Development at the warehouse of Xiamen Xinqingyi. Port Development filed a report with the Public Security Bureau, instituted an action against Shanton Zhongyu and Xiamen Xinqingxi and applied for property preservation. As there were a number of enterprises that were affected by this case, this action was a class action suit. The creditors' claim aggregated to approximately RMB78,000,000. In November 2008, Port Development and other creditors gained the power to dispose properties owned by Shantou Zhongyu through effective control over the equity interests of Shantou Zhongyu. In December 2008, the case was transferred to the Public Security Bureau of Xiamen City for investigation since Xiamen Court determined the case was related to an economic crime. In February 2009, Port Development and other creditors disposed of the equity interests of Shantou Zhongyu. The proceed from the disposal was applied to repay the creditors. Shantou Jiahua Real Estate Co., Ltd ("Shantou Jiahua") and Chen Danguang, the transferees, have agreed to repay RMB66,000,000 to all creditors in the case by three installments. In March 2009, Port Development and other creditors received the first installment amounting to RMB23,000,000 from Shantou Jiahua. The second installment of RMB20,000,000 will be received 18 months after the contract has become effective. The third installment of RMB23,000,000 will be received 24 months after the contract has become effective. In addition, to ensure that Shantou Jiahua and Chen Danguang, and other creditors of Xiamen will jointly assume the risk of contingent liabilities, an agreement was made to stipulate that Shantou Jiahua and Chen Danguang shall be liable to an amount up to RMB1,500,000 if the amount of contingent liability is RMB15,000,000 or less; and they will also be liable to any excess amount exceeding the contingent liability of RMB15,000,000. During the performance of the agreement, the aforesaid land use right owned by Shantou Zhongyu shall be charged to all creditors, including Port Development, as security.

In 2007, the carrying amount of Port Development's inventory that was taken away, amounting to RMB24,971,700, was transferred to other receivables for accounting purpose, and a provision for a bad debt of RMB6,243,000 was made. During the year, Port Development made a provision for a bad debt of RMB1,800,000 based on the estimated recoverable amount and the guarantee deposit received in advance.

### Employment, training and development

As at 31 December 2008, the Group had over 5,637 employees, an increase of 110 employees over 31 December 2007. During the year, total staff costs represented approximately 12.5% of the Group's revenue. During the year under review, the Group actively established a management and development platform for its staff based on its "people-oriented" management principle. The Group also carried out a reform to the remuneration system and improved the performance appraisal system for the staff. Employee's remunerations are determined by their positions and performance, experience and the prevailing practices of the industry. Remuneration policy is reviewed on a regular basis, to ensure that the remunerations are competitive. Bonus and rewards may be offered to employees according to the Group's annual operating results and assessment of employee's performance. The payment of rewards is an impetus to motivate each employee.

### Subsequent Events

On 1 March 2009, Xiamen Port Logistics Co., Ltd ("Port Logistics"), the Company's indirect subsidiary, entered into a "Joint Venture Contract of Xiamen Port Container Co., Ltd (廈門港務貨櫃有限公司)" with Haifengcang Container Services Co., Ltd (海豐倉集裝箱服務有限公司) (an independent third party), a company incorporated in Brunei, pursuant to which both parties established an equity joint venture Xiamen Port Container Co., Ltd. The joint venture is for the operation of a logistics depot with a total area of 36,475m$^2$ and a warehouse with a total area of 20,000m$^2$ in Haicang, Xiamen. The registered capital of the joint venture company is RMB5 million, and Port Logistics has 51% interest in the joint venture company. At the moment, relevant industrial and commercial registration formalities are being processed.

On 1 April 2009, Port Logistics, Xiamen Baohe Trading Co., Ltd. (廈門市保合貿易有限公司) (an independent third party) and Xiamen Yardland Composite Materials Co., Ltd (廈門亞德蘭複合材料有限公司) (an independent third party) entered into a "Joint Venture Contract of Xiamen Port Baohe Logistics Co., Ltd (廈門市港務保合物流有限公司)", pursuant to which the three parties established an equity joint venture Xiamen Port Baohe Logistics Co., Ltd., The joint venture is for the joint operation of a logistics depot with a total area of 59,600m$^2$ in the Songyu port area in Haicang, Xiamen. The registered capital of the joint venture company is RMB6 million and Port Logistics has 35% interest in the joint venture company while the other two shareholders has 32.5% interest of the joint venture company respectively. At the moment, relevant industrial and commercial registration formalities are being processed.

### Prospects

Based on the analysis of the Chinese government, the year 2009 will be the most difficult year in the course of China's economic development since the beginning of the new century, with China facing unprecedented adversity and challenges: Firstly, the spreading of the global financial crisis will lead to the continuous decrease of demand from international markets, the rise of trade protectionism, a more challenging external economic environment and increasing uncertainties. Secondly, China's economic growth will continue to slow down because of the impact from the global financial crisis. In view of this, the Chinese government has already launched macroeconomic policies targeting at "maintaining economic growth, boosting domestic demand and adjusting structures", implemented proactive fiscal policies and accommodated monetary policies, and suggested a series of initiatives to promote steady and more rapid economic development. After taken into account all the factors, the Chinese government forecasts that the growth rate of its national economy will be approximately 8% in 2009, and the Fujian provincial and Xiamen municipal governments forecast the national economy will grow by approximately 10% and 11% respectively. The long-term favourable development of the national economy remains unchanged.

Based on the above forecast of the economic and trading trend in 2009, the Company expects that its port business will also face relative severe challenges in 2009. Therefore, the Company will be even more active and aggressive in seizing opportunities and coping with challenges in 2009. The Company will also closely monitor market situations, improve its production and operation, enhance corporate governance, tighten cost control, safeguard and promote shareholders' interest as in the past. In 2009, the Group intends to roll out the following measures, which are believed to be conducive for sustaining the growth of the Group's results in the future:

- To pro-actively implement overall sales and marketing strategies and to enhance overall sales and marketing level. Firstly, the Group will adopt a more coordinated and flexible approach in business integration and sales and marketing, and capitalize on the strength of its overall sales and marketing brand adequately and effectively in exploring business and promoting its sea-rail joint transportation business. Secondly, the Group will push for a strategy that focused on large-customer strategy, and further consolidate its long-term cooperation relationship with large vessel owners and large-scale cargo owners. The Group will pay close attention to crucial large customers, think for the vessel owners and extend the services of shipping companies to the services of its customers, assist shipping companies in securing business from large-scale cargo owners and jointly consolidate the routes with "cargos".

- To consolidate and preserve its container route business in global emerging markets and fast growing economic areas. The Group will keep an eye on changes in the international liner market; actively explore foreign trade container business in emerging regions such as the Middle East, encourage the international liner companies to add liner routes in regions such as the Middle East and the Mediterranean Sea by effective measures, and increase the frequency of liners so as to satisfy the demands arising from China's increasing trade with such regions.

- To capture opportunities brought by policies, and promote the development of international transshipment business with full force. Firstly, by leveraging on the opportunities brought by the launch of the Customs' International Transit System Version 3.0, the Group will strengthen its promotion to the headquarters of shipping companies, step up the promotion of the international transshipment edges of Xiamen port and attract companies to transship cargos from Northeast Asia and Southeast Asia via Xiamen. Secondly, the Group will actively plan for business promotions after the scheduled customs-closing of Haicang Bonded Port Area so as to seek a greater breakthrough in its international container transshipment business.

- To seize for its domestic trade container business development opportunities arising from China's attempt to boost domestic demand. Firstly, based on the market trend driven by China's policy to stir up its domestic demand, the Group will actively develop its domestic trade container business with shipping companies and change its focus from foreign trade container business to both the domestic and foreign trade container businesses at the same time. Secondly, the Group will promote domestic trade container operations in its foreign trade container terminals, stimulate the growth of the throughput of domestic trade containers and the development of domestic trade container transshipment business, promote foreign trade by domestic trade and spur the growth in the volume of foreign trade containers.

- To optimize the bulk and general cargo source structure of the Group's terminals based on the market demand in Xiamen port. The Group will explore new businesses in which are advantageous to Xiamen port, such as loading and unloading copper concentrate ore and nickel ore cargo, enhance competitive capability against nearby ports and terminals and fully utilize the capability of Dongdu Terminal's newly constructed silos in loading and unloading grains and devote major efforts to developing the business of grain loading and unloading and storage.

- To leverage on the opportunities brought about by direct shipping between Xiamen and Taiwan to strengthen the direct shipping business of sea freight that targets at the Taiwan market. By capturing the opportunities stemming from the "Three Direct Links" policy across the Taiwan Straits, improve the hardware and software and ancillary facilities of the terminals, improve service quality and standard of operation, expand the direct shipping business of sea freight that targets at Taiwan market, secure more transshipment of cargos from Xiamen to Taiwan, and strive to develop Xiamen port into a centre for the collection and distribution of cargos transported to Taiwan.

- To optimize the production and operation flow and enhance the operating efficiency of the terminals. By leveraging on the unified operation of berths No.1 to No.3 in the Haicang port area and the upgraded operation and management system of Hairun Terminal, the Group will further improve its operating efficiency and resource utilization efficiency, unlock the production potential of terminals and increase the value-added services of terminals so as to secure new route business.

- To expand port hinterland primarily for the development of the sea-rail joint transportation business. Building on the regular sea-rail joint transportation routes of Xiamen — Nanchang and Xiamen — Ganzhou, the Group will continue to strengthen its cooperation with peripheral inland regions on the out terrion of Fujian Province, and step up the establishment of sea-rail joint transportation network in inland regions, develop sea-rail joint transportation business that targets at the container and bulk cargo market, extend the port functions far afield and expand the continental hinterland in the West to attract cargo sources from provinces such as Jiangxi and Hunan.

- To innovate value-added services and nurture new growth segments. The Group will place emphasis on business expansion in the comprehensive port logistics areas and, by seizing the opportunities brought by the integration of the "three regions" of Dongdu port area, Xiamen Bonded Logistics Park and the Xiangyu Free Trade Zone, to publicize the business models in the Park Zone and to capitalize on policy advantages to expand on more value-added services.

- To focus on the strengthening of operation quality control and detailed cost management, so as to promote refined corporate management on an on-going basis. Firstly, the Group will optimize and transform business workflow to create economical workflow. Secondly, the Group will stick to implement its energy saving and emission reduction initiative by primarily promoting the extensive and comprehensive application of its equipment management system; and to set in motion the equipment efficiency management scheme. The Group will also accelerate the progress of XICT's electrification for Rubber-Tyre Gantry and the application and implementation of energy saving technologies in equipments for bulk and general cargo loading and unloading and in trailers, so as to control operating cost.

- To strengthen risk management. Based on the current international economic and trading environment, the Group will tighten its risk control, further establish and improve internal control systems that suit its business features and management requirements and integrate with the Group's management systems and measures, to take precautions against all kinds of risks, in particular business, financial, investment and legal risks.

- Pursuant to the "Option and Right of First Refusal Agreement" entered into between the Company and Xiamen Port Holding, the Company will actively follow up the progress of construction works of the relevant terminals of Xiamen Port Holding, so as to facilitate the Board of the Company to make the appropriate decisions based on the management and operational circumstances at the time.

**Provision of shipping agency, tallying, tugboat berthing and unberthing as well as port-related logistics services**

A wide range of

## ancillary value-added services


CMA CGM VOLTAIRE
HAMBURG

# Corporate Governance Report

It is the belief of the Board of the Company that corporate governance is the core in managing an organization properly, and that the implementation of good corporate governance can enhance the transparency of the Company's business, ensuring its responsibilities to shareholders and satisfying the expectations of its shareholders. The Company is dedicated to maintaining and enhancing the corporate governance level, and adopts the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") under Appendix 14 of the Listing Rules as the code on corporate governance practices of the Company. The Company also maintains and improves the practices and policies of the Company in a timely, transparent, effective and responsible manner.

With reference to the Corporate Governance Code, this report elaborates the corporate governance practices of the Company for the period from 1 January 2008 to 31 December 2008 ("the Reporting Period"). The Board confirms that unless otherwise disclosed hereinafter, none of the directors of the Company ("Directors") is aware of any information reasonably showing that the Group did not comply with any requirements of the applicable code provisions of the Corporate Governance Code at any time during the Reporting Period.

This report elaborates on the corporate governance practices of the Company with reference to the Corporate Governance Code and covers information in respect of the mandatory disclosure requirements and most of the recommended disclosures set out under Appendix 23 of the Listing Rules.

## THE BOARD

On the principle of acting in the best interest of the Company and its shareholders, the Board is responsible for leading and supervising the Group, and shall facilitate the continuous development of the Group by giving guidance and supervision in respect of the Group's business.

## DIRECTORS

Pursuant to the requirements of the Articles of the Company, the Directors and supervisors of the Company ("Supervisors") are each appointed for a term of three years and shall be eligible for re-election upon the expiry of the term of their appointment. On 29 February 2008, all of the Directors of the first session of the Board as well as four Supervisors of the first session of the supervisory committee of the Company (the "Supervisory Committee"), namely Mr. FANG Zuhui, Mr. LUO Jianzhong, Mr. TANG Jinmu and Mr. HE Shaoping, were re-elected at the first extraordinary general meeting of the Company in 2008 (Mr. WU Jianliang, being a staff representative supervisor, was also re-elected at the staff representative meeting of the Company while Mr. WU Weijian was elected as an additional staff representative supervisor of the second session of the Supervisory Committee at the staff representative meeting of the Company held on 23 October 2008). On the same day, Mr. ZHENG Yongen and Mr. CHEN Dingyu were elected as the Chairman and the Deputy Chairman of the Board respectively at the first meeting of the second session of the Board of the Company and Ms. HONG Lijuan was appointed as the secretary of the Board (the "Secretary"); meanwhile Mr. FANG Zuhui was elected as the Chairman of the Supervisory Committee at the first meeting of the second session of the Supervisory Committee of the Company.

As at 31 December 2008, the Directors and Supervisors of the Company were:

**Executive Directors:**

| | |
|---|---|
| Mr. ZHENG Yongen | (re-elected on 29 February 2008) |
| Mr. CHEN Dingyu | (re-elected on 29 February 2008) |
| Mr. FANG Yao | (re-elected on 29 February 2008) |
| Mr. HUANG Zirong | (re-elected on 29 February 2008) |
| Ms. HONG Lijuan | (re-elected on 29 February 2008) |

**Non-executive Directors:**

| | |
|---|---|
| Mr. FU Chengjing | (re-elected on 29 February 2008) |
| Ms. MIAO Luping | (re-elected on 29 February 2008) |
| Mr. LIN Kaibiao | (re-elected on 29 February 2008) |
| Mr. KE Dong | (re-elected on 29 February 2008) |

**Independent Non-executive Directors:**

| | |
|---|---|
| Mr. HUANG Shizhong | (re-elected on 29 February 2008) |
| Mr. ZHEN Hong | (re-elected on 29 February 2008) |
| Mr. HUI Wang Chuen | (re-elected on 29 February 2008) |

**Supervisors:**

| | |
|---|---|
| Mr. FANG Zuhui | (re-elected on 29 February 2008) |
| Mr. LUO Jianzhong | (re-elected on 29 February 2008) |
| Mr. WU Jianliang | (re-elected on 29 February 2008) |
| Mr. WU Weijian | (additionally-elected on 23 October 2008) |
| Mr. TANG Jinmu | (re-elected on 29 February 2008) |
| Mr. HE Shaoping | (re-elected on 29 February 2008) |

The biographical details of the above Directors and Supervisors are set out on pages 47 to 54 of this annual report and on the Company's website at http://www.xipc.com.cn.

Corporate Governance Report

The Company's Executive Directors and Non-executive Directors have extensive knowledge, experience and skills with regard to the management, business and finances of port enterprises and other relevant matters, and are therefore advantageous to the formulation of the Company's strategies. The three Independent Non-executive Directors have professional backgrounds in accounting, finance, corporate management and logistics, and are very experienced in their own professional fields. The Company believes that the composition of the Board is balanced and reasonable and that the Directors have the ability to perform their duties and to effectively protect the overall interest of the Company's shareholders and the Company.

The Board has received from each of the Independent Non-executive Directors an annual written confirmation of independence in accordance with Rule 3.13 of the Listing Rules. Based on their respective confirmations, the Board believes that their status of independence is in compliance with the requirements of the Listing Rules as at the date of this report.

Pursuant to the requirements of Rule 3.10 of the Listing Rules, the Company has appointed at least three Independent Non-executive Directors, including one Independent Non-executive Director with appropriate professional qualifications or professional skills in accounting or relevant financial management.

## RESPONSIBILITIES OF THE BOARD

The Board is responsible for the management of the Group's business and affairs with the objective of enhancing shareholders' values, and for paving way for the success of the Group by giving guidance and supervision in respect of its business. The Board is required to ensure proper compliance with applicable laws and regulations, to give balanced, lucid and easy to understand assessments on the performance, conditions and prospects of the Company as set out in the annual and interim reports, to announce other price-sensitive information and other financial disclosure matters as required by the Listing Rules, and to report any discloseable information to regulatory authorities in accordance with statutory requirements.

The Board has fiduciary and statutory obligations to the Company and the Group and also exercises a number of powers, including:

- formulating long-term strategy;
- formulating annual budget and final account proposal;
- approving public announcements including interim and annual financial statements;
- setting dividend policy;

- approving material borrowings and treasury policy; and

- undertaking major acquisitions and disposals, formation of joint ventures and entering into capital transactions.

The management of the Company is responsible for various duties delegated by the Board, which mainly include:

- taking charge of the daily management and operation of the Company and the business of the Group;

- organising and implementing Board resolutions;

- organising and implementing annual operating plans and investment proposals;

- deciding on the establishing of the Company's internal management structure;

- deciding on the Company's basic management system; and

- formulating detailed rules and regulations of the Company.

During the Reporting Period, the re-appointment of members of the senior management of the Company took place. At the third meeting of the second session of the Board of the Company held on 6 August 2008, Mr. FANG Yao was re-appointed as the general manager, Mr. HUANG Zirong and Ms. HONG Lijuan were re-appointed as the deputy general managers, Mr. LU Jianwei was re-appointed as the financial controller, and Mr. ZHANG Yibing was re-appointed as the qualified accountant.

To ensure that the Board operates in an independent, responsible and accountable manner, the roles of the Chairman and the General Manager have been separated. During the Reporting Period, Mr. ZHENG Yongen served as the Chairman of the Company while Mr. FANG Yao served as the General Manager of the Company. There is a clear division of responsibility between the Chairman and the General Manager. The Chairman is responsible for leading the Board, deciding the long-term development strategy, overall development targets and business objectives of the Company. The Chairman is also responsible for convening and presiding over Board meetings; organising and fulfilling the functions of the Board; and inspecting the execution of Board resolutions. On the other hand, the General Manager is responsible for the daily management and operation of the Company and assumes the above duties and other management duties in accordance with the Articles.

Each of the Directors (including Non-executive Directors) and Supervisors has entered into a service contract with the Company for a term of not more than three years (and members of the new session of the Board and the Supervisory Committee of the Company, upon election on 29 February 2008, have also entered into service contracts with the Company for a term of not more than three years). Other than the service contracts disclosed above, none of the Directors and Supervisors has any effective interest, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2008, or has entered into with the Company any service contract which is not determinable within one year without payment of compensation (other than statutory compensation) by the Company.

Save as disclosed above, none of the Directors, Supervisors and senior management has any financial, business or family relationships or any relationships in other material aspects with each other for which disclosure may be required.

Other than the general functions exercisable by the Directors as provided for in the Articles, important functions of corporate governance are borne by the three Independent Non-executive Directors of the Company. Each of them, being the chairman of one of the three board committees under the Board, promotes good corporate governance in respect of financial audit and internal control, remuneration management and strategic planning. They also bear the important functions of reviewing and monitoring the continuing connected transactions of the Group. The Company strives to facilitate full attendance of all the Independent Non-executive Directors at its Board meetings in order to enhance their opportunities of expressing their independent judgments and opinions thereat. Approval of the Independent Non-executive Directors is required in respect of any resolution on connected transactions proposed by the Board.

## BOARD MEETINGS

The Company strives to provide all Directors with appropriate and timely information so that the Directors have readily available information in making decisions and fulfilling their functions and responsibilities.

The Board has held regular meetings in accordance with the requirements of code provision A.1.1 of the Corporate Governance Code. In accordance with the requirements of the Company's Articles, the Board shall convene at least four meetings every year and the Board meetings shall be convened by the Chairman. In 2008, notices and agenda of all Board meetings were dispatched at least 14 days in advance of the meeting dates so as to facilitate maximum attendance of the Directors. In respect of extraordinary Board meetings, the time, venue and the methods as to how an extraordinary meeting is to be conducted are notified to all the Directors at least ten days before the meeting is convened.

Before the meeting is convened, the Secretary shall draw up the matters to be submitted to the Board for consideration and determination, assist the Company's Chairman in preparing the agenda for each Board meeting and ensuring that the agenda complies with the applicable regulations and rules of the meeting concerned. Meanwhile, all the Directors have the opportunity to include in the meeting agenda their motions. The final agenda and the documents for the Board meeting are distributed to the Directors at least three days before the meeting date, so as to ensure that they have sufficient time to review the documents concerned and are well-prepared for the meeting.

The Board meeting shall only be valid if attended by more than half of the Directors. Directors may attend the Board meeting in person or appoint, in written form, other Directors as proxies to attend the meeting on their behalf. If a Director has a conflict of interest in any resolution to be considered at the Board meeting, such Director shall abstain from voting on such resolution.

The Board held seven meetings during the year 2008. The attendance of each Director at the Board meetings is set out below:

| **Members of the Board** | **Number of Board meetings attended in person/by proxy** | **Attendance rate** |
|---|---|---|
| *Executive Directors* | | |
| ZHENG Yongen | 7/0 | 100% |
| CHEN Dingyu | 6/1 [a] | 100% |
| FANG Yao | 7/0 | 100% |
| HUANG Zirong | 6/1 [b] | 100% |
| HONG Lijuan | 7/0 | 100% |
| *Non-Executive Directors* | | |
| FU Chengjing | 7/0 | 100% |
| MIAO Luping | 7/0 | 100% |
| LIN Kaibiao | 6/1 [c] | 100% |
| KE Dong | 7/0 | 100% |
| *Independent Non-executive Directors* | | |
| HUANG Shizhong | 7/0 | 100% |
| ZHEN Hong | 7/0 | 100% |
| HUI Wang Chuen | 6/1 [d] | 100% |

Notes:

a Mr. CHEN Dingyu was present in six of the seven Board meetings, and the remaining Board meeting was attended and voted on his behalf by another authorized Director during his business trip out of Xiamen.

b Mr. HUANG Zirong was present in six of the seven Board meetings, and the remaining Board meeting was attended and voted on his behalf by another authorized Director during his business trip out of Xiamen.

c Mr. LIN Kaibiao was present in six of the seven Board meetings, and the remaining Board meeting was attended and voted on his behalf by another authorized Director during his business trip out of Xiamen.

d Mr. HUI Wang Chuen was present in six of the seven Board meetings, the remaining Board meeting was attended and voted on his behalf by another authorized Independent Non-executive Director during his business trip.

The Secretary is responsible for ensuring that the operation of the Board complies with procedures as required under the Company Law, the Articles and the Listing Rules, and providing the Board with recommendations on matters regarding corporate governance and regulatory compliance. The Secretary is also responsible for compiling and keeping the minutes of the Board meetings and ensuring that Directors may inspect such records.

Ms. HONG Lijuan, one of the joint company secretaries of the Company, met the requirements of a company secretary under Rule 8.17(3) of the Listing Rules upon confirmation from The Stock Exchange. Pursuant to the resolution passed at the sixth meeting of the second session of the Board of the Company on 16 December 2008, Ms. HONG Lijuan served as the sole company secretary of the Company with effect from 18 December 2008. As such, Mr. NGAI Wai Fung resigned as one of the joint company secretaries of the Company with effect from 18 December 2008.

## COMMITTEES ESTABLISHED UNDER THE BOARD

Three committees were set up by the Board on 18 April 2005 to assist with the performance of its duties and to facilitate effective management, namely the Audit Committee, the Remuneration Committee and the Business Strategy Committee. The Board delegated certain of its functions to the committees, which are required to review its specific scope of functions and make recommendations to the Board.

Each committee has specific functions and authorities. Members of the committees are entitled to make decisions on relevant issues within the terms of reference delegated to each committee. Particulars of these Committees are set out below and their respective terms of reference are also published on the Company's website at www.xipc.com.cn.

## AUDIT COMMITTEE

The Audit Committee comprised three members, including two Independent Non-executive Directors, namely Mr. HUANG Shizhong and Mr. ZHEN Hong and one Non-executive Director, Mr. FU Chengjing. The chairman of the Audit Committee was Mr. HUANG Shizhong. All members of the Audit Committee possess relevant professional qualifications, accounting or financial management expertise in discharging their responsibilities as a member of the Audit Committee. Following the approval of the relevant resolutions at the first meeting of the second session of the Board of the Company on 29 February 2008, members of the new Audit Committee were elected. The three Directors above were re-elected as members of the Audit Committee, and Mr. HUANG Shizhong was continued to be appointed as the Chairman of the Audit Committee.

Throughout the year 2008, the Company had been in compliance with the requirements in respect of audit committee as set out under Rule 3.21 of the Listing Rules. The Board has adopted the terms of reference of the Audit Committee which comply with the code provisions of the Corporate Governance Code. The Audit Committee is mainly responsible for making recommendations to the Board in respect of the appointment, removal, and remuneration of the external auditor, reviewing and monitoring the independence of the external auditor and the effectiveness of auditing procedures, reviewing the Company's financial information, and monitoring the Company's financial reporting system and internal control procedures.

During the Reporting Period, the Company's Audit Committee held a total of two meetings, mainly for conducting the following business: reviewing the accounting principles and practices adopted by the Group and other material matters in respect of financial reporting, reviewing the Group's annual report on annual results for the year ended 31 December 2007 and interim report on interim results for the six months ended 30 June 2008, reviewing the audit results presented by the auditors, and discussing with the external auditors in respect of any important finding and audit matter; reviewing the Group's non-exempt continuing connected transactions; re-appointment of auditors and fixing of audit fees; submitting recommendations to the Board for approval; and discussing and approving the action plan for the internal audit of the Group in 2008.

The members' attendance records of meetings of the second session of the Audit Committee are as follows:

| Members of the Audit Committee | Number of committee meetings attended in person/by proxy | Attendance rate |
|---|---|---|
| HUANG Shizhong | 2/0 | 100% |
| ZHEN Hong | 2/0 | 100% |
| FU Chengjing | 2/0 | 100% |

## REMUNERATION COMMITTEE

The Remuneration Committee comprised three members, including two Independent Non-executive Directors, namely Mr. HUI Wang Chuen and Mr. HUANG Shizhong, and one Executive Director, Mr. CHEN Dingyu. The chairman of the Remuneration Committee was Mr. HUI Wang Chuen. Following the approval of the relevant resolutions at the first meeting of the second session of the Board of the Company on 29 February 2008, members of the second session of the Remuneration Committee were elected. The three Directors above were re-elected as members of the Remuneration Committee, and Mr. HUI Wang Chuen was continued to be appointed as the Chairman of the Remuneration Committee.

The Board has adopted the terms of reference of the Remuneration Committee which comply with the code provisions of the Corporate Governance Code. The primary functions of the Remuneration Committee are: to formulate the remuneration policy for Directors, Supervisors and senior management of the Group, to review and determine their remuneration levels, and to make recommendations to the Board in respect of directors' fee and director's annual remuneration. The Remuneration Committee will engage professional consultants for provision of assistance and/or professional advice on related matters when needed.

During the Reporting Period, the Remuneration Committee of the Company met once to review and approve the Directors', Supervisors' and senior management's remuneration, including the granting of annual bonus. Before determining the remunerations and benefits (including salary and bonus), the Remuneration Committee has taken full consideration of factors such as the general market remuneration level or the remuneration level of its peers in the PRC, and the time committed by, duties and personal performance of the Directors, Supervisors and senior management as well as the results of the Company.

The members' attendance records of meetings of the Remuneration Committee are set out as follows:

| Members of the Remuneration Committee | Number of committee meetings attended in person/by proxy | Attendance rate |
|---|---|---|
| HUI Wang Chuen | 1/0 | 100% |
| HUANG Shizhong | 1/0 | 100% |
| CHEN Dingyu | 1/0 | 100% |

## REMUNERATION POLICY FOR DIRECTORS

The remuneration policy for Directors aims to ensure that the remuneration level is competitive and effective enough to attract, retain and encourage Directors. The primary goal of the Group's remuneration policy for Executive Directors is to enable the Company to give incentives to Executive Directors by pegging their compensation with their individual performance against corporate objectives and the Group's operating results after taking into account comparable market conditions. The principal elements of the remuneration package of Executive Directors include basic salary, related allowances, discretionary cash bonus, pension and relevant insurance benefits.

The purpose of the remuneration (in the form of directors' fee) policy of the Non-executive Directors is to ensure that the Non-executive Directors are sufficiently compensated for their effort and time contributed to the Company and that the remunerations they receive are commensurate with their duties and are basically in line with market practice.

As our general practice, the Remuneration Committee submits the remuneration plan to the Board for initial consideration. Such plan will then be submitted to the general meeting for further consideration and approval after it has been approved by the Board. Subsequent to the approval at the general meeting, the plan will be implemented. The emoluments paid to each Director by the Company for the year ended 31 December 2008 are set out in Note 37 to the financial statements.

## BUSINESS STRATEGY COMMITTEE

During the Reporting Period, number of members of the Business Strategy Committee increased from three for the first session to five for the second session. The first session of the Business Strategy Committee comprised three Directors, namely Mr. ZHEN Hong, Mr. CHEN Dingyu and Ms. MIAO Luping, which was chaired by Mr. ZHEN Hong, an Independent Non-executive Director. Following the approval of the relevant resolutions at the first meeting of the second session of the Board of the Company on 29 February 2008, members of the second session of the Business Strategy Committee were elected. The three Directors above were re-elected as members of the Business Strategy Committee, while Mr. ZHENG Yongen and Mr. FANG Yao were newly appointed as members of the Business Strategy Committee. Mr. ZHEN Hong was continued to be appointed as the Chairman of the Business Strategy Committee.

The main duties of Business Strategy Committee are to review and consider the overall strategy and the direction of the business development of the Company, and to consider, assess and review any important investment plan, acquisition and disposal and propose them to the Board, and to perform subsequent evalution on investment projects.

The Business Strategy Committee did not hold any meeting in 2008. However, members of the Business Strategy Committee were involved in the evaluation of the Company's major investments and financing exercises, major capital and asset management issues and other business opportunities that might have an impact on the future development of the Group's business.

## NOMINATION OF DIRECTORS

The Company appoints new Directors and re-elected Directors in accordance with the procedures provided for in its Articles. Generally, the candidates for directorship are proposed by the controlling shareholder. Nominations for the Directors are put forward for the Board's consideration and approval prior to the submission by the Board for consideration and approval by the general meetings of the Company. The primary principles of the controlling shareholder in nominating and of the Board in assessing candidates for directorship (including incumbent Directors seeking re-election) are:

- the relevant knowledge, background, ability, industry experience and qualifications of a candidate and his or her integrity, independence in decision making and capability to contribute time and effort to effectively discharge the duties concerned;

- compliance with the provisions of the Articles in respect of qualifications and conditions for directorship;

- compliance with the relevant requirements or provisions of the PRC laws in respect of directors of overseas-listed companies.

## EXTERNAL AUDITORS

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Certified Public Accountants were re-appointed as the PRC and international auditors of the Company respectively at the 2007 annual general meeting held on 20 June 2008, for a term until the expiration of the forthcoming annual general meeting.

For the year ended 31 December 2008, the total remuneration paid and payable to the external auditors by the Company amounted to RMB2,700,000, exclusively for audit services. The Company did not pay any fees for non-audit services to the external auditors.

## INTERNAL CONTROL

The Board assumes ultimate responsibility for the effectiveness of the internal control system. In accordance with the requirements of the Listing Rules, the Board has already conducted an annual review on the effectiveness and the adequacy of the Group's internal control system in all material aspects, including the financial, operational, compliance and risk management functions. The review report will be examined by the Audit Committee, which will then report the relevant situation to the Board. The Board believes that the control system is effective and adequate, and also complies with the code provisions on internal control of the Corporate Governance Code. Furthermore, the Board believes there has been no significant control deficiency and major area of concern which may affect the shareholders so far. The Board will continue to improve the internal control system so as to enhance corporate governance.

The management of the Company principally takes charge of formulating, implementing and maintaining the internal control system, and has adopted various measures to monitor the Company's business in order to keep a good and effective control system, which in turn protects the shareholders' interests and the Company's assets, and the details of such measures are as follows:

### (1) Financial Control

The Group strictly complies with the applicable laws and regulations and implements various financial systems established by the Company such as the "Interim Provisions of Asset Supervision and Management", the "Trial Methods for Financial Reports and Financial Analysis", and the "Trial Methods for Tax Planning Management", so as to improve its financial management on an ongoing basis. The Group also further perfects its management accounting system, to provide its management with an indicator to measure the financial and operational performance and provide relevant financial information for reporting and disclosure.

The Audit Committee of the Group is responsible for assisting the Board in reviewing and monitoring the financial reports independently, and procuring to make itself satisfied with the effectiveness of the Group's internal control as well as the adequacy of the internal and external auditing. In 2008, the Audit Committee made recommendations to the Board in respect of matters relating to the Group's audited accounts for the year ended 31 December 2007, internal and external audit findings, accounting principles and practices adopted by the Group, continuing connected transactions, reappointment of auditors and fixing of audit fees, and the interim results for the six months ended 30 June 2008.

The Company has its internal audit functions, and has appointed the qualified accountant of the Company as the person in charge of the audit department, so as to enhance the internal control of the Company. The internal audit aims to provide support to the Audit Committee by reviewing the Company's behaviors and internal control in all respects, and periodically once every month checking the operational conditions and process of the Company and its subsidiaries so as to ensure a sound internal control system maintained in the Company. The qualified accountant can report to the management directly, and he is also entitled to attend meetings of the Audit Committee and report all matters of concern revealed during the internal audit process without any restrictions. The reporting system ensures the independence and effectiveness of the qualified accountant. In accordance with the 2008 Audit Plan and Internal Control Practice Rules established in 2007 considered and established by the Audit Committee, the Company has carried out an audit and internal control review on the internal control system of monetary funds of the relevant entities under the Company, conducted a special audit on accounts receivable and short-term investment, and made certain relevant recommendations on improvement in order to strengthen the internal audit function.

**(2) Operational control**

The Group's management and its respective departments exercise and discharge their respective power and duties in accordance with the Articles and the corporate policies of the Company, so as to safeguard the operation of the Company's business. The heads of the departments and the senior management convene management meetings periodically (i.e. once every month) to analyze and discuss the performance of each business segments, and respond to change in business environment, market conditions and operation. All matters of a material nature are put forward by the management for the consideration and to be resolved by the Board and in general meetings in accordance with procedures laid down in the Articles.

The Group continues to promote computerized management of its business process. Major business operations such as the operations of its container loading and unloading business and shipping agent business are controlled and monitored by computer systems. In order to ensure the stability and reliability of the computer systems, the operating systems are operated by trained professionals, checked regularly and upgraded where necessary. All the data are backed up in a timely manner, and contingency plans are drawn up for emergencies to ensure safety.

**(3) Compliance control**

Subject to the applicable laws and regulations, the Group has continuously regulated and improved its internal control system with regard to the management of its business transactions with outsiders. Business transactions with external parties and issues in respect of the intellectual property rights are handled in accordance with the required procedures set out in "Measures for the Administration of Examination and Approval of Contracts" of the Company in a prudent manner. Legal professionals are employed by the Company to offer advice on the legality and compliance of its major business decisions and working in conjunction with the respective departments in respect of the specific projects. The Secretary to the Board will make arrangements to consult Hong Kong and PRC lawyers, when necessary, for opinions on specific legal matters.

The Group strictly complies with the relevant information disclosure requirements under the Listing Rules. With respect to the procedures and internal control for the handling and dissemination of price sensitive information, the Company has complied with the relevant code provisions of the Listing Rules. The Company's policy includes a strict prohibition on any unauthorised use of confidential or insider information. Besides, procedures have been established and implemented for responding to external enquiries about the Group's affairs.

The Group emphasizes the internal control in respect of major issues, such as connected transactions, with a view to ensure that such issues can be summed up and reported to relevant parties on a timely basis and to maintain the accuracy and timely dispatch of the various periodic and interim reports of the Company. Also, the Group followed the requirements under the Listing Rules and has already established and perfected its control system and procedures for connected transactions. Professionals were designated by all enterprises under the Group to calculate and aggregate connected transaction information on a regular basis. The negotiation and execution of contracts relating to connected transactions were reviewed carefully by management of appropriate grades to ensure the Group's pricing policies were followed. The contracts were submitted to the Board or the general meeting pursuant to procedures for review and approval and were disclosed to the public in a timely manner, so as to ensure that such connected transactions, as well as their decision making process and information disclosure complied with the relevant rules and regulations.

**(4) Risk management**

Since its establishment, the Group has formulated various risk control regulations in respect of the management in the operation and disposal of assets, major agreements, information system security and equipment procurement, which are to standardize the operation and reduce the associated risks. Based on the actual situation of new share subscription, the Group approved rules such as the "Administrative Measures governing Subscription Money for New Shares" by Board resolution in 2008, in an attempt to control the risk relating to new share subscription and strengthen its fund management.

The management of the Company had numerous discussions regarding the effectiveness of the risk management and internal control system with the relevant Directors. Taking into account the economic situations and the relevant management requirements, risk investigation and control work have commenced particularly in the aspects under main risk control and the operation of the relevant industry, so as to enhance the risk control. The Company believes that the continuous upgrade of its internal control system and the effective operation of its internal control mechanisms are conducive to the Company's timely responses and solutions to the risks that may be faced by the Company and will better safeguard the interests of customers and shareholders.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company originally adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, and with regard to the Company's actual circumstances, the Company has prepared a Model Code for Securities Transactions by Directors for Xiamen International Port Co., Ltd (the "Code") on terms no less than the required standard set out in the Model Code in 2006. The Code was adopted as the code of conduct for securities transactions by the Directors, Supervisors and senior management of the Company after the consideration and approval by the Board of the Company. Upon the Company's specific enquiries, all Directors, Supervisors and senior management confirmed that they have complied with the standards set out in the Model Code and the Code throughout the Reporting Period, and the Company has not been aware of any violations of this kind during the Reporting Period.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors declare that they are responsible for the preparation of the financial statement for each financial year which gives a true and fair view of the results and financial conditions of the Company and the Group. The Directors considered that, in preparing the accounts for the year ended 31 December 2008, the Group has adopted appropriate accounting policies, applied them consistently and complied with all relevant accounting standards. Having made appropriate enquiries, and judgments and estimates that are prudent and reasonable, the Directors also considered that it is appropriate to have adopted and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records and to make reasonable accurate disclosure at any time in respect of the financial position of the Group.

## SHAREHOLDERS' RIGHTS

The Board and senior management of the Company fully understand their responsibilities to act on behalf of the interests of the shareholders as a whole and to strive to enhance shareholders' value.

In order to ensure that shareholders can express their intentions freely in general meetings, the rights of shareholders and the rights, notices, procedures and voting pertinent to general meetings are clearly and adequately provided for in Chapters 7 and 8 of the Articles respectively. Besides, all Directors and members of the management give their full support by attending general meetings, which is regarded by the Board of the Company as an important platform for communications between the Company and its shareholders. Queries from shareholders and other attendants are addressed with a positive attitude. To facilitate shareholders to enforce their rights in general meetings, material matters will be considered by way of a separate resolutions at the general meeting.

The Company has been actively establishing a number of communication channels through which shareholders can understand in a timely manner the operating conditions and any announcements and related news and information disseminated by the Company. Shareholders are able to send their enquiries to the Board through the Joint Company Secretaries or the alternate authorized representatives at the Company's principal places of business in Xiamen, the PRC or Hong Kong.

## INVESTOR RELATIONSHIP

The Company continued to make an active effort in promoting its investor relationship and enhancing its communications with investors. The Secretary to the Board, who is primarily responsible for the investor relationship of the Company, is responsible for the disclosure and communication of information to the public. During the Reporting Period, the Company had maintained close contacts with the media, analysts and fund managers via different channels, such as holding one-on-one briefings, telephone conferences and on-site visits, during which the Executive Directors answered questions about the Group's operational and financial performance, so as to give them an understanding of the Company's latest developments and allow the Executive Directors to respond to any enquiry in a timely manner.

The Company has adopted and implemented a fair, transparent and timely policy and practices of disclosure. Before any particular meeting with investors or analysts is convened, all price sensitive information or data should have been announced to the public. In order to facilitate the effective communication, we disclose detailed information in the annual reports and interim reports, and pursuant to requirements of the Stock Exchange, publish on the Company's website www.xipc.com.cn the latest announcements of the Group as well as updates of the Group and its business development by electronic means. The Company welcomes shareholders and investors to make enquiries to the Company through its webpage on Investor Relationship (the detailed means of contact are set out in the Company's website).

While upholding the principles of transparency, honesty, fairness and openness, the Company will continue to maintain smooth communication channels with the general public, and continue to enhance its corporate governance standard so as to promote the healthy development of the Company in a sustainable manner based on its past experience, regulatory changes and shareholders' feedback.

By Order of the Board
**ZHENG Yongen**
*Chairman*

Xiamen, the PRC
17 April 2009

# Biographies of Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. ZHENG Yongen**, aged 51, is the Chairman and an Executive Director of the Company. He graduated in 1982 from Tianjin University with a bachelor's degree in port engineering and is a Senior Engineer. He was an assistant engineer and an assistant of the Xiamen port construction command department and the executive deputy head of the Haicang port construction command department from September 1982 to 1996. He was the general manager of the Port Development Co., Ltd. from August 1996 to January 1998. He was the Director and deputy general manager of Xiamen Port (Group) Co., Ltd., from January 1998 to March 2005. He also acts as a Director of Xiamen Haicang Port Co., Ltd. since April 2001, a Director and the general manager of Xiamen Port Labour Services Co. Ltd. from March 2002 to early February 2006. Since January 2005, he has been a Director of Xiamen Port Holding and was a Non-executive Director of the Company from March 2005 to 9 April 2007. He has been appointed as an Executive Director, Chairman and legal representative of the Company on 10 April 2007. He was the general manager of Xiamen Port Holding Group Co., Ltd (Xiamen Port Holding") from July 2005 to January 2007 and acts as Chairman of Xiamen Port Holding since February 2007.

**Mr. CHEN Dingyu**, aged 52, is the deputy Chairman and an Executive Director of the Company. He graduated in 1999 from the Central Party School with a bachelor's degree in economics and management and is an Engineer. From 1980 to January 1998, he worked as the captain of the tug company and a technician of the technical department at Xiamen Harbour Bureau as well as deputy manager, manager and the party secretary of Xiamen Port Shipping Company. From January 1998 to March 2005, he was a Director and deputy general manager of Xiamen Port (Group) Co., Ltd. He acts as a Non-executive Director of Xia Ning Shipping Co. Ltd. since August 2003. Since January 2005, he has been a Director of Xiamen Port Holding. He has been the deputy Chairman and an Executive Director of the Company since March 2005. He was also deputy general manager of Xiamen Port Holding from July 2005 to January 2007, and became the general manager of Xiamen Port Holding since February 2007.

**Mr. FANG Yao**, aged 49, is an Executive Director and the general manager of the Company. He graduated in 1982 from Shanghai Shipping Institute with a bachelor's degree in harbour engineering and is a Senior Engineer. He joined Xiamen Harbour Bureau in October 1982 and was a technician of the Heping terminal operating area, deputy leader of the mechanical team, deputy head of the technical office and deputy head of the harbour engineering factory of the Dongdu operating area and deputy manager of the Shihushan terminal operating area from October 1982 to June 1998. He was manager of the harbour supervision company of Xiamen Port (Group) Co., Ltd. from June 1998 to April 2001 and had been the party secretary of Xiamen Haitian Company from April 2001 to October 2005. Other than his work as party secretary, he was also responsible for production, business, human resources, safety, security and corporate culture construction of Xiamen Haitian Company. He has been an Executive Director and the general manager of the Company since March 2005.

## Biographies of Directors, Supervisors and Senior Management

**Mr. HUANG Zirong**, aged 46, is an Executive Director and a deputy general manager of the Company. He graduated in August 1983 from Shanghai Jiaotong University with a bachelor's degree in mechanics and obtained a master of business administration degree from the School of Management of Xiamen University in October 2000 and is a Senior Engineer. He joined Xiamen Harbour Bureau in 1983 and was a technician and deputy leader of the mechanical team of Dongdu operating area, deputy supervisor and deputy head of the harbour engineering factory from August 1983 to October 1990. He was the deputy general manager of Xiamen Port Container Company from October 1990 to April 2001. He was the general manager of Xiamen Port (Group) Co., Ltd Haitian Port Services Branch from April 2001 to March 2002. He has been the general manager of Xiamen Haitian Company since March 2002. Mr. Huang has been an Executive Director and a deputy general manager of the Company since March 2005.

**Ms. HONG Lijuan**, aged 45, is an Executive Director, a deputy general manager and the Company Secretary of the Company. She graduated from Xiamen University with a bachelor's degree in chemistry in 1985 and a master's degree in science in 1988 respectively. From October 1998 to May 2002, Ms. Hong studied at a graduate MBA course at the graduate school of Xiamen University. She is a Senior Engineer. She worked for the technical department of Xiamen Harbour Bureau as an assistant engineer and engineer as well as an interpreter in contract negotiations from July 1988 to January 1995; and was an assistant head of the environmental monitoring station of Xiamen Harbour Bureau from January 1995 to June 1998. She then became the deputy manager of the administration department of Xiamen Port (Group) Co., Ltd. from June 1998 to April 2001. She was the head of the office of Xiamen Port (Group) Co., Ltd. (including Administration Department) from April 2001 to March 2005. From April 2004 to March 2005, she was also a Director of Xiamen Port (Group) Co., Ltd.. Ms. Hong has been the Secretary to the Board since March 2005 and also acts as deputy general manager of the Company since November 2006; and she has been an Executive Director of the Company since 8 June 2007.

### Non-executive Director

**Mr. FU Chengjing**, aged 47, is a Non-executive Director of the Company. He graduated in 1983 from Jiangxi Institute of Finance and Economics with a bachelor's degree in economics and is an Accountant. He has been a staff and section member of the office of the Xiamen Finance Bureau, deputy head of credit finance management office, deputy head and head of the industry and communication office and office head of the Xiamen Finance Bureau from August 1983 to February 2004. From February 2004 to March 2005, he was a Director and deputy general manager of Xiamen Port (Group) Co., Ltd. Since January 2005, Mr. Fu has been a Director of Xiamen Port Holding; and also a Non-executive Director of the Company since March 2005. He has been deputy general manager of Xiamen Port Holding since July 2005 and also acts as its chief accountant since February 2007.

**Ms. MIAO Luping**, aged 45, is a Non-executive Director of the Company. She graduated in 1992 from the economics department of Xiamen University with a master's degree in global economics and is a Senior Economist. She worked for the Fujian Branch of the China Rural Development Trust and Investment Company from July 1992 to January 1994. She was the deputy general manager of the development and operations department, deputy head of the chief accountant office and manager of the capital settlement centre of the Xiamen City Road and Bridge Construction and Investment General Corporation from January 1994 to March 1999. She worked for Xiamen Luqiao Joint Stock Company Limited as the managing director from March 1999 to September 2004. She has been a Director of Xiamen Port Development Co., Ltd. ("Xiamen Port Development"), a company listed on the Shenzhen Stock Exchange in the PRC, since September 2004. From September 2004 to March 2005, she was a Director and the chief economist of Xiamen Port (Group) Co., Ltd. Since January 2005, she has been a Director of Xiamen Port Holding and also acts as a Non-executive Director of the Company since March 2005. She became the chief economist of Xiamen Port Holding in July 2005 and has been the deputy general manager and the chief economist of Xiamen Port Holding since February 2007.

**Mr. LIN Kaibiao**, aged 43, is a Non-executive Director of the Company. He graduated in 1991 from the Dalian Maritime University with a master's degree in transportation management and engineering and is an Economist. He joined Xiamen Harbour Bureau in 1991 and worked as an instructor for engineering classes, deputy head and head of office, manager of the commercial operations department and deputy general manager of Dongdu Port Services Company from 1991 to March 2001. He was a Director and the general manager of Dongdu Terminal Company Limited as well as the Chairman and the general manager of Xiamen Dongling Company, an Executive director and the general manager of Xiamen Domestic Shipping Agency and a Director and general manager of Xiamen Lurong Water-Rail Company from April 2001 to June 2004. Mr. Lin was a Director of Xiamen Port (Group) Co., Ltd. from April 2004 to March 2005. He was the Chairman of the board of directors of Xiamen Port Logistics Co., Ltd. from September 2004 to April 2006, and also a Director of Xiamen Waili Tallying Co., Ltd. from March 2005 to March 2006. He became the manager of the operations management department of Xiamen Port (Group) Co., Ltd. in June 2004 and also acts as a Director of Xiamen Port Development (a company listed on the Shenzhen Stock Exchange in the PRC) since September 2004. In March 2005, he was appointed as an Executive Director and a deputy general manager of the Company and has been re-designated as a Non-executive Director of the Company on 10 April 2007. He has been appointed as a deputy general manager of Xiamen Port Holding since February 2007.

**Mr. KE Dong**, aged 49, is a Non-executive Director of the Company. He graduated in 1982 from Shanghai Shipping Institute with a bachelor's degree in English. From December 2003, he commenced his EMBA studies at the School of Management of Xiamen University. He is an Economist. He joined Xiamen Harbour Bureau in 1982, where he was a service representative from 1982 to 1984, the deputy general manager of the Xiamen Ocean Shipping Agency from November 1984 to February 2001, and also the general manager of Xiamen Penavico International Freight from June 1999 to December 2000, then became the general manager of Xiamen Port Logistics from February 2001 to July 2004. He had been a Director and general manager of Xiamen Port Development, a company listed on the Shenzhen Stock Exchange in the PRC, from August 2004 to April 2006; and he has been the Chairman of Xiamen Port Development since April 2006. He also acts as a Non-executive Director of the Company since March 2005.

# Biographies of Directors, Supervisors and Senior Management

## Independent Non-executive Directors

**Mr. HUANG Shizhong**, aged 47, is an Independent Non-executive Director of the Company. He obtained a doctoral degree in economics from the accountancy department of Xiamen University in 1993. He is the deputy head of the Xiamen State Accountancy School, a professor and a supervisor of doctoral candidates of the accountancy department of Xiamen University and a consulting member of the Accounting Standards Committee of the Ministry of Finance. He is also a member of the national steering committee of the Master's Degree in Professional Accounting Education and the Auditing Standards Committee of the Chinese Institute of Certified Public Accountants and a standing director and also academic committee member of China Accounting Society and was a chief partner and Certified Public Accountant of Xiamen Tianjian Certified Public Accountants. Currently, he is also an Independent Non-executive Director and the Chairman of Audits Committee of the Board of Directors of Bank of China Limited, an Independent Non-executive Director and the Chairman of Audit and Risk Management Committee of China Sinosteel Co., Ltd. He has been appointed as an Independent Non-executive Director of the Company since March 2005.

**Mr. ZHEN Hong**, aged 51, is an Independent Non-executive Director of the Company. He graduated in 1982 from Shanghai Maritime University with a bachelor's degree in port mechanics and a master of engineering degree in transportation management and engineering in 1988, and a doctor of science degree in management science and engineering from Fudan University in 1998. He was the head of the management department and then the registrar of Shanghai Maritime University (formerly Shanghai Shipping Institute). Currently, he is the director of development and planning department (the deputy director of Higher Education Research Institute) and a professor and supervisor of doctoral candidates in communication and transport planning and management of Communication and Transportation College of the Shanghai Maritime University and one of candidates of the first level of new century project of "thousands of talents" of the Ministry of Communications. He is also the standing director of China Association of Productivity Science, the deputy director and general secretary of marine transportation subcommittee of the teaching steering committee of China Communication and Transportation discipline and a director of the China Communication and Transport System Engineering Institute and of the China Technical Economic Research Institute and the deputy director of Shanghai International Shipping Center. He has been appointed as an Independent Non-executive Director of the Company since March 2005.

**Mr. HUI Wang Chuen**, aged 65, is an Independent Non-executive Director of the Company. He graduated in 1968 from the Chemistry Department of Xiamen University. He worked for the Industry Bureau of Ningde City in Fujian Province from 1970 to 1974. He is the chairman of Kong Hee Enterprise Ltd., Fujian Fubao Paper Co. Ltd and Fuzhou Fubao Colour Printing Co., Limited. He has been appointed as an Independent Non-executive Director of the Company since March 2005.

## SUPERVISORS

**Mr. FANG Zuhui**, aged 52, is the Chairman of the supervisory committee of the Company. Mr. Fang graduated from Xiamen Normal Technical College in February 1982. He is a Political Instructor with tertiary education. He taught at Xiamen Houxi Middle School from February 1982 to March 1985. He was the secretary of Xiamen suburban government office from March 1985 to December 1986. He was an officer, deputy head and head of the organising office of the urban administration committee of Xiamen and an organiser at the deputy bureau level of the city administration office of Xiamen from December 1986 to January 1998. From January 1998 to March 2005, he has been the deputy party secretary and the deputy Chairman of the supervisory committee of Xiamen Port (Group) Co., Ltd. He has been the Chairman of the supervisory committee of the Company since March 2005. From July 2005, he has been the deputy party secretary of Xiamen Port Holding and also acts as its deputy Chairman since February 2007.

**Mr. LUO Jianzhong**, aged 54, is a Supervisor of the Company. He graduated in 1975 from the School of Communications Engineering of the People's Liberation Army and is an Economist. In 1996, he graduated in Electronic Counter Measures from Electronic Engineering College. He stationed at the Fuzhou and Nanjing Military Regions as the staff officer, battalion commander, deputy head and head of communications office from 1970 to 1995. He was an assistant to the head of Xiamen Harbour Bureau from 1995 to 1998. From January 1998 to March 2005, he was the chairman of the trade union and a Supervisor of Xiamen Port (Group) Co., Ltd. He acts as a Non-executive Director and the Chairman of Xiamen Port Electromechanic Engineering Co. Ltd. since March 2002 and the chairman of the supervisory committee of Xiamen Port Development since July 2004. Mr. Luo has been a Supervisor of the Company since March 2005. He has been appointed as the Chairman of the trade union of Xiamen Port Holding since July 2005.

**Mr. WU Jianliang**, aged 46, is a Supervisor of the Company. He graduated in 1996 from the distance learning school of the Central Party School with a professional undergraduate qualification in foreign economics and is a Political Instructor. He was a telegram staff in the navy from November 1980 to November 1985. He worked as tally staff and committee member of the branch party of Xiamen Ocean Shipping Tally Company from December 1985 to May 1991. He was the corporate management officer, secretary to the office and officer of the political office of Xiamen Harbour Bureau from June 1991 to May 1998. He was secretary to the office of the Group from June 1998 to September 2001. He was the manager of the administration department, deputy Chairman of the trade union and deputy secretary of the disciplinary committee of Xiamen Haitian Company from October 2001 to April 2005; and he became the Chairman of the trade union of Xiamen Haitian Company in February 2006. He has been a Supervisor of Xiamen Haitian Company since March 2002. Since April 2005, he has been the deputy party secretary of Xiamen Haitian Company. He has been a Supervisor of the Company since March 2005.

**Mr. Wu Weijian**, aged 50, is the Staff Representative Supervisor of the Company. He graduated from the distance learning school of the Central Party School and obtained a college diploma in party and politics in 1996 and is a senior political engineer. He was the sub-team leader of the port loading and unloading team of Xiamen Harbour Bureau from December 1976 to March 1978. He then served in a division of the People's Liberation Army of the PRC as soldier, squad leader and acting platoon leader from March 1978 to October 1981. From October 1981 to June 1983, he was the dispatch head of the port loading and unloading team of Xiamen Harbour Bureau. From July 1983 to December 1992, he was the deputy secretary and then the secretary of the party branch of Haibin Loading and Unloading Company of Xiamen Harbour Bureau. He was then the deputy head and the person-in-charge of the party branch of the preparatory office of Shihushan Terminal of Xiamen Harbour Bureau from December 1992 to October 1994. Then from December 1994 to April 2001, he was the secretary of the party branch of Xiamen Port Group, Shihushan Terminal Branch. Since April 2001, he has been the party secretary of Xiamen Port Group, Dongdu Port Branch (which was renamed as Xiamen Port Development Dongdu Branch, in December 2004). He has also been the Director of Xiamen Lurong Water-Railway Joint Transportation Co., Ltd since September 2001, and the Supervisor of Xiamen Port Development (a company listed on the Shenzhen Stock Exchange in the PRC) since July 2004. Since 23 October 2008, he has also been the Staff Representative Supervisor of the Company.

**Mr. TANG Jinmu**, aged 43, is an independent Supervisor of the Company and a senior accountant. He graduated in 1988 from the accountancy department of Xiamen University with a bachelor's degree. He obtained a master of business administration degree from the Open University of Hong Kong in December 2002. He has been studying for a doctoral degree in the finance department of Xiamen University since September 2005. He worked for Xiamen Finance Bureau from September 1988 to June 1994. He was deputy head of Xiamen Certified Public Accountants and head of Xiamen Asset Valuation Office from July 1994 to December 1998. He worked for Xiamen Huatian Certified Public Accountants from January 1999 to October 2000 and as a partner of Xiamen Tianjian Huatian Certified Public Accountants from November 2000 to December 2001. He is the secretary general of the Xiamen Institute of Certified Public Accountants and is also the secretary general of Xiamen Asset Appraisal Association since January 2002. He has been a Supervisor of the Company since March 2005.

**Mr. HE Shaoping**, aged 52, is an independent Supervisor of the Company. He graduated in 1982 from the Fujian Forestry Institute and studied the master's degree programme in accountancy at the graduate school of Xiamen University in 1992. He is a senior accountant, auditor, asset valuer and with a qualified license for issuing and underwriting of securities. He taught at the accountancy department of Jimei Finance and Economics Institute for eleven years and was the head of Xiamen Jiyou Certified Public Accountants as well as directors, supervisors and financial controllers of a number of large industrial, commerce and trading and real estate companies. He is the manager of the audit department of Xiamen Housing Construction Group Co., Ltd. He has been a Supervisor of the Company since March 2005.

## COMPANY SECRETARY*

**Ms. HONG Lijuan**, aged 45, is the company secretary of the Company. For further details regarding Ms. HONG Lijuan, please refer to the section headed "Executive Directors" above.

* Ms. HONG Lijuan, one of the joint company secretaries of the Company, met the requirements of a Company Secretary under Rule 8.17(3) of the Listing Rules upon confirmation from the Stock Exchange. Pursuant to the resolution passed at the sixth meeting of the second session of the Board of the Company on 16 December 2008, Ms. HONG Lijuan served as the sole Company Secretary of the Company with effect from 18 December 2008. As such, Mr. NGAI Wai Fung resigned as one of the joint Company Secretaries of the Company with effect from 18 December 2008.

## SENIOR MANAGEMENT

### FANG Yao, General Manager

Mr. FANG Yao is one of the Executive Directors of the Company. For further details regarding Mr. FANG Yao, please refer to the section headed "Executive Directors" above.

### HUANG Zirong, Deputy General Manager

Mr. HUANG Zirong is one of the Executive Directors of the Company. For further details regarding Mr. HUANG Zirong, please refer to the section headed "Executive Directors" above.

### HONG Lijuan, Deputy General Manager

Ms. HONG Lijuan is one of the Executive Directors of the Company. For further details regarding Ms. HONG Lijuan, please refer to the section headed "Executive Directors" above.

# Biographies of Directors, Supervisors and Senior Management

**ZHANG Yibing**

Mr. ZHANG Yibing, 39, the qualified accountant and head of the audit department of the Company, graduated from Jimei Finance Technical College in July 1991 and obtained a bachelor of science degree with honours in Applied Accounting from Oxford Brookes University in December 2003. Mr. Zhang is a chartered certified accountant and was admitted as a member of the Association of Chartered Certified Accountants in England on 15 April 2004. Mr. Zhang is employed by the Company on a full-time basis and as a member of senior management. His responsibilities include overseeing accounting, financial and tax management and internal control of the Group. Mr. Zhang was appointed as a member of senior management of the Company by the Board. He performs managerial functions in the financial division of the Company. He is also a senior auditor, PRC certified public accountant, registered asset appraiser and registered tax adviser. From July 1991 to July 2002, Mr. Zhang served at Xiamen Audit Bureau and Xiamen Auditing Firm. From June 2001 to December 2003, Mr. Zhang attended an ACCA study course. From February 2004 to May 2005, he was an audit manager at InTec Products, Inc, (Xiamen). In June 2005, Mr. Zhang was appointed by the Board as the qualified accountant and a member of senior management of the Company. Since August 2006, he has been the head of the audit department of the Company.

**LU Jianwei**

Mr. LU Jianwei, 37, the financial controller of the Company, is an Economist and PRC certified public accountant. He graduated from the school of business administration of Jiangxi Finance University in 1999 with a master's degree in economics. He is currently studying a doctoral degree in financial management at Xiamen University on a part-time basis. He worked for Nanyue Oil Pump and Nozzle Co., Ltd. in Hengyang, Hunan from 1994 to 1996. From 1999 to March 2005, Mr. Lu served at the corporate management department of Xiamen Port (Group) Co., Ltd. and was the deputy manager of the corporate management department of the Company from July 2001 to March 2005. He was the manager of the finance department of the Company from March 2005 to November 2005. He has been appointed the financial controller of the Company since November 2005.

# Report of the Directors

The Board of the Company hereby presents the report of the directors and the audited financial statements of the Group for the year ended 31 December 2008 (the "Year").

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

During the Year, the Group is principally engaged in (i) container, bulk and general cargo loading and unloading businesses, and (ii) ancillary value added port services including port-related logistics, shipping agency, tugboat berthing and unberthing services, tallying and (iii) building materials manufacturing, processing and selling and the trading of industrial products (collectively the "Core Businesses"). Besides the Core Businesses, the Group is also engaged in long-term investment business. The principal activities of our subsidiaries are set out in Note 43(a) to the financial statements.

Details of the Group's operating results for the Year by business segments are set out in Note 28 to the financial statements.

No analysis by geographical segment is presented as the Core Businesses of the Group are mainly conducted in Xiamen city, the PRC and all of the Group's activities are conducted in the PRC.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Given that the revised Company Law became effective on 1 January 2006 and in accordance with the relevant approval from the State-Owned Assets Supervision and Administration Commission of the State Council, the 18,300,000 shares of the Company held by Xiamen Road & Bridge Construction Group Co., Ltd were transferred to Xiamen Port Holding Group Co., Ltd ("Xiamen Port Holding"). To reflect the above changes, necessary amendments made to certain provisions of the Articles of the Company, such as domestic shareholders and the composition of the Supervisory Committee, were approved at the 2007 Annual General Meeting of the Company held on 20 June 2008 by a special resolution. Please refer to the announcement and circular published by the Company on 29 April 2008 for details of the amendments.

In respect of matters to the above changes of the Articles, the Company has already completed the corresponding changing procedures for a Certificate of Approval for Establishment of Enterprises with Foreign Investment with the Ministry of Commerce of the PRC on 11 November 2008 and for a Business License with the Xiamen Administration Bureau for Industry and Commerce on 24 November 2008 respectively. It has also completed the relevant filing formalities for the amendments to the Articles in accordance with the relevant laws and regulations of the PRC and Hong Kong.

## RESULTS

The Group's results for the Year are set out in the consolidated income statement on page 80.

## FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB5.5 cents per share, aggregating RMB149,941,000 to all shareholders whose names appeared on the registers of members on 18 June 2009 (being the record date), subject to the consideration and approval of the same at the forthcoming annual general meeting to be held on 19 June 2009.

## RESERVES

Details of movements in reserves of the Group and the Company during the Year are set out in Note 27 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the Year are set out in Note 5 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group in the Year were approximately RMB2,264,210 in aggregate.

## SHARE CAPITAL

The table below sets out the share capital structure of the Company as at 31 December 2008:

| Class of shares | Number of shares | Proportion (%) |
|---|---|---|
| Domestic shares | 1,739,500,000 | 63.81 |
| H Shares | 986,700,000 | 36.19 |
| Total | 2,726,200,000 | 100.00 |

There was no movement in the share capital of the Company during the year ended 31 December 2008.

## RESERVES AVAILABLE FOR DISTRIBUTION

Pursuant to the PRC Company Law, the Company may distribute a dividend only out of the profit currently available for distribution, being the balance of the net profit after tax of the Company after deducting (i) accumulated losses of prior years, and (ii) allocations to the statutory surplus reserve and, if any, the discretionary surplus reserve (in order of their priorities). Pursuant to the Articles of the Company, in determining the profit available for distribution, the profit after tax of the Company shall be the lower of the profit after tax calculated in accordance with (i) the PRC Accounting Standards and Regulations and (ii) the generally accepted accounting principles in Hong Kong.

On 31 December 2008, the amount of reserves available for distribution, calculated on the above basis, was approximately RMB326,132,962.

## PRE-EMPTION RIGHTS

Pursuant to the Articles of the Company and the PRC laws, there is no provision for pre-emption which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## SHARE OPTION SCHEME

The Company didn't carry out any share option schemes.

## FINANCIAL HIGHLIGHTS

Highlights of the Group's results and assets and liabilities are set out on page 6 and 7.

## PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the securities (as defined in the Listing Rules) of the Company.

## ACQUISITIONS AND DISPOSALS

During the Year, the Group did not make any major acquisition or disposal of its subsidiaries, jointly controlled entities and associated companies.

## DIRECTORS AND SUPERVISORS

As at 31 December 2008, the Board comprises twelve Directors, including five Executive Directors, namely Mr. ZHENG Yongen, Mr. CHEN Dingyu, Mr. FANG Yao, Mr. HUANG Zirong and Ms. HONG Lijuan; four Non-executive Directors, namely Mr. FU Chengjing, Ms. MIAO Luping, Mr. LIN Kaibiao and Mr. KE Dong; and three Independent Non-executive Directors, namely Mr. HUANG Shizhong, Mr. ZHEN Hong and Mr. HUI Wang Chuen. The Supervisory Committee comprises six Supervisors, including four Supervisors, namely Mr. FANG Zuhui, Mr. LUO Jianzhong, Mr. WU Jianliang and Mr. WU Weijian (being a staff representative supervisor newly appointed during the Year); and two independent Supervisors, namely Mr. TANG Jinmu and Mr. HE Shaoping.

In accordance with the Articles of the Company, each Director and Supervisor shall be appointed for a term of three years. Upon the expiry of his or her term of service, a Director or Supervisor shall be eligible for re-election. Also, there is no requirement of retirement by rotation specified in the Articles of the Company. On 29 February 2008, all the above Directors of the Company and four Supervisors including Mr. FANG Zuhui, Mr. LUO Jianzhong, Mr. TANG Jinmu and Mr. HE Shaoping were re-elected at the first extraordinary general meeting of the Company in 2008 (Mr. WU Jianliang is a staff representative supervisor and was also re-elected at the staff representative meeting of the Company). On that same day, at the first meeting of the second session of the Board of the Company, Mr. ZHENG Yongen was elected as the Chairman, and Mr. CHEN Dingyu was elected as the deputy Chairman. Ms. HONG Lijuan, one of the directors, was appointed as the Secretary. Mr. FANG Zuhui was also elected as the Chairman of the Supervisory Committee at the first meeting of the second session of the Supervisory Committee of the Company. Also, pursuant to the relevant requirements under the amended Articles of the Company, of which such amendments were approved at the 2007 Annual General Meeting of the Company, the number of member of the Supervisory Committee of the Company was changed from five to six, with an increase of one more staff representative supervisor of the Company. Thus, Mr. Wu Weijian was elected as a new staff representative supervisor of the Company as resolved at the staff representative meeting held by the Company on 23 October 2008.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

When members of the Board and the Supervisory Committee of the Company were reappointed and the new staff representative supervisor was appointed, each of the Directors and Supervisors had already entered into a service contract with the Company for a term of not more than three years (among them, the term of office for Mr. WU Weijian as a Supervisor commenced from 23 October 2008 and terminated on the expiry of the term of the second session of the Supervisory Committee of the Company, while the terms of office for other Directors and Supervisors commenced from 29 February 2008 and terminated on the expiry of the term of the second session of the Board or the Supervisory Committee of the Company).

The Company did not enter into a service contract with any Director or Supervisor, which is indeterminable by the Company within one year without payment of compensation, other than statutory compensation.

## REMUNERATION OF THE DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors are set out in Note 37 to the financial statements.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Other than the service contracts, the Directors or Supervisors did not have any contracts of significance to which the Company or its subsidiaries, its holding company or its subsidiaries was a party and in which a Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the Year.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Apart from the aforesaid reappointment of the Board, the Secretary and members of the Supervisory Committee as well as the new appointment of the Supervisory Committee member, at the third meeting of the second session of the Board held on 6 August 2008, Mr. FANG Yao was re-appointed as the general manager, Mr. HUANG Zirong and Ms. HONG Lijuan were re-appointed as the deputy general managers, Mr. LU Jianwei was re-appointed as the financial controller, and Mr. ZHANG Yibing was re-appointed as the qualified accountant.

Ms. HONG Lijuan, one of the joint company secretaries of the Company, met the requirements of a company secretary under Rule 8.17(3) of the Listing Rules upon confirmation from The Stock Exchange. Pursuant to the resolution passed at the sixth meeting of the second session of the Board of the Company on 16 December 2008, Ms. HONG Lijuan served as the sole company secretary of the Company with effect from 18 December 2008. As such, Mr. NGAI Wai Fung resigned as one of the joint company secretaries of the Company with effect from 18 December 2008.

Biographies of Directors, Supervisors and senior management are set out on pages 47 to 54.

## RIGHTS TO ENABLE DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the Year, the Company, any of its subsidiaries, its holding company or any of its fellow subsidiaries did not grant any right and was not a party to any arrangement which would enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate, nor was any of such rights exercised.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2008, none of the Directors, Supervisors or their associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any Director or Supervisor is deemed or taken to be under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, none of the Directors and Supervisors of the Company had any interests in a business which competes, either directly or indirectly, with businesses of the Company or the Group.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2008, so far as was known to the Directors of the Company, the following persons (other than the Directors or Supervisors) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of shareholder | Class of Share | Number of shares | Capacity | As a % of the relevant class of share capital | As a % of the total share capital |
|---|---|---|---|---|---|
| Xiamen Port Holding | Domestic Shares | 1,684,600,000 (Long position) | Beneficial owner | 96.84% | 61.79% |
| Platinum Investment Management Limited (Note 1) | H Shares | 96,705,000 (Long position) (Note 3) | Trustee | 9.80% | 3.55% |
| | H Shares | 2,814,000 (Long position) | Investment Manager | 0.29% | 0.10% |
| China Shipping (Group) Co. (Note 2) | H Shares | 78,894,000 (Long position) | Interest of controlled corporation | 8.00% | 2.89% |
| China Shipping (Hong Kong) Holdings Co., Limited (Note 2) | H Shares | 78,894,000 (Long position) | Interest of controlled corporation | 8.00% | 2.89% |
| China Shipping Terminal Development (Hong Kong) Company Limited (Note 2) | H Shares | 78,894,000 (Long position) | Beneficial owner | 8.00% | 2.89% |
| Merrill Lynch & Co Inc | H Shares | 58,281,100 (Long position) | Interest of controlled corporation | 5.91% | 2.14% |

Note 1: Platinum Investment Management Limited holds 99,519,000 shares in total, representing 10.09% of H shares capital and representing 3.65% of total shares capital.

Note 2: The 78,894,000 shares referred to the same batch of shares.

Note 3: The 96,705,000 shares are held by Platinum Asia Fund.

Save as disclosed above, as at 31 December 2008, so far as was known to the Directors of the Company, no other persons (other than the Directors or Supervisors) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

## MANAGEMENT CONTRACTS

During the Year, no contract in respect of the management or administration of the entire business or any significant business of the Group was entered into by the Company or existed.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the five largest customers of the Group accounted for less than 30% of the Group's total sales; and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases.

## CONNECTED TRANSACTIONS

In 2008, the Company and/or its relevant subsidiaries entered into the following one-off transactions with the relevant connected parties.

On 29 August 2008, the Company and XHICT entered into the Marine Structure Engineering Works of Berth Number 1 Transfer Agreement which stipulated that the Company shall transfer to XHICT the ownership of the marine structure engineering works of Berth No. 1 of Haicang Port area in Xiamen ("Berth Marine Engineering Works") for a total consideration of RMB407,380,400. All taxes and fees incurred by the transfer of the Berth Marine Engineering Works shall be borne by both parties respectively in accordance with the relevant requirements of the People's Government of the PRC and Xiamen City. The aforesaid consideration of the transfer was determined through mutual negotiation between both parties based on a valuation by an appraisal institution recognized by them, and the transfer at such consideration was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Xiamen City. The formalities of the transfer of the Berth Marine Engineering Works assets were completed by the Company and XHICT, and the aforesaid consideration of the transfer was received in full on 9 December 2008. Please refer to the Company's announcement dated 29 August 2008 and circular dated 25 September 2008 published on the websites of the Stock Exchange and the Company for details of the aforesaid transfer.

On 30 December 2008, the seventh meeting of the second session of the Board of the Company resolved to approve Xiamen Port Power Supply Service Co., Ltd ("XPS", a non-wholly owned subsidiary directly held by the Company) to enter into the Work Construction Contracts (Draft) with each of XICT and XHICT, in relation to the project on the expansion work of the transformer station located in Haicang Port area in Xiamen ("Transformer Station Project"). Pursuant to which, XPS shall undertake the construction and installation work of the Transformer Station Project on a general contractor basis. The provisional considerations for the construction contracts of the aforesaid two transactions are RMB3,130,000 and RMB2,170,000 respectively. The maximum amount of the two transactions after settlement is initially estimated to be not exceeding RMB6,000,000, calculated on aggregate basis under the relevant requirements of the Listing Rules. On 9 January 2009, the contracts for the two said transactions were formally executed.

The Company has a 51% equity interest in XHICT, an equity joint venture of the Company. This non-wholly owned subsidiary (has the meaning ascribed thereto under the Listing Rules) of the Company has one other shareholder, which is not a member of the Group, that holds the remaining 49% equity interest (the "First Minority Shareholder"). In addition, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate holding company of the First Minority Shareholder is also the ultimate holding company of a substantial shareholder of one of the Company's other subsidiaries.

In addition, XHPC is a 70% owned subsidiary of the Company. XHPC has a 51% equity interest in XICT. XICT, an equity joint venture of the Company, has one other shareholder, which is not a member of the Group, that holds the remaining 49% equity interest (the "Second Minority Shareholder"). In addition, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate holding company of the Second Minority Shareholder is also the ultimate holding company of a substantial shareholder of one of the Company's other subsidiaries. Accordingly, both XICT and XHICT are connected persons of the Company under the Listing Rules and the aforesaid transactions between the Company and/or XPS and the aforesaid companies constituted one-off connected transactions of the Company. Please refer to the Company's announcement dated 9 January 2009 published on the websites of the Stock Exchange and the Company for details of this one-off connected transaction.

Set out below is a table summarising the aforesaid one-off connected transactions.

| Transaction | | Connected party | Date of the agreement | Amount (RMB) |
|---|---|---|---|---|
| A. | The Company's transfer of Berth Marine Engineering Works | XHICT | 29 August 2008 | 407,380,400 |
| B. | The undertaking of XPS in the construction and installation of transformer station | XICT | 9 January 2009 | 3,130,000 (Tentative) |
| C. | The undertaking of XPS in the construction and installation of transformer station | XHICT | 9 January 2009 | 2,170,000 (Tentative) |

## Report of the Directors

In 2008, due to business demands of the Group, the Group entered into certain non-exempt continuing connected transactions with the Company's controlling shareholder, Xiamen Port Holding and its subsidiaries (collectively, the "Xiamen Port Holding Group") and certain other parties outside the Group. Set out below is a table summarizing the non-exempt continuing connected transactions.

| Services | | Connected party | 2008 Proposed annual cap (RMB) | 2008 Actual amount incurred (RMB) |
|---|---|---|---|---|
| A. | Office/premises/terminal facilities lease | Xiamen Port Holding | **126,000,000** | **15,586,000** |
| B. | Logistical property services | Xiamen Port Holding | **8,140,000** | **5,173,000** |
| C. | Comprehensive services | Xiamen Port Holding | **26,000,000** | **16,567,000** |
| D. | Construction project management | Xiamen Port Holding | **5,000,000** | **580,000** |
| E. | Port facilities engineering and construction | Xiamen Port Holding | **26,500,000** | **13,381,000** |
| F. | Port-related labour services | Xiamen Port Holding | **31,000,000** | **24,121,000** |
| G. | Electrical equipment maintenance | Xiamen Port Holding | **14,000,000** | **8,073,000** |
| H. | Port services | COSCO Container Lines Co., Ltd | **105,400,000** | **65,285,000** |
| I. | Port Services | Xiamen Tidak International Transportation Co., Ltd | **5,000,000** | **1,195,000** |
| J. | Power supply and maintenance | Xiamen Port Holding | **12,000,000** | **9,044,000** |
| K. | Container horizontal transportation | Xiamen Port Holding | **12,000,000** | **7,932,000** |
| L. | Terminal labour and tallying services | Xiamen Port Holding | **3,300,000** | **2,599,000** |
| M. | Information services | Xiamen Port Holding | **9,800,000** | **3,396,000** |

Note: 1. Pursuant to the approval of the Board of the Company, on 13 December 2007, the Group entered into agreements in respect of connected transactions No. A to J as set out in the above table, all of which commenced from 1 January 2008 till 31 December 2010, so as to renew and replace those relevant connected transaction agreements that expired on 31 December 2007. Among these transactions, transaction No. A to F and H were approved at the first extraordinary general meeting in 2008 in accordance with the relevant requirements under Chapters 14 and 14A of the Listing Rules. Transaction L and M were exempted from the independent shareholders' approval requirement and have complied with the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

## INTRA-GROUP CONNECTED TRANSACTIONS

In 2008, due to business demands of the Group, members of the Group also entered into certain intra-group transactions which constituted non-exempt continuing connected transactions of the Company. Set out below are details of the aforesaid transactions.

XICT, as owner and operator of terminals, has been providing port related services to Xiamen Penavico International Freight and Forwarding Co., Ltd ("Xiamen Penavico International Freight", an indirect non wholly-owned subsidiary of the Company), the latter conducts container and freight forwarding business for third party cargo owners at the relevant terminals. Xiamen Port Transportation Co., Ltd ("Xiamen Port Transportation", an indirect non wholly-owned subsidiary of the Company), also provides container surface forwarding services for XICT. In order to enhance the utilisation rate of the terminals and lower operation costs, XICT and the Company's Hairun terminal provide berthing and unberthing terminal operation services for one another from time to time. For such purpose, XICT and XHICT also implemented the coordination of the operation and management of Berths No. 2 and No. 3 and Berth No. 1 of Haicang Port Area. The relevant port service fees and container forwarding fees are charged at tariffs prescribed by Ministry of Communication and the Pricing Bureau of Xiamen Municipal Government. If there are no such prescribed tariffs, tariffs are determined by the parties with reference to prevailing market rates. Certain contracts were entered into among those members of the Group setting out the terms and conditions of the provision of the relevant services.

Pursuant to the Listing Rules, XICT and XHICT were connected persons of the Company. Transactions between the aforesaid companies and/or other members of the Group and/or other connected persons of the Group constituted connected transactions or continuing connected transactions of the Company. A summary of the aforesaid contracts is set out in the table below:

| Service Provider | Service Receiver | Service Scope | Term of Contract |
|---|---|---|---|
| 1. Xiamen Port Transportation | XICT | Container horizontal transportation | 1 January 2008 to 31 December 2010 |
| 2. XICT | Xiamen Penavico International Freight | Port-related services | 1 January 2008 to 31 December 2010 |
| 3. The Company (Hairun Terminal) | XICT | Terminal operation services | 1 January 2008 to 31 December 2010 |
| 4. XICT | XHICT | Coordination of the operation and management of terminals | 1 September 2008 to 31 August 2011 |

# Report of the Directors

Notes:

1. Pursuant to the approval of the Board of the Company, the Group has entered into an agreement in respect of the transactions Nos. 1, 2 and 3 in the above table on 13 December 2007, so as to renew and replace the agreement of continuing connected transactions which were expired on 31 December 2007.

2. Transaction No. 4 in the above table is an intra-group connected transaction newly added during the year. Please refer to the Company's announcement dated 29 August 2008 published on the websites of the Stock Exchange and the Company for further details.

For the year ended 31 December 2008, the proposed aggregate cap of the above transactions Nos. 1 to 3 was RMB22,000,000, and the actual amount incurred was RMB11,113,000; the proposed aggregated cap of transaction No. 4 was RMB40,000,000. The actual amount incurred for the year ended 31 December 2008 was RMB25,118,000.

The Company has complied with the requirements of the waivers granted by the Stock Exchange or the disclosure requirements under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors of the Company, Mr. HUANG Shizhong, Mr. ZHEN Hong and Mr. HUI Wang Chuen, have reviewed the above connected transactions and confirmed that those transactions have been entered into:

(1) in the ordinary and usual course of business of the Company and the Group (where appropriate);

(2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purpose of Rule 14A.38 of the Listing Rules, the auditors of the Company have performed certain agreed-upon procedures on the above connected transactions disclosed herein for the year ended 31 December 2008 in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and reported that the aforesaid connected transactions have been:

(1) approved by the Board of the Company;

(2) with respect to connected transactions of revenue in nature, entered into in accordance with the pricing policies of the Company;

(3) entered into in accordance with the terms of the agreements governing the relevant transactions; and

(4) within the relevant caps disclosed previously.

## PENSION SCHEME

Pursuant to the requirements set out in relevant laws and regulations of the People's Governments of the PRC and Xiamen City regarding the administration of corporate annuity, in view of improving the Group's compensation and fringe benefits policies as well as enhancing the pension benefits of our employees after their retirement, it was approved at the seventh meeting of the second session of the Board of the Company on 30 December 2008 that: (1) a corporate annuity policy shall be implemented within the Company and the Group starting from 2008, provided that the enterprises participating in the corporate annuity scheme shall meet relevant conditions (e.g. profitability); (2) pursuant to relevant requirements of the People's Governments of the PRC and Xiamen City, the aggregate corporate contribution of each enterprise of the Group to the corporate annuity shall not exceed a cap equivalent to 4% of the total salaries of employees who are participating in the corporate annuity scheme, where such expense to the contribution shall be incurred as costs (fees) (the aforesaid cap to the aggregate salaries of employees is adjustable in accordance with adjustments made to government's requirements) (3) the level of the actual corporate contribution of each enterprise of the Group to the corporate annuity each year shall be determined by the respective enterprise within the cap of 4% of the total salaries of employees who are participating in the corporate annuity scheme. According to statistics, from 1 January 2008 to 31 December 2008, the aggregate corporate contribution of the Group to the corporate annuity was approximately RMB4,638,000, of which the aggregate contribution of the Company to the corporate annuity was approximately RMB251,300.

The abovementioned corporate annuity is of a contribution scheme. The forfeited contribution may be used by the Company. For the year ended 31 December 2008, the forfeited contribution had not been used and there is no forfeited contribution available to be used for the Year.

Details of the pension schemes of the Group are set out in Note 30 to the financial statements.

## USE OF H SHARE PROCEEDS

As at 31 December 2008, the Group had utilized approximately RMB649 million of the proceeds from the listing of H Shares to repay bank loans and the proceeds applied to repay bank loans as specified in the prospectus of the Company dated 6 December 2005 was fully used; approximately RMB443 million of the proceeds to fund the construction of berths No. 1, 4 and 5 of Haicang port area, with a balance of approximately RMB7,240,000 remaining for terminal construction as specified in the Prospectus; approximately RMB85,100,000 of the proceeds had been used for general working capital, of which RMB35,000,000 had been applied to repay working capital borrowings from banks. A total of approximately RMB1,177 million had been utilized for the above 3 applications, with a remaining balance of approximately RMB7,240,000. Nevertheless, there is no material change in the proposed use of net proceeds as stated in the Prospectus.

## ENTRUSTED DEPOSITS AND OVERDUE DEPOSITS

On 31 December 2008, the Group did not make any entrusted deposit with financial institutions in the PRC nor was there any overdue term deposit irrecoverable.

## TAXATION

According to the approval given by the branch office of the State Tax Administration in Xiamen, the profit of the Company shall be exempt from corporate income tax for the first five years and a 50% reduction of corporate income tax from the sixth to the tenth years commencing from 2007. However, in the event that the actual period of production and operation of the Company does not exceed fifteen years, all enterprise income taxes of a foreign investment enterprise so exempted or reduced shall be repayable. In addition, in accordance with the "Confirmation certificate in respect of foreign investment project encouraged for development by the State" (Code: Shang Zi Que [2006] No. 33) issued by the PRC Ministry of Commerce to the Company on 7 November 2006, the Company is authorised to apply to the local customs at the location of the project for duty exemption on imported equipment in accordance with the relevant requirements.

Given that the Group is located in the Xiamen Special Economic Zone, in accordance with relevant policies issued by the PRC government, within the five years after the new Corporate Income Tax Law is in force in 2008, the 15% preferential tax rate will be increased gradually to the statutory tax rate of 25% such that the transitional tax rate will be 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% (the statutory tax rate) for 2012. With the exception of the Corporate Income Tax Concessions as applied to the Company in 2008 mentioned above, as well as the fact that the tax rate applicable to XICT in 2008 was 9% and XHICT was exempt from corporate income tax, the corporate income tax rate applicable to the member companies of the Group was 18% in 2008, and will be increased as mentioned above during the transition period.

Save as aforementioned, the Company is not aware of any other tax concession relevant to the holding of any securities of the Company.

## LITIGATION MATTER

At the end of January 2008, Xiamen Port Development Co., Ltd have ("Port Development"), a subsidiary of the Company, has discovered that Shantoushi Zhongyu Zhiye Co., Ltd (汕頭市中裕置業有限公司) (hereinafter referred to as "Shantou Zhongyu") and Xiamen Xinqingyi Warehousing Logistics Co., Ltd (廈門欣輕藝倉儲物流有限公司) (hereinafter referred to as "Xiamen Xinqingyi") have, without Port Development's consent, negotiated amongst themselves and have taken away certain goods amounting to RMB24,971,700, which were previously stored by Port Development at the warehouse of Xiamen Xinqingyi. Port Development filed a report with the Public Security Bureau, instituted an action against Shanton Zhongyu and Xiamen Xinqingxi and applied for property preservation. As there were a number of enterprises that were affected by this case, this action was a class action suit. The creditors' claim aggregated to approximately RMB78,000,000. In November 2008, Port Development and other creditors gained the power to dispose properties owned by Shantou Zhongyu through effective control over the equity interests of Shantou Zhongyu. In December 2008, the case was transferred to the Public Security Bureau of Xiamen City for investigation since Xiamen Court determined the case was related to an economic crime. In February 2009, Port Development and other creditors disposed of the equity interests of Shantou Zhongyu. The proceed from the disposal was applied to repay the creditors. Shantou Jiahua Real Estate Co., Ltd ("Shantou Jiahua") and Chen Danguang, the transferees, have agreed to repay RMB66,000,000 to all creditors in the case by three installments. In March 2009, Port Development and other creditors received the first installment amounting to RMB23,000,000 from Shantou Jiahua. The second installment of RMB20,000,000 will be received 18 months after the contract has become effective. The third installment of RMB23,000,000 will be received 24 months after the contract has become effective. In addition, to ensure that Shantou Jiahua and Chen Danguang, and other creditors of Xiamen will jointly assume the risk of contingent liabilities, an agreement was made to stipulate that Shantou Jiahua and Chen Danguang shall be liable to an amount up to RMB1,500,000 if the amount of contingent liability is RMB15,000,000 or less; and they will also be liable to any excess amount exceeding the contingent liability of RMB15,000,000. During the performance of the agreement, the aforesaid land use right owned by Shantou Zhongyu shall be charged to all creditors, including Port Development, as security.

In 2007, the carrying amount of Port Development's inventory that was taken away, amounting to RMB24,971,700, was transferred to other receivables for accounting purpose, and a provision for a bad debt of RMB6,243,000 was made. During the year, Port Development made a provision for a bad debt of RMB1,800,000 based on the estimated recoverable amount and the guarantee deposit received in advance.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standard of corporate governance, aiming to enhance the transparency of the Company's operation and safeguard the interest of the shareholders as a whole. For the year ended 31 December 2008, the Company has been in compliance the provisions and most of the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Details of the discussion of such compliance are set out in the "Corporate Governance Report" section of this report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, more than 25% of the shares issued by the Company were held in public hands as at the date of this Annual Report, which was in compliance with the requirements of the Listing Rules.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, who will retire at the forthcoming annual general meeting. The Company will propose a resolution to re-appoint PricewaterhouseCoopers as the auditors of the Company at the forthcoming annual general meeting.

By Order of the Board

**ZHENG Yongen**
*Chairman*

Xiamen, the PRC
17 April 2009

# Report of the Supervisory Committee

To Shareholders of Xiamen International Port Co., Ltd

## I. STATUS OF THE SUPERVISORY COMMITTEE IN 2008

In 2008, all members of the Supervisory Committee of the Company had legally discharged their supervisory duties and prudently commenced their works in compliance with the provisions of the Company Law, the Listing Rules, the Articles and other requirements of applicable laws and regulations and pursuant to the principles of good faith and diligence, in order to safeguard the interests of all the shareholders and the Company.

During the reporting period, the re-election of the Supervisory Committee of the Company took place. All members of the Supervisory Committee were re-elected at the first Extraordinary General Meeting of 2008 as Supervisors for the second session of the Supervisory Committee. During this period, the Supervisory Committee convened three meetings, mainly for, the review and passing of financial documents such as the annual report and interim report and the report on the work of the Supervisory Committee in 2007, as well as the re-election of Mr. Fang Zuhui as the Chairman of the Supervisory Committee of the Company, which each became resolution respectively.

During the reporting period, all members of the Supervisory Committee attended all the Board meetings and General Meetings of the Company convened in 2008, and heard the operation conditions and the report of material matters of the Company at these meetings. Also, they reviewed information, minutes and resolutions of such meetings and monitored and reviewed the implementation of resolutions passed in Board meetings and General Meetings. In the opinion of the Supervisory Committee, the Directors and senior management of the Company performed their duties according to the resolutions passed in General Meetings or by the Board.

## II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE IN RESPECT OF RELEVANT MATTERS OF THE COMPANY IN 2008

### 1. Operation of the Company in compliance with the law

During the reporting period, the Supervisory Committee had monitored the state of the Company's operation management, the performance of duties by its Directors and senior management as well as the execution of internal control system of the Company pursuant to applicable regulations and the Articles. The Supervisory Committee is of the opinion that the Company's procedures of decision-making were legal, an efficient internal control system had been set up, and the Company had operated strictly in accordance with all the national laws and regulations and standard procedures of the Listing Rules. The Supervisory Committee also opined that the Directors and senior management of the Company had duly discharged their duties and operated the Company with a standardized operation system in place. None of the Directors and senior management of the Company were found in contravention of applicable laws or regulations or the Articles nor acts detrimental to the interests of the Company and the shareholders.

**2. Financial position of the Company**

The Supervisory Committee had conducted the audit of the 2008 financial report, the 2008 profit allocation proposal and the 2008 auditors' report issued by the auditors of the Company, PricewaterhouseCoopers, Certified Public Accountants. The Supervisory Committee is of the opinion that, during the reporting period, the financial condition of the Company was sound with standardised financial management and internal control was strictly implemented. The 2008 financial report of the Company gives a true and fair view of the financial conditions and operating results of the Company for the reporting period. The Supervisory Committee concurred with the auditors' opinions and agreed with the 2008 profit allocation proposal of the Company.

**3. Connected transactions of the Company**

The Supervisory Committee is of the opinion that, during the reporting period, the transaction prices in connection with the acquisition or disposal of assets were reasonable, no insider dealings were discovered, and there existed no circumstances which would have been detrimental to any shareholders or would have resulted in any loss of the Company's assets. Every connection transaction in which the Company was involved in was concluded in the ordinary course of business of the Company on normal reasonable commercial terms, and on principles of fairness, openness and impartiality. These transaction prices were determined on the basis of fair market value after arm's length negotiation and, to our knowledge, were not detrimental to the interests of the Company or its shareholders as a whole.

In 2009, the Supervisory Committee of the Company will continue to strictly comply with the Articles and relevant regulations. The committee will continue to supervise and duly perform its duties in order to safeguard and protect the legal interests of the shareholders and the Company.

By Order of the Supervisory Committee
**XIAMEN INTERNATIONAL PORT CO., LTD**

**Fang Zuhui**
*Chairman*

Xiamen, PRC
17 April 2009

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22/F, Prince's Building
Central, Hong Kong

**TO THE SHAREHOLDERS OF XIAMEN INTERNATIONAL PORT CO., LTD.**
*(incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Xiamen International Port Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 76 to 172, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 17 April 2009

# Consolidated Balance Sheet

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **3,310,253** | 3,222,243 |
| Land use rights | 6 | **999,041** | 1,037,917 |
| Intangible assets | 7 | **39,448** | 33,483 |
| Interests in associates | 10 | **34,539** | 35,333 |
| Available-for-sale financial assets | 11 | **59,516** | 165,442 |
| Long-term bank deposits | 12 | **—** | 7,306 |
| Deferred income tax assets | 13 | **53,802** | 50,617 |
| **Total non-current assets** | | **4,496,599** | 4,552,341 |
| **Current assets** | | | |
| Inventories | 14 | **133,047** | 403,025 |
| Accounts and notes receivable | 15 | **491,057** | 546,557 |
| Other receivables and prepayments | 16 | **288,609** | 468,935 |
| Financial assets at fair value through profit or loss | 17 | **—** | 8,931 |
| Term deposits with initial term of over three months | 18 | **186,316** | 94,050 |
| Restricted cash | 19 | **93,829** | 41,751 |
| Cash and cash equivalents | 20 | **844,665** | 1,001,285 |
| **Total current assets** | | **2,037,523** | 2,564,534 |
| **Total assets** | | **6,534,122** | 7,116,875 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 26 | **2,726,200** | 2,726,200 |
| Reserves | 27 | **1,017,716** | 875,947 |
| | | **3,743,916** | 3,602,147 |
| **Minority interests** | | **919,807** | 880,813 |
| **Total equity** | | **4,663,723** | 4,482,960 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 25 | **361,227** | 545,070 |
| Derivative financial instrument | 23 | **9,008** | 4,483 |
| Deferred government grants and income | 24 | **145,022** | 153,757 |
| Early retirement benefit obligations | | **4,657** | 5,802 |
| Deferred income tax liabilities | 13 | **13,938** | 41,434 |
| **Total non-current liabilities** | | **533,852** | 750,546 |

# Consolidated Balance Sheet

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Accounts and notes payable | 21 | **534,459** | 986,099 |
| Other payables and accruals | 22 | **484,602** | 379,343 |
| Borrowings | 25 | **302,780** | 462,157 |
| Taxes payable | | **14,706** | 55,770 |
| **Total current liabilities** | | **1,336,547** | 1,883,369 |
| **Total liabilities** | | **1,870,399** | 2,633,915 |
| **Total equity and liabilities** | | **6,534,122** | 7,116,875 |
| **Net current assets** | | **700,976** | 681,165 |
| **Total assets less current liabilities** | | **5,197,575** | 5,233,506 |

The notes on pages 83 to 172 are an integral part of these financial statements.

**ZHENG Yongen**
*Chairman*

**FANG Yao**
*Director*

# Balance Sheet

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **1,637,229** | 1,789,577 |
| Land use rights | 6 | **446,950** | 456,832 |
| Investments in subsidiaries | 8 | **1,402,633** | 1,402,633 |
| Investments in jointly controlled entities | 9 | **80,265** | 80,265 |
| Available-for-sale financial assets | 11 | **54,990** | 160,986 |
| Deferred income tax assets | 13 | **1,751** | 1,185 |
| **Total non-current assets** | | **3,623,818** | 3,891,478 |
| **Current assets** | | | |
| Inventories | 14 | **1,450** | 991 |
| Accounts receivable | 15 | **45,133** | 55,284 |
| Other receivables | 16 | **54,109** | 45,111 |
| Term deposits with initial term of over three months | 18 | **—** | 20,000 |
| Restricted cash | 19 | **7,240** | 8,800 |
| Cash and cash equivalents | 20 | **335,978** | 319,834 |
| **Total current assets** | | **443,910** | 450,020 |
| **Total assets** | | **4,067,728** | 4,341,498 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 26 | **2,726,200** | 2,726,200 |
| Reserves | 27 | **912,294** | 725,918 |
| **Total equity** | | **3,638,494** | 3,452,118 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 25 | **117,867** | 432,830 |
| Derivative financial instrument | 23 | **9,008** | 4,483 |
| Deferred government grants and income | 24 | **96,237** | 117,383 |
| Deferred income tax liabilities | 13 | **9,725** | 36,224 |
| **Total non-current liabilities** | | **232,837** | 590,920 |

# Balance Sheet

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Accounts payable | 21 | **5,780** | 11,766 |
| Other payables and accruals | 22 | **187,362** | 183,537 |
| Borrowings | 25 | **3,255** | 103,157 |
| **Total current liabilities** | | **196,397** | 298,460 |
| **Total liabilities** | | **429,234** | 889,380 |
| **Total equity and liabilities** | | **4,067,728** | 4,341,498 |
| **Net current assets** | | **247,513** | 151,560 |
| **Total assets less current liabilities** | | **3,871,331** | 4,043,038 |

The notes on pages 83 to 172 are an integral part of these financial statements.

**ZHENG Yongen**
*Chairman*

**FANG Yao**
*Director*

# Consolidated Income Statement

For the year ended 31 December 2008

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| Revenues | 28 | 3,411,524 | 2,890,969 |
| Cost of sales | | (2,800,006) | (2,250,399) |
| **Gross profit** | | 611,518 | 640,570 |
| Other income | 28 | 52,880 | 35,056 |
| Other gains — net | 29 | 45,611 | 60,962 |
| Selling and marketing expenses | | (36,498) | (29,172) |
| General and administrative expenses | | (167,365) | (159,198) |
| **Operating profit** | | 506,146 | 548,218 |
| Finance income | 32 | 27,199 | 27,676 |
| Finance costs | 32 | (33,272) | (17,158) |
| | | 500,073 | 558,736 |
| Share of results of associates | 10 | 1,994 | 4,471 |
| **Profit before income tax expense** | | 502,067 | 563,207 |
| Income tax expense | 33(a) | (27,808) | (56,632) |
| **Profit for the year** | | 474,259 | 506,575 |
| **Attributable to:** | | | |
| Equity holders of the Company | 34 | 376,659 | 374,417 |
| Minority interests | | 97,600 | 132,158 |
| | | 474,259 | 506,575 |
| Dividend | 35 | 149,941 | 155,393 |
| Earnings per share for profit attributable to the equity holders of the Company during the year — Basic and diluted (in RMB cents) | 36 | 13.82 | 13.73 |

The notes on pages 83 to 172 are an integral part of these financial statements.

**ZHENG Yongen**
*Chairman*

**FANG Yao**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

| | Attributable to the Company's equity holders | | | | | |
|---|---|---|---|---|---|---|
| | Share capital RMB'000 (Note 26) | Other reserves RMB'000 (Note 27) | Retained earnings RMB'000 (Note 27) | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2007** | 2,726,200 | (32,350) | 617,794 | 3,311,644 | 806,127 | 4,117,771 |
| Fair value gains on available-for-sale financial assets | | | | | | |
| — Gross | — | 120,630 | — | 120,630 | — | 120,630 |
| — Related deferred income tax | — | (30,158) | — | (30,158) | — | (30,158) |
| | — | 90,472 | — | 90,472 | — | 90,472 |
| Impact of new CIT Law on deferred income tax recognised directly in equity | — | 2,817 | — | 2,817 | 5,610 | 8,427 |
| Profit for the year | — | — | 374,417 | 374,417 | 132,158 | 506,575 |
| 2006 final dividend | — | — | (177,203) | (177,203) | — | (177,203) |
| Profit appropriation | — | 25,892 | (25,892) | — | — | — |
| Adjustment to surplus reserve (Note 27(a)(ii)) | — | (399,987) | 399,987 | — | — | — |
| Contribution from minority shareholder of a subsidiary | — | — | — | — | 1,400 | 1,400 |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | — | (64,482) | (64,482) |
| **Balance at 31 December 2007** | 2,726,200 | (313,156) | 1,189,103 | 3,602,147 | 880,813 | 4,482,960 |
| Fair value loss on available-for-sale financial assets | | | | | | |
| — Gross | **—** | **(105,996)** | **—** | **(105,996)** | **—** | **(105,996)** |
| — Related deferred income tax | **—** | **26,499** | **—** | **26,499** | **—** | **26,499** |
| | **—** | **(79,497)** | **—** | **(79,497)** | **—** | **(79,497)** |
| Profit for the year | **—** | **—** | **376,659** | **376,659** | **97,600** | **474,259** |
| 2007 final dividend | **—** | **—** | **(155,393)** | **(155,393)** | **—** | **(155,393)** |
| Profit appropriation | **—** | **36,230** | **(36,230)** | **—** | **—** | **—** |
| Dividends paid to minority shareholders of subsidiaries | **—** | **—** | **—** | **—** | **(58,606)** | **(58,606)** |
| **Balance at 31 December 2008** | **2,726,200** | **(356,423)** | **1,374,139** | **3,743,916** | **919,807** | **4,663,723** |

The notes on pages 83 to 172 are an integral part of these financial statements.

**ZHENG Yongen**
*Chairman*

**FANG Yao**
*Director*

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 38(a) | **685,431** | 465,945 |
| Interest paid | | **(60,630)** | (43,629) |
| Income tax paid | | **(73,054)** | (67,000) |
| Net cash from operating activities | | **551,747** | 355,316 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(270,865)** | (366,559) |
| Proceeds from disposals of property, plant and equipment | | **203,239** | 1,194 |
| Purchases of intangible assets and land use rights | | **(11,725)** | (181,208) |
| Investment in available-for-sale financial assets | | **(70)** | — |
| Net decrease in long-term bank deposits | | **7,306** | 503 |
| Proceeds from disposal of an associate | | **—** | 15,268 |
| Interest received | | **21,455** | 21,015 |
| Dividends received | | **4,958** | 5,397 |
| Net (increase)/decrease in term deposits with initial term of over three months | | **(92,266)** | 325,668 |
| Net cash used in investing activities | | **(137,968)** | (178,722) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **526,646** | 501,120 |
| Repayments of borrowings | | **(869,866)** | (84,944) |
| Capital contribution from a joint venture partner of a jointly controlled entity | | **8,993** | 37,705 |
| Contribution from minority shareholder of a subsidiary | | **—** | 1,400 |
| Dividends paid to equity holders of the Company | | **(155,393)** | (176,013) |
| Dividends paid to minority shareholders of subsidiaries | | **(73,824)** | (49,264) |
| Net cash (used in)/from financing activities | | **(563,444)** | 230,004 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(149,665)** | 406,598 |
| Cash and cash equivalents at beginning of year | | **1,001,285** | 594,687 |
| Exchange losses on cash and cash equivalents | | **(6,955)** | — |
| **Cash and cash equivalents at end of year** | 20 | **844,665** | 1,001,285 |

The notes on pages 83 to 172 are an integral part of these financial statements.

**ZHENG Yongen**
*Chairman*

**FANG Yao**
*Director*

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

## 1. GENERAL INFORMATION

Xiamen International Port Co., Ltd. (the "Company") and its subsidiaries (together the "Group") is principally engaged in container, bulk and general cargo loading and unloading businesses at Dongdu port area and Haicang port area in Xiamen, provision of ancillary value-added port services (including port-related logistics, shipping agency, tugboat berthing and unberthing services, tallying), building materials manufacturing, processing and selling, trading of industrial products, and investment holding.

The Company was established in the People's Republic of China (the "PRC") on 25 May 1998 as a wholly state-owned company under the Company Law of the PRC and was transformed into a joint stock limited company on 3 March 2005. The Company's H-shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Main Board") since 19 December 2005.

The directors of the Company regard Xiamen Port Holding Group Co., Ltd. ("Xiamen Port Holding") as being the parent company of the Company.

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 17 April 2009.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

HKICPA has issued certain new or revised standards, amendments and interpretations to existing standards which are mandatory for the Group's accounting periods on or after 1 January 2008, details of which are as below.

***(a) Interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2008 and adopted by the Group***

HKICPA has issued the HKAS 39, "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the consolidated financial statements, as the Group has not reclassified any financial assets.

In 2008, the Group has also adopted the following interpretations which are mandatory for the Group's accounting periods on or after 1 January 2008:

| | |
|---|---|
| HK(IFRIC)-Int 11 | HKFRS 2 — Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction |

The above interpretations are not relevant to the Group and therefore the adoption of these interpretations in the current year did not result in any significant change in the Group's significant accounting policies and the presentation of the consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *(b) Standards, amendments and interpretations to existing standards that are not yet effective for the year ended 31 December 2008*

The HKICPA has issued the following new/revised standards, amendments or interpretations to existing standards which are not yet effective for the year ended 31 December 2008 (collectively the "New or Revised HKFRSs"):

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Relevant to the Group's operations (Note) | | |
| HKAS 1 (Revised) | Presentation of Financial Statements | 1 January 2009 |
| HKAS 23 (Revised) | Borrowing Costs | 1 January 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1 July 2009 |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| HKFRS 8 | Operating Segments | 1 January 2009 |
| Not relevant to the Group's operations | | |
| HKAS 32 and HKAS 1 (Amendments) | Financial Instruments: Presentation and Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation | 1 January 2009 |
| HKAS 39 (Amendment) | Eligible Hedged Items | 1 July 2009 |
| HKFRS 1 and HKAS 27 (Amendments) | First-time adoption of HKFRS and Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 July 2009 |
| HKFRS 2 (Amendment) | Share-based Payment — Vesting Conditions and Cancellations | 1 January 2009 |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes | 1 July 2008 |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate | 1 January 2009 |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners | 1 July 2009 |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers | 1 July 2009 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *(b) Standards, amendments and interpretations to existing standards that are not yet effective for the year ended 31 December 2008 (Continued)*

Note: New or revised HKFRSs which are relevant to the Group's existing operations are summarised as below:

- The HKAS 1 (Revised) will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

- The HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- The HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

- The HKFRS 3 (Revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- The HKFRS 8 replaces HKAS 14 "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131 "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This may result in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### (b) *Standards, amendments and interpretations to existing standards that are not yet effective for the year ended 31 December 2008 (Continued)*

In addition to the New or Revised HKFRSs, HKICPA also published certain improvements to HKFRSs in October 2008 (the "Improvement Project"). The Improvement Project covers the following standards:

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 20 | Accounting for Government Grants and Disclosure of Government Assistance |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 29 | Financial Reporting in Hyperinflationary Economies |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Presentation |
| HKAS 34 | Interim Financial Reporting |
| HKAS 36 | Impairment of assets |
| HKAS 38 | Intangible assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKAS 41 | Agriculture |
| HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| HKFRS 7 | Financial Instruments: Disclosures |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *(b) Standards, amendments and interpretations to existing standards that are not yet effective for the year ended 31 December 2008 (Continued)*

Except for the amendment to HKFRS 5 which will be effective for accounting periods on or after 1 July 2009, the other amendments under the Improvement Project will be effective for accounting periods on or after 1 January 2009.

The Group has not early adopted the New or Revised HKFRSs and amendments under the Improvement Project in these consolidated financial statements and will apply these New or Revised HKFRSs and amendments under the Improvement Project in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements will be resulted.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the control ceases.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (Continued)

#### (a) *Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

#### (b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (Continued)

#### *(b) Associates (Continued)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### *(c) Jointly controlled entities*

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend income.

Accounting policies of subsidiaries, jointly controlled entities and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting segment, and the geographical segments as the secondary reporting segment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency. Renminbi is also the functional currency of the subsidiaries, jointly controlled entity and associates of the Group.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within other gains/losses — net.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss in the consolidated income statement. Translation differences on non-monetary financial assets and liabilities, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced parts is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the costs of property, plant and equipment to the residual values over their estimated useful lives, as follows:

| | |
|---|---|
| — Buildings | 10 to 50 years |
| — Port infrastructure | 40 to 50 years |
| — Storage infrastructure | 25 years |
| — Loading machineries | 8 to 25 years |
| — Other machineries | 6 to 12 years |
| — Vessels | 5 to 18 years |
| — Vehicles | 5 to 8 years |
| — Furniture, fittings and equipment | 5 to 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction-in-progress represents buildings, plant and machineries under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings, costs of plant and machineries, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to the relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other gains/losses — net in the consolidated income statement.

### 2.6 Land use rights

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the lease periods of 26 to 50 years.

### 2.7 Intangible assets

#### *(a) Port line use rights*

Port line use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the port lines for periods of 50 years. Amortisation of port line use rights are calculated on the straight-line method over the period of the port line use rights.

#### *(b) Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives of 5 years on a straight-line basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to depreciation or amortisation, and are tested annually for impairment or are reviewed for impairment whenever event or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/jointly controlled entities/associates at the date of acquisition. Goodwill on acquisitions of subsidiaries/jointly controlled entities is included in intangible assets. Goodwill is tested for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***(a) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

***(b) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as accounts and other receivables, except for those with maturities greater than 12 months after the balance sheet date which will then be classified as non-current assets.

***(c) Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial assets (Continued)

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within other gains/losses — net in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Gains or losses arising from changes in fair value of the available-for-sale financial assets are recognised directly in equity. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "gains and losses from investment securities".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where fair value of unquoted investments cannot be measured reliably, the related investments are stated at cost less impairment losses.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the consolidated income statement) is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of accounts receivable is described in Note 2.13.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. Derivative instruments which do not qualify for hedge accounting are accounted for as financial assets/liabilities at fair value through profit or loss. Changes in the fair values of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within other gains/losses — net.

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Accounts and other receivable

Accounts and other receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within general and administrative expenses. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts and other receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the consolidated income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term and highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

### 2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.16 Accounts and other payable

Accounts and other payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.18 Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Employee benefits

#### *(a) Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans. In addition, from 2008, the Group has also participated in a supplementary pension scheme under which the Group is required to make monthly payments to insurance companies for its existing qualifying employees, capped at the ceiling of 4% of the annual salary of the qualifying employees. The Group has no further obligation for post-retirement benefits beyond the above contributions made. Contributions to these plans or scheme are expensed as incurred.

#### *(b) Early retirement benefits*

Early retirement benefits are recognised as expense in the period the Group reaches agreements with the relevant employees for the early retirement.

#### *(c) Housing benefits*

Full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

### 2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Provisions (Continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### 2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group complies with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on the straight-line basis over the expected lives of the related assets.

### 2.23 Recognition of revenue and income

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services, net of rebates, discounts, returns, and value-added tax and after eliminated sales within the Group.

The Group recognises revenue and income when the amount of revenue and income can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue and income is not considered to be reliably measurable until all contingencies relating to the sales or income have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Recognition of revenue and income (Continued)

#### (a) *Revenue from container loading and unloading and storage*

Revenue from container loading and unloading is recognised when the services are rendered. Revenue from container storage is recognised on a straight-line basis over the period of storage.

#### (b) *Revenue from bulk/general cargo loading and unloading*

Revenue from bulk/general cargo loading and unloading is recognised when the services are rendered.

#### (c) *Revenue from ancillary value-added port services*

Revenue from ancillary value-added port services is recognised when the services are rendered.

#### (d) *Revenue from sales of building materials and other industrial products*

Sales of building materials and other industrial products are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

#### (e) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

#### (f) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

#### (g) *Rental income*

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease periods.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in the balance sheet in accordance with their nature and where applicable, are depreciated in accordance with the Group's depreciation policy as set out in Note 2.5. Rental income arising from assets leased out under operating lease is recognised in accordance with the Group's income recognition policy as set out in Note 2.23 (g) above.

### 2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain event not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements, when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.26 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders or directors.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### *(a) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. However, foreign currencies are required to settle the Group's purchases of machinery and equipment from overseas suppliers and certain expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's term deposits, cash and bank balances, accounts receivable, accounts payable and borrowings as at 31 December 2008 which are denominated in currencies other than RMB (primarily with respect to United States Dollars ("USD") and Hong Kong Dollars ("HKD")) (collectively the "Non-functional Currency Financial Assets/Liabilities"), are disclosed in Notes 15, 18, 19, 20, 21 and 25 respectively.

The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2008, if RMB had weakened/strengthened by 5% against the USD and HKD with all other variables held constant, the Group's pre-tax profit for the year would have been RMB105,000 higher/lower (2007: RMB6,879,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of the Non-functional Currency Financial Assets/Liabilities.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets (other than term deposits, bank balances and cash). The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2008, approximately 62% (2007: 65%) of the Group's borrowings are fixed interest rates borrowings. The effective interest rates and terms of repayment of the Group's borrowings are disclosed in Note 25.

To mitigate the impact of interest rate fluctuations, management closely monitors the Group's exposure to interest rate risk. Management use interest rate swap contracts to mitigate a portion of the interest rate risk despite these interest rate swap contracts do not qualify for hedge accounting (Note 23).

At 31 December 2008, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the Group's pre-tax profit for the year would have been RMB1,514,000 (2007: RMB1,388,000) lower/higher, mainly as a result of higher/lower finance costs on bank borrowings.

#### (c) *Price risk*

The Group is exposed to equity securities price risk because the Group holds certain investments which are classified on the balance sheet as available-for-sale financial assets (Note 11). The Group currently does not have a policy in respect of investment portfolio diversification. Management closely monitors the price risk exposure and will make appropriate investment decisions by reference to the movement trend of recent market prices, expected future returns and all other relevant factors.

As at 31 December 2008, if market price of the listed equity securities had been 10% higher/lower with all other variables held constant, the carrying amounts of available-for-sale financial assets and the Group's total equity would have been increased/decreased by the same amount of RMB5,499,000 (2007: RMB16,098,000).

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### *(d) Credit risk*

The Group's maximum exposure to credit risk in respect of financial assets is the unimpaired carrying amounts of term deposits, cash and cash equivalents, restricted cash, accounts and other receivables as at the balance sheet date. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

For term deposits, cash and cash equivalents and restricted cash, the Group has limited its credit exposure by restricting their selection of financial institutions on those reputable local banks or state-owned banks.

In respect of accounts receivable, the Group limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and asks for collateral when proper and necessary. Customers are assessed and rated based on their credit quality, taking into account its financial position, past experience and other factors. Individual risk limits are set by management and utilisation of these credit limits is regularly monitored. Generally, accounts receivable are due within 60 days from the date of billing. The Group has no significant concentration of credit risk as no single customer accounted for greater than 10% of the total accounts receivable as at 31 December 2008 and the total revenue for the year then ended.

Further quantitative disclosure in respect of the Group's exposure to credit risk from accounts receivables are set out in Note 15 and Note 42.

In addition to the financial assets, as at 31 December 2008, the Group also has made advances to suppliers of RMB213,693,000 (2007: RMB406,363,000) mainly in respect of the Group's purchases of finished goods and raw materials for its manufacturing and sales of building materials and trading of industrial products.

No other financial assets carry a significant exposure to credit risk.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### *(e) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's funding requirements primarily arise from purchases of port infrastructure and loading machinery and repayments of bank borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and additional bank borrowings.

Management monitors rolling forecasts of the Group's liquidity reserve, which comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **At 31 December 2008** | | | | |
| Bank borrowings | **337,378** | **53,205** | **117,897** | **335,891** |
| Accounts and notes payable | **534,459** | **—** | **—** | **—** |
| Other payables and accruals | **484,602** | **—** | **—** | **—** |
| Derivative financial instrument | **—** | **—** | **9,008** | **—** |
| | **1,356,439** | **53,205** | **126,905** | **335,891** |
| **At 31 December 2007** | | | | |
| Bank borrowings | 514,898 | 111,670 | 294,883 | 295,447 |
| Accounts and notes payable | 986,099 | — | — | — |
| Other payables and accruals | 379,343 | — | — | — |
| Derivative financial instrument | — | — | 4,483 | — |
| | 1,880,340 | 111,670 | 299,366 | 295,447 |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (e) *Liquidity risk (Continued)*

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **At 31 December 2008** | | | | |
| Bank borrowings | **8,629** | **17,959** | **63,693** | **62,006** |
| Accounts payable | **5,780** | **—** | **—** | **—** |
| Other payables and accruals | **187,362** | **—** | **—** | **—** |
| Derivative financial instrument | **—** | **—** | **9,008** | **—** |
| | **201,771** | **17,959** | **72,701** | **62,006** |
| **At 31 December 2007** | | | | |
| Bank borrowings | 135,350 | 32,857 | 279,586 | 265,296 |
| Accounts payable | 11,766 | — | — | — |
| Other payables and accruals | 183,537 | — | — | — |
| Derivative financial instrument | — | — | 4,483 | — |
| | 330,653 | 32,857 | 284,069 | 265,296 |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a low gearing ratio. The gearing ratios at 31 December 2008 and 2007 were as follows:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Total borrowings (Note 25) | **664,007** | 1,007,227 |
| Less: Cash and cash equivalents (Note 20) | **(844,665)** | (1,001,285) |
| Net (cash)/debt | **(180,658)** | 5,942 |
| Total equity | **4,663,723** | 4,482,960 |
| Total capital | **4,483,065** | 4,488,902 |
| Gearing ratio (%) | **-4.03%** | 0.13% |

As at 31 December 2008, the Group had a net cash position.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date and where appropriate, taking into account any other relevant factors (such as trading restrictions and lock-up period etc). The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market was determined by using valuation techniques. The Group used a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of receivable and payable balances are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 4.1 Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

If the useful lives of property, plant and equipment differ by 10% from management's estimates, the Group would need to:

— increase the carrying amounts of property, plant and equipment and decrease the depreciation charge by RMB15,524,000, if favourable; or

— decrease the carrying amounts of property, plant and equipment and increase the depreciation charge by RMB18,974,000, if unfavourable.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

### 4.2 Deferred income tax assets

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred income tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred income tax assets are expected to be recovered. Management will revise the assumptions and profit projections by each balance sheet date.

### 4.3 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations by each balance sheet date.

Were the actual selling price of inventories 5% from management's estimates, the Group would need to decrease the carrying amounts of inventories and increase provision for impairment of inventories (as included in general and administrative expenses) by RMB476,000 (2007: RMB9,507,000), if unfavourable.

### 4.4 Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables (including the accounts receivables and other receivables (Note 15, 16 and 42)). This estimate is based on the credit history and financial position of the debtors and all other relevant factors. Management will reassess the provision by each balance sheet date.

## 5. PROPERTY, PLANT AND EQUIPMENT

### (a) Group

| | Buildings | Port infrastructure | Storage infrastructure | Loading machineries | Other machineries | Vessels | Vehicles | Furniture, fittings and equipment | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2007** | | | | | | | | | | |
| Cost | 243,032 | 916,228 | 131,670 | 1,311,997 | 136,414 | 248,786 | 157,108 | 114,172 | 678,373 | 3,937,780 |
| Accumulated depreciation | (53,682) | (170,293) | (51,215) | (346,422) | (73,136) | (84,101) | (81,008) | (69,666) | — | (929,523) |
| Accumulated impairment losses | — | (255) | — | (76) | — | — | (237) | — | — | (568) |
| Net book amount | 189,350 | 745,680 | 80,455 | 965,499 | 63,278 | 164,685 | 75,863 | 44,506 | 678,373 | 3,007,689 |
| **Year ended 31 December 2007** | | | | | | | | | | |
| Opening net book amount | 189,350 | 745,680 | 80,455 | 965,499 | 63,278 | 164,685 | 75,863 | 44,506 | 678,373 | 3,007,689 |
| Additions | 4,719 | 107 | 927 | 15,803 | 5,824 | — | 18,325 | 18,775 | 326,123 | 390,603 |
| Transfer | 39,125 | 105,830 | 53,708 | 213,484 | 3,819 | 1,232 | 3,339 | 8,470 | (429,007) | — |
| Disposals | (147) | (15,921) | (29) | (98) | (515) | — | (72) | (198) | — | (16,980) |
| Depreciation | (10,187) | (24,563) | (7,151) | (66,225) | (12,841) | (8,754) | (14,221) | (15,127) | — | (159,069) |
| Closing net book amount | 222,860 | 811,133 | 127,910 | 1,128,463 | 59,565 | 157,163 | 83,234 | 56,426 | 575,489 | 3,222,243 |
| **At 31 December 2007** | | | | | | | | | | |
| Cost | 286,671 | 1,006,244 | 186,087 | 1,539,275 | 145,248 | 250,018 | 175,380 | 135,642 | 575,489 | 4,300,054 |
| Accumulated depreciation | (63,811) | (194,856) | (58,177) | (410,736) | (85,683) | (92,855) | (91,909) | (79,216) | — | (1,077,243) |
| Accumulated impairment losses | — | (255) | — | (76) | — | — | (237) | — | — | (568) |
| Net book amount | 222,860 | 811,133 | 127,910 | 1,128,463 | 59,565 | 157,163 | 83,234 | 56,426 | 575,489 | 3,222,243 |
| **Year ended 31 December 2008** | | | | | | | | | | |
| Opening net book amount | **222,860** | **811,133** | **127,910** | **1,128,463** | **59,565** | **157,163** | **83,234** | **56,426** | **575,489** | **3,222,243** |
| Additions | **3,257** | **4,220** | **2,032** | **17,291** | **23,497** | **—** | **10,829** | **15,927** | **288,999** | **366,052** |
| Transfer | **2,083** | **290,224** | **—** | **16,409** | **11,310** | **25,897** | **8,404** | **2,062** | **(356,389)** | **—** |
| Disposals | **—** | **(105,850)** | **—** | **(59)** | **(350)** | **—** | **(555)** | **(394)** | **—** | **(107,208)** |
| Reversal of impairment upon disposal | **—** | **—** | **—** | **46** | **—** | **—** | **—** | **—** | **—** | **46** |
| Depreciation | **(10,276)** | **(27,000)** | **(7,175)** | **(66,907)** | **(14,645)** | **(9,891)** | **(15,559)** | **(19,212)** | **—** | **(170,665)** |
| Impairment | **—** | **—** | **—** | **—** | **(215)** | **—** | **—** | **—** | **—** | **(215)** |
| Closing net book amount | **217,924** | **972,727** | **122,767** | **1,095,243** | **79,162** | **173,169** | **86,353** | **54,809** | **508,099** | **3,310,253** |
| **At 31 December 2008** | | | | | | | | | | |
| Cost | **292,011** | **1,191,480** | **188,119** | **1,563,118** | **177,050** | **275,915** | **183,267** | **152,485** | **508,099** | **4,531,544** |
| Accumulated depreciation | **(74,087)** | **(218,498)** | **(65,352)** | **(467,845)** | **(97,673)** | **(102,746)** | **(96,677)** | **(97,676)** | **—** | **(1,220,554)** |
| Accumulated impairment losses | **—** | **(255)** | **—** | **(30)** | **(215)** | **—** | **(237)** | **—** | **—** | **(737)** |
| Net book amount | **217,924** | **972,727** | **122,767** | **1,095,243** | **79,162** | **173,169** | **86,353** | **54,809** | **508,099** | **3,310,253** |

## 5. PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Company

| | Buildings RMB'000 | Port infrastructure RMB'000 | Storage infrastructure RMB'000 | Loading machineries RMB'000 | Other machineries RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2007** | | | | | | | | | |
| Cost | 17,094 | 596,784 | 44,521 | 495,648 | 25,423 | 16,922 | 16,540 | 541,749 | 1,754,681 |
| Accumulated depreciation | (3,868) | (76,696) | (11,521) | (55,930) | (14,892) | (712) | (3,534) | — | (167,153) |
| Net book amount | 13,226 | 520,088 | 33,000 | 439,718 | 10,531 | 16,210 | 13,006 | 541,749 | 1,587,528 |
| **Year ended 31 December 2007** | | | | | | | | | |
| Opening net book amount | 13,226 | 520,088 | 33,000 | 439,718 | 10,531 | 16,210 | 13,006 | 541,749 | 1,587,528 |
| Additions | 639 | 10,169 | 13,656 | 8,032 | 1,713 | — | 3,582 | 242,158 | 279,949 |
| Transfer | — | 105,750 | — | 151,165 | — | — | — | (256,915) | — |
| Capital contribution to a newly established jointly controlled entity | — | (32,493) | — | — | — | — | — | — | (32,493) |
| Depreciation | (562) | (15,982) | (2,246) | (19,782) | (3,435) | (712) | (2,688) | — | (45,407) |
| Closing net book amount | 13,303 | 587,532 | 44,410 | 579,133 | 8,809 | 15,498 | 13,900 | 526,992 | 1,789,577 |
| **At 31 December 2007** | | | | | | | | | |
| Cost | 17,733 | 680,210 | 58,177 | 654,845 | 27,136 | 16,922 | 20,122 | 526,992 | 2,002,137 |
| Accumulated depreciation | (4,430) | (92,678) | (13,767) | (75,712) | (18,327) | (1,424) | (6,222) | — | (212,560) |
| Net book amount | 13,303 | 587,532 | 44,410 | 579,133 | 8,809 | 15,498 | 13,900 | 526,992 | 1,789,577 |
| **Year ended 31 December 2008** | | | | | | | | | |
| Opening net book amount | **13,303** | **587,532** | **44,410** | **579,133** | **8,809** | **15,498** | **13,900** | **526,992** | **1,789,577** |
| Additions | **130** | **4,010** | **—** | **3,203** | **9,533** | **—** | **4,473** | **151,492** | **172,841** |
| Transfer | **—** | **290,224** | **—** | **—** | **4,278** | **—** | **586** | **(295,088)** | **—** |
| Disposals to a jointly controlled entity | **—** | **(270,253)** | **—** | **—** | **—** | **—** | **—** | **—** | **(270,253)** |
| Depreciation | **(644)** | **(17,282)** | **(2,578)** | **(25,005)** | **(4,846)** | **(712)** | **(3,869)** | **—** | **(54,936)** |
| Closing net book amount | **12,789** | **594,231** | **41,832** | **557,331** | **17,774** | **14,786** | **15,090** | **383,396** | **1,637,229** |
| **At 31 December 2008** | | | | | | | | | |
| Cost | **17,863** | **704,191** | **58,177** | **658,048** | **40,947** | **16,922** | **25,181** | **383,396** | **1,904,725** |
| Accumulated depreciation | **(5,074)** | **(109,960)** | **(16,345)** | **(100,717)** | **(23,173)** | **(2,136)** | **(10,091)** | **—** | **(267,496)** |
| Net book amount | **12,789** | **594,231** | **41,832** | **557,331** | **17,774** | **14,786** | **15,090** | **383,396** | **1,637,229** |

## 6. LAND USE RIGHTS

| | Group<br>RMB'000 | Company<br>RMB'000 |
|---|---|---|
| **At 1 January 2007** | | |
| Cost | 962,194 | 502,406 |
| Accumulated amortisation | (72,401) | (37,289) |
| Net book amount | 889,793 | 465,117 |
| **Year ended 31 December 2007** | | |
| Opening net book amount | 889,793 | 465,117 |
| Additions | 170,778 | 1,576 |
| Amortisation | (22,654) | (9,861) |
| Closing net book amount | 1,037,917 | 456,832 |
| **At 31 December 2007** | | |
| Cost | 1,132,972 | 503,982 |
| Accumulated amortisation | (95,055) | (47,150) |
| Net book amount | 1,037,917 | 456,832 |
| **Year ended 31 December 2008** | | |
| Opening net book amount | **1,037,917** | **456,832** |
| Additions | **2,242** | **—** |
| Capital contribution to a newly established jointly controlled entity | **(18,660)** | **—** |
| Amortisation | **(22,458)** | **(9,882)** |
| Closing net book amount | **999,041** | **446,950** |
| **At 31 December 2008** | | |
| Cost | **1,116,173** | **503,982** |
| Accumulated amortisation | **(117,132)** | **(57,032)** |
| Net book amount | **999,041** | **446,950** |

The Group's and the Company's interests in land use rights represent operating lease prepayments for the use of land in the PRC which are held on leases between 26 to 50 years.

## 7. INTANGIBLE ASSETS

The intangible assets of the Group represent port line use rights and computer software. Port line use rights represent the acquisition costs of rights on using the port line by Xiamen International Container Terminals Ltd. ("XICT") and Xiamen Haicang International Container Terminals Ltd. ("XHICT"), which are jointly controlled entities of the Group, and are amortised on a straight-line basis over 50 years. Computer software represents acquisition costs of (i) computer software licences and (ii) electronic data interchange system used by the Group and is amortised on a straight-line basis over 5 years.

Movement in intangible assets is set out as follow:

**Group**

| | Port line use rights RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2007** | | | |
| Cost | 30,804 | 2,599 | 33,403 |
| Accumulated amortisation | (5,673) | (1,714) | (7,387) |
| Net book amount | 25,131 | 885 | 26,016 |
| **Year ended 31 December 2007** | | | |
| Opening net book amount | 25,131 | 885 | 26,016 |
| Additions | — | 10,430 | 10,430 |
| Amortisation | (618) | (2,345) | (2,963) |
| Closing net book amount | 24,513 | 8,970 | 33,483 |
| **At 31 December 2007** | | | |
| Cost | 30,804 | 13,029 | 43,833 |
| Accumulated amortisation | (6,291) | (4,059) | (10,350) |
| Net book amount | 24,513 | 8,970 | 33,483 |
| **Year ended 31 December 2008** | | | |
| Opening net book amount | **24,513** | **8,970** | **33,483** |
| Additions | **8,318** | **1,165** | **9,483** |
| Amortisation | **(788)** | **(2,730)** | **(3,518)** |
| Closing net book amount | **32,043** | **7,405** | **39,448** |
| **At 31 December 2008** | | | |
| Cost | **39,122** | **14,194** | **53,316** |
| Accumulated amortisation | **(7,079)** | **(6,789)** | **(13,868)** |
| Net book amount | **32,043** | **7,405** | **39,448** |

## 8. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Investments, at cost | | |
| — Shares of a listed company (a) | **1,127,274** | 1,127,274 |
| — Unlisted equity investments | **275,359** | 275,359 |
| | **1,402,633** | 1,402,633 |
| Market value of shares of a listed company (b) | **1,729,952** | 2,774,948 |

(a) This represents the Company's investment in Xiamen Port Development Co., Ltd. ("XPD"). XPD completed its share conversion scheme on 18 October 2006 and the non-publicly tradable shares of XPD held by the Company became restricted A-shares in the Shenzhen Stock Exchange, which could not be traded on the Shenzhen Stock Exchange within 60 months from the first trading day subsequent to the implementation of the share conversion scheme (the "Lock-up period"). The Lock-up period will be expired on 17 October 2011.

(b) The market value stated above is determined by reference to the market price of RMB5.91 per share (2007: RMB9.48 per share) for the listed shares of XPD as at 31 December 2008. However, this may not be strictly comparable to actual value of the Company's investments in XPD as they are not freely tradable during the Lock-up period.

(c) Particulars of the Company's subsidiaries are set out in Note 43(a).

## 9. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

### (a) Group

As at 31 December 2008, the Group's investment costs in the unlisted shares of the jointly controlled entities amounted to RMB723,877,000 (2007: RMB665,287,000).

The Group's share of the assets and liabilities, revenues and results of the jointly controlled entities which has been included in the Group's consolidated balance sheet and consolidated income statement by proportionate consolidation are as follows:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| **Assets:** | | |
| Non-current assets | 913,839 | 672,095 |
| Current assets | 135,800 | 161,937 |
| | 1,049,639 | 834,032 |
| **Liabilities:** | | |
| Non-current liabilities | (212,961) | — |
| Current liabilities | (50,630) | (139,001) |
| | (263,591) | (139,001) |
| **Net assets** | 786,048 | 695,031 |

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Revenues | 154,232 | 184,121 |
| Expenses | (87,107) | (91,191) |
| Profit before income tax expense | 67,125 | 92,930 |
| Income tax expense | (4,939) | (7,073) |
| Profit for the year | 62,186 | 85,857 |

## 9. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Continued)

### (a) Group (Continued)

As at 31 December 2008, the Group had interests in the jointly controlled entities named XICT, Xiamen Gangtong Logistic Co., Ltd. ("Gangtong"), XHICT, and Xiamen Port YCH Logistics Co., Ltd. ("XPYCH").

All of the jointly controlled entities are established in the PRC and the Group has no unilateral control over the financial and operating policies of these jointly controlled entities. The Group's equity interests in XICT, Gangtong, XHICT and XPYCH are 51%, 50%, 51% and 60% respectively.

As at 31 December 2008, there are no contingent liabilities relating to the Group's interests in the jointly controlled entities and no contingent liabilities of the jointly controlled entities themselves (2007: Nil).

Particulars of the Group's jointly controlled entities are set out in Note 43(b).

### (b) Company

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **80,265** | 80,265 |

## 10. INTERESTS IN ASSOCIATES

| | **Group** | |
|---|---|---|
| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
| Share of net assets | **34,539** | 35,333 |
| Unlisted investments, at cost | **23,270** | 23,270 |

## 10. INTERESTS IN ASSOCIATES (Continued)

Movement in interests in associates is set out as follow:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| **At 1 January** | **35,333** | 44,925 |
| Disposal | **—** | (11,646) |
| Dividends received | **(2,788)** | (2,417) |
| Share of results before income tax expense | **2,353** | 5,537 |
| Share of income tax expense | **(359)** | (1,066) |
| | **1,994** | 4,471 |
| **At 31 December** | **34,539** | 35,333 |

The summary of the aggregated financial information of the Group's interests in associates is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Total assets | **37,123** | 38,080 |
| Total liabilities | **2,584** | 2,747 |

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Revenues | **15,194** | 36,724 |
| Profit for the year | **1,994** | 4,471 |

Particulars of the Group's associates are set out in Note 43(c).

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **165,442** | 44,812 | **160,986** | 40,356 |
| Addition | **70** | — | **—** | — |
| Net fair value (losses)/gains transferred to equity | **(105,996)** | 120,630 | **(105,996)** | 120,630 |
| At 31 December | **59,516** | 165,442 | **54,990** | 160,986 |

Available-for-sale financial assets include the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Equity investments listed in the PRC, at fair value (a) | **54,990** | 160,986 | **54,990** | 160,986 |
| Unlisted equity investments, at cost (b) | **9,526** | 9,456 | **5,000** | 5,000 |
| Less: provision for impairment | **(5,000)** | (5,000) | **(5,000)** | (5,000) |
| | **59,516** | 165,442 | **54,990** | 160,986 |

(a) The Group held 6,600,000 (2007: 6,600,000) shares of Fujian Sansteel MinGuang Co., Ltd. (the "Sansteel Shares") which was listed in the Shenzhen Stock Exchange on 26 January 2007. In addition, the Group also held 3,400,000 (2007: 3,400,000) shares of Bank of Communications Co., Ltd. (the "BOC Shares"), which was listed in the Shanghai Stock Exchange on 15 May 2007.

The Sansteel Shares and BOC Shares held by the Group had a lock-up period of approximately one year after the listing of those shares and could not be traded on the respective stock exchanges before 28 January 2008 and 15 May 2008 respectively (the "Expiry of the Lock-up Period").

In the prior year, the fair values of these investments were determined by reference to the closing market prices of respective shares and taking into account the tradability discounts ranging from 5% to 11%. Subsequent to the Expiry of the Lock-up Period, the fair values of these investments are determined based on the closing market prices of respective shares as of 31 December 2008.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The aggregated costs of investments in the Sansteel Shares and BOC Shares amounted to RMB16,090,000 (2007: RMB16,090,000).

(b) The directors have considered that the range of reasonable estimates on the fair value of these unquoted investments is significant and the probabilities of the various estimates cannot be reasonably assessed, these investments therefore remain to be stated at cost less provision for impairment losses.

## 12. LONG-TERM BANK DEPOSITS

The Group's long-term bank deposits as at 31 December 2007 were interest bearing at floating interest rates and matured in June 2012. These deposits were early withdrawn by the Group in November 2008.

## 13. DEFERRED INCOME TAX

Movements in deferred income tax assets and liabilities during the year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Deferred income tax assets** | | | | |
| At 1 January | **50,617** | 32,126 | **1,185** | 750 |
| Credited to: | | | | |
| — consolidated income statement | **3,185** | 5,988 | **566** | 435 |
| — equity | **—** | 12,503 | **—** | — |
| At 31 December | **53,802** | 50,617 | **1,751** | 1,185 |
| To be recovered: | | | | |
| Within 12 months | **3,941** | 1,054 | **—** | — |
| After more than 12 months | **49,861** | 49,563 | **1,751** | 1,185 |
| | **53,802** | 50,617 | **1,751** | 1,185 |
| **Deferred income tax liabilities** | | | | |
| At 1 January | **41,434** | 7,147 | **36,224** | 4,098 |
| (Credited)/charged to: | | | | |
| — consolidated income statement | **(997)** | 53 | **—** | (458) |
| — equity | **(26,499)** | 34,234 | **(26,499)** | 32,584 |
| At 31 December | **13,938** | 41,434 | **9,725** | 36,224 |
| To be settled: | | | | |
| Within 12 months | **295** | 997 | **—** | — |
| After more than 12 months | **13,643** | 40,437 | **9,725** | 36,224 |
| | **13,938** | 41,434 | **9,725** | 36,224 |

## 13. DEFERRED INCOME TAX (Continued)

The principal components of deferred income tax assets and liabilities provided for, prior to offsetting of balances within the same tax jurisdiction, are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Deferred income tax assets** | | | | |
| Revaluation surplus in connection with asset swap with XPD (a) | **31,539** | 32,382 | **—** | — |
| Unrealised gain on sale and contribution of property, plant and equipment to a jointly controlled entity (b) | **11,143** | 11,357 | **—** | — |
| Unrealised gain on contribution of land use right to a jointly controlled entity (c) | **1,741** | — | **—** | — |
| Fair value loss on derivative financial instrument | **1,126** | 560 | **1,126** | 560 |
| Pre-operating expenses | **973** | 441 | **—** | — |
| Provisions for impairment of | | | | |
| — receivables | **6,201** | 5,045 | **—** | — |
| — investments in available-for-sale financial assets | **625** | 625 | **625** | 625 |
| — inventories | **307** | 105 | **—** | — |
| — property, plant and equipment | **147** | 102 | **—** | — |
| | **53,802** | 50,617 | **1,751** | 1,185 |

(a) The balance represents the deferred income tax assets resulting from the revaluation surplus in connection with certain assets swapped from XPD (the "Assets") for the purpose of the Company's initial public offering of its shares in 2005. The revaluation surplus amounted to RMB148,531,000 which forms the base for calculating the future taxable profits. However, the accounting base of the Assets has not been adjusted for such surplus in the consolidated financial statements, deferred income tax assets have therefore been recognised accordingly.

(b) In 2002, Xiamen Haicang Port Co., Ltd. ("XHPC"), a subsidiary of the Company, transferred certain property, plant and equipment at a gain to XICT, an equity joint venture established in the PRC in which XHPC holds 51% equity interests. An unrealised gain attributable to the Group amounting to RMB57,315,000 was taxable immediately at the time of transfer of the aforesaid property, plant and equipment under the relevant PRC tax rules. As the unrealised gain would be realised on the straight-line basis over the useful lives of the related property, plant and equipment, deferred income tax assets were recognised for the related temporary differences.

## 13. DEFERRED INCOME TAX (Continued)

(c) In 2008, XPD, a subsidiary of the Company, transferred a land use right as its capital contribution to XPYCH, an equity joint venture established in the PRC in which XPD holds 60% equity interests. An unrealised gain attributable to the Group amounting to RMB7,166,000 was taxable immediately at the time of transfer of the aforesaid land use right under the relevant PRC tax rules. As the unrealised gain would be realised on the straight-line basis over the useful life of the related land use right, deferred income tax asset was recognised for the related temporary difference.

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Deferred income tax liabilities** | | | | |
| Revaluation deficit in connection with transformation of Xiamen Haitian Container Terminal Co., Ltd. | **4,213** | 4,478 | **—** | — |
| Fair value gain on | | | | |
| — available-for-sale financial assets | **9,725** | 36,224 | **9,725** | 36,224 |
| — financial assets at fair value through profit or loss | **—** | 732 | **—** | — |
| | **13,938** | 41,434 | **9,725** | 36,224 |

## 14. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **3,650** | 4,223 | **—** | — |
| Finished goods and merchandise | **92,196** | 360,519 | **—** | — |
| Spare parts and consumables | **41,935** | 38,865 | **1,450** | 991 |
| | **137,781** | 403,607 | **1,450** | 991 |
| Less: provision for impairment | **(4,734)** | (582) | **—** | — |
| | **133,047** | 403,025 | **1,450** | 991 |

## 14. INVENTORIES (Continued)

The raw materials primarily comprise of fuel and oil. Finished goods and merchandise primarily represent building materials and the industrial products for the Group's business of building materials and trading of industrial products. The spare parts and consumables are mainly for repair and maintenance of port facilities and other equipments.

The cost of inventories recognised as expense and included in cost of sales and operating expenses amounted to RMB2,011,970,000 (2007: RMB1,549,519,000).

A provision of RMB3,200,000 was made for the inventories of RMB14,253,000 as at 31 December 2008, after considering the collateral securities the Group obtained to cover the price risk of the inventories for the Group's trading business (Note 42(b)).

## 15. ACCOUNTS AND NOTES RECEIVABLE

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Accounts receivable | **479,257** | 507,906 | **16,817** | 20,490 |
| Less: provision for impairment | **(22,749)** | (15,499) | **(302)** | (302) |
| | **456,508** | 492,407 | **16,515** | 20,188 |
| Due from subsidiaries | **—** | — | **28,539** | 34,915 |
| Due from fellow subsidiaries (Note 41(b)) | **1,420** | 2,211 | **79** | 181 |
| Notes receivable | **33,129** | 51,939 | **—** | — |
| | **491,057** | 546,557 | **45,133** | 55,284 |

There is no concentration of credit risk with respect to accounts receivable as the Group has a large number of customers.

Majority of the Group's revenues is on open account terms and in accordance with the terms specified in the contracts governing the relevant transactions. A credit period, which may be extended for up to six months, may be granted to large or long-established customers with good repayment history. Revenues from small, new or short-term customers are normally expected to be settled shortly after provision of services or delivery of goods.

## 15. ACCOUNTS AND NOTES RECEIVABLE (Continued)

Ageing analysis of the gross accounts and notes receivable of trading in nature (including amounts due from subsidiaries and fellow subsidiaries) at respective balance sheet dates are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Less than 6 months | **426,228** | 503,797 | **45,435** | 55,586 |
| 6 months to 1 year | **39,558** | 19,960 | **—** | — |
| 1 year to 2 years | **25,634** | 20,068 | **—** | — |
| 2 years to 3 years | **8,973** | 5,239 | **—** | — |
| Over 3 years | **13,413** | 12,992 | **—** | — |
| | **513,806** | 562,056 | **45,435** | 55,586 |
| Less: provision for impairment | **(22,749)** | (15,499) | **(302)** | (302) |
| | **491,057** | 546,557 | **45,133** | 55,284 |

Notes receivable are notes of exchange with average maturity dates of within 6 months.

The carrying amounts of accounts and notes receivable approximate their fair values.

The amounts due from subsidiaries and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Generally, trade receivables that are past due less than 6 months are not considered as impaired. As at 31 December 2008, the Group's accounts receivable of RMB39,035,000 (2007: RMB19,573,000) were past due but not impaired.

The Group obtained certain merchandise, property, equipments and land use rights as collateral against accounts receivables of RMB86,739,000 as at 31 December 2008 (2007: Nil) which are all aged less than 6 months. A provision of RMB6,000,000 (2007: Nil) was made for these receivables after considering the value of the collateral assets obtained and the debtors' financial position (Note 42(b)). The Group does not hold any collateral as security for the rest of the accounts and notes receivable. The remaining impaired accounts receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

## 15. ACCOUNTS AND NOTES RECEIVABLE (Continued)

As at the balance sheet date, the ageing of these impaired receivables is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Less than 6 months | **89,453** | 1,728 |
| 6 months to 1 year | **523** | 387 |
| 1 year to 2 years | **25,634** | 20,068 |
| 2 years to 3 years | **8,973** | 5,239 |
| Over 3 years | **13,413** | 12,992 |
| | **137,996** | 40,414 |

As at 31 December 2008, no significant accounts receivable of the Company is either past due or impaired.

The carrying amounts of accounts and notes receivable are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **444,871** | 453,480 | **45,133** | 55,284 |
| USD | **46,186** | 93,077 | **—** | — |
| | **491,057** | 546,557 | **45,133** | 55,284 |

Movements on the provisions for impairment of accounts receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **At 1 January** | **15,499** | 13,122 | **302** | — |
| Provision for receivable impairment | **7,942** | 6,362 | **—** | 302 |
| Uncollectible receivables written off during the year | **(692)** | (3,547) | **—** | — |
| Reversal due to the subsequent collections from debtors | **—** | (438) | **—** | — |
| **At 31 December** | **22,749** | 15,499 | **302** | 302 |

## 15. ACCOUNTS AND NOTES RECEIVABLE (Continued)

The creation and release of provision for impaired receivables have been included in general and administrative expenses in the consolidated income statement (Note 31). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The Group's maximum exposure to credit risk in respect of accounts and notes receivable at the reporting date is the carrying amount of each class of receivables mentioned above.

## 16. OTHER RECEIVABLES AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Other receivables | **85,287** | 73,789 | **10,202** | 4,791 |
| Advances to suppliers | **213,693** | 406,363 | **—** | 3,094 |
| Less: provision for impairment | **(17,256)** | (12,950) | **—** | — |
| | **281,724** | 467,202 | **10,202** | 7,885 |
| Due from parent company (Note 41(b)) | **4,419** | 307 | **—** | — |
| Due from fellow subsidiaries (Note 41(b)) | **1,465** | 1,023 | **—** | — |
| Due from subsidiaries | **—** | — | **—** | 7,954 |
| Prepayments and deposits | **410** | 403 | **—** | — |
| Interest receivable | **591** | — | **—** | — |
| Dividends receivable | **—** | — | **43,907** | 29,272 |
| | **288,609** | 468,935 | **54,109** | 45,111 |

The amounts due from the parent company, subsidiaries and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The Group's and the Company's other receivables and prepayments are denominated in RMB and the carrying amounts of which approximate their fair values.

As at 31 December 2008, none of the Company's receivable balances as mentioned above is either past due or impaired.

As at 31 December 2008, the advances to suppliers are aged within one year.

## 16. OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Movements on the provision for impairment of the Group's other receivables are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| At 1 January | **12,950** | 10,297 |
| Provision for receivable impairment | **4,306** | 7,453 |
| Uncollectible receivables written off during the year | **—** | (3,252) |
| Reversal due to the subsequent collections from debtors | **—** | (1,548) |
| At 31 December | **17,256** | 12,950 |

The net effect of the creation and release of provision for impaired receivables have been included in general and administrative expenses in the consolidated income statement (Note 31). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The Group's maximum exposure to credit risk in respect of other receivables and prepayments at 31 December 2008 is the fair value of each class of receivable and prepayments mentioned above. The Group obtained collaterals of certain property, equipments and land use rights as securities for a receivable (the "Receivable") balance of RMB24,972,000 (Note 42(a)) and an advance (the "Advance") to supplier of RMB30,933,000 (Note 42(b)) as at 31 December 2008 respectively. Provisions of RMB8,043,000 (2007: RMB6,200,000) and RMB3,000,000 (2007: Nil) were made for the Receivable and the Advance respectively. The Group does not hold any collateral as security for the rest of the other receivables and prepayments.

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Equity securities listed in the PRC | **—** | 8,931 |

The equity securities were stated at fair value which was determined based on their current bid prices in an active market.

Financial assets at fair value through profit or loss were presented within operating activities as part of changes in working capital in the consolidated cash flow statement.

Changes in fair values of financial assets at fair value through profit or loss were recorded in other gains — net in the consolidated income statement (Note 29).

## 18. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Term deposits denominated in: | | | | |
| RMB | **154,309** | 72,136 | **—** | 20,000 |
| USD | **32,007** | 21,914 | **—** | — |
| | **186,316** | 94,050 | **—** | 20,000 |

The weighted average effective interest rate on term deposits, with maturity ranging from 6 months to 1 year, was 4.33% (2007: 3.87%) per annum.

The maximum exposure to credit risk in respect of term deposits with initial term of over three months at the reporting date is the carrying amounts of the related deposits.

## 19. RESTRICTED CASH

The restricted cash was held in designated bank accounts under the names of the Company and certain subsidiaries of the Group as for the maintenance of staff quarters and as guarantee deposits for note payables, letters of credit and securities for bank borrowings.

As at 31 December 2008, among the restricted cash, bank deposit of USD6,500,000 (equivalent to approximately RMB44,425,000) (2007: Nil) was pledged as securities for bank borrowing of RMB18,645,000 (2007: Nil) (Note 25(b)).

The maximum exposure to credit risk in respect of restricted cash at the reporting date is the carrying amount of the restricted cash balances.

## 20. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at bank and in hand | **561,158** | 662,804 | **131,978** | 106,475 |
| Short-term bank deposits | **469,823** | 432,531 | **204,000** | 233,359 |
| | **1,030,981** | 1,095,335 | **335,978** | 339,834 |
| Less: term deposits with initial term of over three months (Note 18) | **(186,316)** | (94,050) | **—** | (20,000) |
| Cash and cash equivalents | **844,665** | 1,001,285 | **335,978** | 319,834 |
| Maximum exposure to credit risk (net of cash in hand) | **844,560** | 1,001,123 | **335,977** | 319,821 |
| Denominated in: | | | | |
| RMB | **742,727** | 911,066 | **335,970** | 319,103 |
| USD | **101,135** | 88,866 | **5** | 5 |
| HKD | **315** | 957 | **3** | 726 |
| EUR | **488** | 396 | **—** | — |
| | **844,665** | 1,001,285 | **335,978** | 319,834 |

The weighted average effective interest rate on short-term bank deposits, with maturity ranging from 7 days to 90 days, was 1.84% (2007: 2.75%) per annum.

The Group's and the Company's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

## 21. ACCOUNTS AND NOTES PAYABLE

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Accounts payable | **352,180** | 442,647 | **1,815** | 3,688 |
| Due to fellow subsidiaries (Note 41(b)) | **9,437** | 9,336 | **1,964** | 2,084 |
| Due to subsidiaries | **—** | — | **2,001** | 5,994 |
| Notes payable | **172,842** | 534,116 | **—** | — |
| | **534,459** | 986,099 | **5,780** | 11,766 |

Ageing analysis of accounts and notes payable of trading in nature (including amounts due to subsidiaries and fellow subsidiaries) at respective balance sheet dates is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year | **523,244** | 984,426 | **5,647** | 10,128 |
| 1 year to 2 years | **11,139** | 1,098 | **133** | — |
| 2 years to 3 years | **33** | — | **—** | 1,638 |
| Over 3 years | **43** | 575 | **—** | — |
| | **534,459** | 986,099 | **5,780** | 11,766 |

Notes payable are notes of exchange with average maturity dates of within 6 months. The amounts due to subsidiaries and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The carrying amounts of the Group's and the Company's accounts and notes payable are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **393,113** | 726,250 | **5,780** | 11,766 |
| USD | **141,346** | 259,849 | **—** | — |
| | **534,459** | 986,099 | **5,780** | 11,766 |

The carrying amounts of the Group's and the Company's accounts and notes payable approximate their fair values.

## 22. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Due to parent company (Note 41(b)) | **3,613** | 1,742 | **—** | 174 |
| Due to fellow subsidiaries (Note 41(b)) | **3,259** | 5,273 | **—** | — |
| Due to other related parties (Note 41(b)) | **24,071** | 19,685 | **18,271** | 10,814 |
| Due to subsidiaries | **—** | — | **57,659** | 149,910 |
| Payables for purchases of property, plant and equipment and construction-in-progress | **87,710** | 19,482 | **62,439** | — |
| Salary and welfare payables | **105,725** | 85,445 | **4,053** | 2,110 |
| Customer deposits | **180,039** | 153,821 | **3,054** | — |
| Accrued expenses | **6,714** | 11,942 | **3,049** | 3,975 |
| Other payables | **72,241** | 65,505 | **37,607** | 15,324 |
| Dividends payable | | | | |
| — shareholders of the Company | **1,230** | 1,230 | **1,230** | 1,230 |
| — minority shareholders of subsidiaries (Note 41(b)) | **—** | 15,218 | **—** | — |
| | **484,602** | 379,343 | **187,362** | 183,537 |

The amounts due to the parent company, subsidiaries, fellow subsidiaries and other related parties are unsecured, interest free and have no fixed terms of repayment.

The carrying amounts of the Group's and the Company's other payables and accruals approximate their fair values.

## 23. DERIVATIVE FINANCIAL INSTRUMENT

| | Group and Company | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **Liabilities** | Liabilities |
| Interest rate swap contract | **9,008** | 4,483 |

As at 31 December 2008 and 2007, the Company had an outstanding interest rate swap contract with a financial institution under which the Company agreed to swap the floating rate at London Inter-bank Offered Rate with the fixed rate of 5.2% per annum.

The notional principal amount of the outstanding interest rate swap contract at 31 December 2008 amounted to USD11,869,000 (2007: USD12,503,000), equivalent to approximately RMB81,120,000 (2007: RMB91,329,000).

The derivative financial instrument does not qualify for hedge accounting.

## 24. DEFERRED GOVERNMENT GRANTS AND INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Deferred income on tax credit related to purchases of domestic manufactured equipment (a) | **39,400** | 36,374 | **—** | — |
| Government grants on purchases of property, plant and equipment (b) | **105,622** | 117,383 | **96,237** | 117,383 |
| | **145,022** | 153,757 | **96,237** | 117,383 |

(a) Prior to 2006, the Group purchased certain domestic manufactured equipments. Pursuant to Cai Shui Zi [1999] Document No. 290 "The Notice concerning the Reduction in Corporate Income Tax for Purchases of Domestic Manufactured Equipment" (the "Notice") issued by the Ministry of Finance and State Tax Bureau, part of such purchase costs could be utilised to reduce the income tax in future. The total tax credit available, as approved by the State Tax Bureau in Xiamen City for offsetting the future income tax subject to certain conditions stipulated in the Notice, amounted to RMB38,624,000. In 2008 and 2007, the Group obtained additional tax credit of RMB6,292,000 and RMB7,407,000 respectively in connection with purchases of domestic manufactured equipments.

## 24. DEFERRED GOVERNMENT GRANTS AND INCOME (Continued)

The tax credit available was deferred and credited to income statement using the straight-line method over the estimated useful lives of the related property, plant and equipment. As at 31 December 2008, the remaining deferred tax credit amounted to RMB39,400,000 (2007: RMB36,374,000).

(b) Prior to 31 December 2005, the Company has received an aggregated amount of government grants of RMB124,070,000 in connection with the purchases of property, plant and equipment for the further development of the ports in Xiamen. These grants are deferred and credited to the income statement using the straight-line method over the estimated useful lives of the related property, plant and equipment.

During the year ended 31 December 2008, certain of these property, plant and equipment were transferred to a jointly controlled entity (Note 29(a)), the unamortised deferred government grants of RMB9,017,000 associated with the assets transferred has been recognised upon the transfer in the consolidated income statement for the year ended 31 December 2008.

## 25. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Non-current** | | | | |
| Long-term bank borrowings | **361,227** | 545,070 | **117,867** | 432,830 |
| **Current** | | | | |
| Short-term bank borrowings | **186,645** | 356,120 | **—** | — |
| Long-term bank borrowings | | | | |
| — current portion | **116,135** | 106,037 | **3,255** | 103,157 |
| | **302,780** | 462,157 | **3,255** | 103,157 |
| Total borrowings | **664,007** | 1,007,227 | **121,122** | 535,987 |
| Representing: | | | | |
| — guaranteed (a) | **81,122** | 89,857 | **81,122** | 89,857 |
| — secured (b) | **18,645** | — | **—** | — |
| — unguaranteed and unsecured | **564,240** | 917,370 | **40,000** | 446,130 |
| Total borrowings | **664,007** | 1,007,227 | **121,122** | 535,987 |
| Analysed as follows: | | | | |
| — wholly repayable within five years | **336,646** | 706,120 | **40,000** | 280,000 |
| — not wholly repayable within five years | **327,361** | 301,107 | **81,122** | 255,987 |
| Total borrowings | **664,007** | 1,007,227 | **121,122** | 535,987 |

(a) As at 31 December 2008, a bank borrowing of RMB81,122,000 (2007: RMB89,857,000) is guaranteed by a state-owned bank.

(b) As at 31 December 2008, a bank borrowing of RMB18,645,000 (2007: Nil) is secured by a bank deposit of USD6,500,000 (equivalent to approximately RMB44,425,000) (2007: Nil) (Note 19).

## 25. BORROWINGS (Continued)

Borrowings at respective balance sheet dates are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank borrowings repayable: | | | | |
| — within 1 year | **302,780** | 462,157 | **3,255** | 103,157 |
| — between 1 and 2 years | **6,474** | 76,358 | **3,594** | 3,478 |
| — between 2 and 5 years | **62,242** | 204,732 | **53,122** | 192,732 |
| — over 5 years | **292,511** | 263,980 | **61,151** | 236,620 |
| | **664,007** | 1,007,227 | **121,122** | 535,987 |

The Group's and the Company's borrowings as at the balance sheet date are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **564,240** | 917,370 | **40,000** | 446,130 |
| USD | **99,767** | 89,857 | **81,122** | 89,857 |
| Total borrowings | **664,007** | 1,007,227 | **121,122** | 535,987 |

The weighted average effective interest rates at the respective balance sheet dates were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Bank borrowings | | | | |
| — RMB | **6.13%** | 6.03% | **6.72%** | 6.10% |
| — USD | **3.69%** | 5.97% | **3.31%** | 5.97% |

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values, as the impact of discounting is not significant.

## 25. BORROWINGS (Continued)

The carrying amounts and fair values of non-current long-term bank borrowings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Carrying amounts | **361,227** | 545,070 | **117,867** | 432,830 |
| Fair values | **353,362** | 517,408 | **108,060** | 414,396 |

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group and the Company for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

## 26. SHARE CAPITAL

| | Domestic shares of RMB1 each | H-shares of RMB1 each | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 31 December of 2008 and 2007 | 1,739,500 | 986,700 | 2,726,200 |

The Company was established in the PRC on 25 May 1998 as a wholly state-owned company under the Company Law of the PRC.

On 3 March 2005, the Company was transformed into a joint stock limited company under the Company Law of the PRC by converting its registered capital of RMB500,000,000 and reserves of RMB1,256,000,000 as at 30 September 2004 into 1,756,000,000 shares of RMB1 each.

On 2 June 2005, the registered share capital was further increased from 1,756,000,000 to 1,829,200,000 shares of RMB1 each which were issued to four additional equity holders, namely, Xiamen International Airport Group Co., Ltd., Xiamen Road & Bridge Construction Group Co., Ltd., Xiamen Seashine Group Co., Ltd. and Xiamen State-owned Assets Investment Corporation, at RMB1.23 each for cash.

The Company's H-shares were listed on the Main Board on 19 December 2005 and 858,000,000 H-shares, consisting of 780,000,000 new shares and 78,000,000 shares converted from domestic shares, with a nominal value of RMB1 each were issued to the public by the way of global offering at offer price of HK$1.38 each.

## 26. SHARE CAPITAL (Continued)

On 3 January 2006, the Company allotted and issued 117,000,000 additional H-shares at the offer price of HK$1.38 per H-share as a result of the exercise of the over-allotment option granted on 29 December 2005 as part of global offering of the Company's H-shares. Xiamen Port Holding had transferred 11,700,000 domestic shares of the Company to National Council for Social Security Fund (the "NCSSF"), and NCSSF entrusted the Company to convert these shares into H-shares and sold them together with the additional H-shares immediately after the share transfer.

The domestic shares and H-shares rank pari passu in all material respects except that the dividends in respect of H-shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. In addition, the transfer of domestic shares is subject to certain restriction imposed by PRC law from time to time.

During the year ended 31 December 2008 and 2007, there was no movement in the share capital of the Company.

## 27. RESERVES

### (a) Group

| | | Other reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | | Capital surplus | Statutory surplus reserve | Investment revaluation reserve | Total | Retained earnings | Total |
| | Note | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Balance at 1 January 2007** | | (464,773) | 411,797 | 20,626 | (32,350) | 617,794 | 585,444 |
| Fair value gain on available-for-sale financial assets | | | | | | | |
| — Gross | | — | — | 120,630 | 120,630 | — | 120,630 |
| — Related deferred income tax | | — | — | (30,158) | (30,158) | — | (30,158) |
| | | — | — | 90,472 | 90,472 | — | 90,472 |
| Impact of new CIT Law on deferred income tax recognised directly in equity | | 5,243 | — | (2,426) | 2,817 | — | 2,817 |
| Profit for the year | | — | — | — | — | 374,417 | 374,417 |
| 2006 final dividend | | — | — | — | — | (177,203) | (177,203) |
| Profit appropriation | (i) | — | 25,892 | — | 25,892 | (25,892) | — |
| Adjustment to surplus reserve | (ii) | — | (399,987) | — | (399,987) | 399,987 | — |
| **Balance at 31 December 2007** | | (459,530) | 37,702 | 108,672 | (313,156) | 1,189,103 | 875,947 |
| Representing: | | | | | | | |
| — 2007 proposed final dividend | | — | — | — | — | 155,393 | 155,393 |
| — Others | | (459,530) | 37,702 | 108,672 | (313,156) | 1,033,710 | 720,554 |
| | | (459,530) | 37,702 | 108,672 | (313,156) | 1,189,103 | 875,947 |
| Fair value loss on available-for-sale financial assets | | | | | | | |
| — Gross | | **—** | **—** | **(105,996)** | **(105,996)** | **—** | **(105,996)** |
| — Related deferred income tax | | **—** | **—** | **26,499** | **26,499** | **—** | **26,499** |
| | | **—** | **—** | **(79,497)** | **(79,497)** | **—** | **(79,497)** |
| Profit for the year | | **—** | **—** | **—** | **—** | **376,659** | **376,659** |
| 2007 final dividend | | **—** | **—** | **—** | **—** | **(155,393)** | **(155,393)** |
| Profit appropriation | (i) | **—** | **36,230** | **—** | **36,230** | **(36,230)** | **—** |
| **Balance at 31 December 2008** | | **(459,530)** | **73,932** | **29,175** | **(356,423)** | **1,374,139** | **1,017,716** |
| Representing: | | | | | | | |
| — 2008 proposed final dividend | | **—** | **—** | **—** | **—** | **149,941** | **149,941** |
| — Others | | **(459,530)** | **73,932** | **29,175** | **(356,423)** | **1,224,198** | **867,775** |
| | | **(459,530)** | **73,932** | **29,175** | **(356,423)** | **1,374,139** | **1,017,716** |

## 27. RESERVES (Continued)

### (a) Group (Continued)

(i) In accordance with the PRC regulations and the Articles of Association of the companies within the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006 (the "New PRC GAAP") to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the company's share capital after such issuance. The current year profit appropriation represented the Company's profit appropriation to statutory surplus reserve.

(ii) The Group adopted the New PRC GAAP since 1 January 2007. According to the relevant requirements under the New PRC GAAP, certain adjustments were made to the retained earnings in the previous year upon the Group's first-time adoption of the New PRC GAAP in 2007. In addition, the New PRC GAAP no longer permits the Group's share of surplus reserves of subsidiaries to be presented on a consolidated basis, an adjustment on the surplus reserves and retained earnings was therefore made in the financial statements of the group entities for the year ended 31 December 2007.

## 27. RESERVES

### (b) Company

| | Note | Other reserves: Capital surplus RMB'000 | Other reserves: Statutory surplus reserve RMB'000 | Other reserves: Investment revaluation reserve RMB'000 | Other reserves: Total RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | | (61,484) | 65,825 | 20,626 | 24,967 | 448,556 | 473,523 |
| Fair value gain on available-for-sale financial assets | | | | | | | |
| — Gross | | — | — | 120,630 | 120,630 | — | 120,630 |
| — Related deferred income tax | | — | — | (30,158) | (30,158) | — | (30,158) |
| | | — | — | 90,472 | 90,472 | — | 90,472 |
| Impact of new CIT Law on deferred income tax recognised directly in equity | | — | — | (2,426) | (2,426) | — | (2,426) |
| Profit for the year | | — | — | — | — | 341,552 | 341,552 |
| 2006 final dividend | | — | — | — | — | (177,203) | (177,203) |
| Profit appropriation | 27(a)(i) | — | 25,892 | — | 25,892 | (25,892) | — |
| Adjustments to surplus reserve | 27(a)(ii) | — | (54,015) | — | (54,015) | 54,015 | — |
| **Balance at 31 December 2007** | | (61,484) | 37,702 | 108,672 | 84,890 | 641,028 | 725,918 |
| Representing: | | | | | | | |
| — 2007 proposed final dividend | | — | — | — | — | 155,393 | 155,393 |
| — Others | | (61,484) | 37,702 | 108,672 | 84,890 | 485,635 | 570,525 |
| | | (61,484) | 37,702 | 108,672 | 84,890 | 641,028 | 725,918 |
| Fair value loss on available-for-sale financial assets | | | | | | | |
| — Gross | | — | — | (105,996) | (105,996) | — | (105,996) |
| — Related deferred income tax | | — | — | 26,499 | 26,499 | — | 26,499 |
| | | — | — | (79,497) | (79,497) | — | (79,497) |
| Profit for the year | | — | — | — | — | 421,266 | 421,266 |
| 2007 final dividend | | — | — | — | — | (155,393) | (155,393) |
| Profit appropriation | 27(a)(i) | — | 36,230 | — | 36,230 | (36,230) | — |
| **Balance at 31 December 2008** | | (61,484) | 73,932 | 29,175 | 41,623 | 870,671 | 912,294 |
| Representing: | | | | | | | |
| — 2008 proposed final dividend | | — | — | — | — | 149,941 | 149,941 |
| — Others | | (61,484) | 73,932 | 29,175 | 41,623 | 720,730 | 762,353 |
| | | (61,484) | 73,932 | 29,175 | 41,623 | 870,671 | 912,294 |

## 28. REVENUES AND SEGMENT INFORMATION

### (a) Revenues and other income

The Group's revenues (representing turnover) and other income are analysed as follows:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Revenues | **3,411,524** | 2,890,969 |
| Other income | | |
| Subsidy income (i) | **20,233** | 11,000 |
| Dividend income | **2,170** | 2,980 |
| Rental income | **13,379** | 6,918 |
| Others (ii) | **17,098** | 14,158 |
| | **52,880** | 35,056 |
| Total | **3,464,404** | 2,926,025 |

(i) Pursuant to the Xia Cai Qi [2004] Document No. 80 issued by Finance Bureau of Xiamen, XPD is entitled to an annual subsidy income from the PRC Government of RMB11,000,000, for a 5-years period commencing from 2004, for encouraging its development of the logistic infrastructure in Xiamen. The Group is also entitled to certain financial subsidy income from the PRC Government in the current year.

(ii) This primarily consists of labour service income.

### (b) Primary reporting segment — business segments

The Group's business segment reporting includes the following segments: (1) container loading and unloading and storage business; (2) bulk/general cargo loading and unloading business; (3) ancillary value-added port services; (4) manufacturing and selling of building materials; and (5) trading of industrial products.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets primarily comprise of property, plant and equipment, land use rights, intangible assets, inventories, receivables and mainly exclude deferred income tax assets, interests in associates, available-for-sale financial assets, financial assets at fair value through profit or loss and long-term bank deposits.

## 28. REVENUES AND SEGMENT INFORMATION (Continued)

### (b) Primary reporting segment — business segments (Continued)

Segment liabilities comprise of operating liabilities and mainly exclude items such as current and deferred income tax liabilities, derivative financial instrument and borrowings.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 5), land use rights (Note 6) and intangible assets (Note 7).

The segment revenues, results and other information for the year ended 31 December 2008 are as follows:

| | Year ended 31 December 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Container loading and unloading and storage business RMB'000 | Bulk/general cargo loading and unloading business RMB'000 | Ancillary value-added port services RMB'000 | Manufacturing and selling of building materials RMB'000 | Trading of industrial products RMB'000 | Total RMB'000 |
| Total segment revenues | 741,967 | 142,537 | 605,496 | 283,931 | 1,712,157 | 3,486,088 |
| Inter-segment revenues | — | — | (74,564) | — | — | (74,564) |
| Revenues | 741,967 | 142,537 | 530,932 | 283,931 | 1,712,157 | 3,411,524 |
| Segment results | 322,548 | 2,544 | 153,118 | 6,424 | 21,512 | 506,146 |
| Finance income | | | | | | 27,199 |
| Finance costs | | | | | | (33,272) |
| | | | | | | 500,073 |
| Share of results of associates | — | — | 1,948 | 46 | — | 1,994 |
| **Profit before income tax expense** | | | | | | 502,067 |
| Income tax expense | | | | | | (27,808) |
| **Profit for the year** | | | | | | 474,259 |
| **Other information** | | | | | | |
| Depreciation | 96,742 | 23,304 | 38,259 | 11,955 | 405 | 170,665 |
| Amortisation | 14,630 | 4,486 | 6,768 | 33 | 59 | 25,976 |
| Provision for/(reversal of) impairment of | | | | | | |
| — inventories | 335 | — | — | 617 | 3,200 | 4,152 |
| — receivables and advances to suppliers | 527 | (755) | 86 | 1,743 | 10,647 | 12,248 |
| — property plant and equipment | — | 215 | — | — | — | 215 |
| Capital expenditure | 205,298 | 92,413 | 58,785 | 21,255 | 26 | 377,777 |

## 28. REVENUES AND SEGMENT INFORMATION (Continued)

### (b) Primary reporting segment — business segments (Continued)

The segment revenues, results and other information for the year ended 31 December 2007 are as follows:

| | Year ended 31 December 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Container loading and unloading and storage business RMB'000 | Bulk/general cargo loading and unloading business RMB'000 | Ancillary value-added port services RMB'000 | Manufacturing and selling of building materials RMB'000 | Trading of industrial products RMB'000 | Total RMB'000 |
| Total segment revenues | 715,571 | 172,291 | 529,790 | 353,221 | 1,172,331 | 2,943,204 |
| Inter-segment revenues | — | — | (52,235) | — | — | (52,235) |
| Revenues | 715,571 | 172,291 | 477,555 | 353,221 | 1,172,331 | 2,890,969 |
| Segment results | 330,653 | 33,277 | 149,593 | 27,255 | 7,440 | 548,218 |
| Finance income | | | | | | 27,676 |
| Finance costs | | | | | | (17,158) |
| | | | | | | 558,736 |
| Share of results of associates | — | — | 2,859 | 1,612 | — | 4,471 |
| **Profit before income tax expense** | | | | | | 563,207 |
| Income tax expense | | | | | | (56,632) |
| **Profit for the year** | | | | | | 506,575 |
| **Other information** | | | | | | |
| Depreciation | 87,831 | 21,979 | 37,236 | 11,740 | 283 | 159,069 |
| Amortisation | 14,206 | 4,474 | 6,904 | 33 | — | 25,617 |
| Provision for/(reversal of) impairment of | | | | | | |
| — inventories | — | — | (26) | — | — | (26) |
| — receivables and advances to suppliers | 25 | 482 | 700 | 3,909 | 6,713 | 11,829 |
| Capital expenditure | 297,036 | 47,468 | 71,914 | 6,570 | 148,823 | 571,811 |

## 28. REVENUES AND SEGMENT INFORMATION (Continued)

### (b) Primary reporting segment — business segments (Continued)

The segment assets and liabilities as at respective balance sheet dates are as follows:

| | Container loading and unloading and storage business RMB'000 | Bulk/general cargo loading and unloading business RMB'000 | Ancillary value-added port services RMB'000 | Manufacturing and selling of building materials RMB'000 | Trading of industrial products RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2008** | | | | | | |
| Segment assets | 3,819,528 | 352,329 | 1,600,635 | 244,446 | 369,327 | 6,386,265 |
| Interests in associates | — | — | 33,578 | 961 | — | 34,539 |
| | | | | | | 6,420,804 |
| Unallocated assets | | | | | | 113,318 |
| Total assets | | | | | | 6,534,122 |
| Segment liabilities | 356,904 | 27,266 | 491,160 | 127,260 | 166,150 | 1,168,740 |
| Unallocated liabilities | | | | | | 701,659 |
| Total liabilities | | | | | | 1,870,399 |
| **As at 31 December 2007** | | | | | | |
| Segment assets | 3,614,869 | 452,689 | 1,615,583 | 272,259 | 893,846 | 6,849,246 |
| Interests in associates | — | — | 34,418 | 915 | — | 35,333 |
| | | | | | | 6,884,579 |
| Unallocated assets | | | | | | 232,296 |
| Total assets | | | | | | 7,116,875 |
| Segment liabilities | 264,135 | 33,864 | 473,457 | 152,314 | 601,231 | 1,525,001 |
| Unallocated liabilities | | | | | | 1,108,914 |
| Total liabilities | | | | | | 2,633,915 |

## 28. REVENUES AND SEGMENT INFORMATION (Continued)

### (c) Secondary reporting segment — geographical segments

As all of the Group's activities are conducted in the PRC, no analysis by geographical segment is presented as virtually all of the Group's revenues and operating profits are earned within the PRC and all assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

## 29. OTHER GAINS — NET

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Fair value loss on derivative financial instrument | **(4,525)** | (7,536) |
| Fair value gain on financial assets at fair value through profit or loss | **—** | 4,086 |
| Gain on disposal of property, plant and equipment (a) | **43,662** | 135 |
| Gain on disposal of financial assets at fair value through profit or loss | **1,700** | 38,871 |
| Gain from the capital contribution to jointly controlled entities (b) | **4,774** | 21,784 |
| Gain on disposal of interest in an associate | **—** | 3,622 |
| | **45,611** | 60,962 |

(a) In November 2008, the Company disposed of certain property, plant and equipment with carrying amounts of RMB270,253,000 to XHICT, a jointly controlled entity in which the Company has 51% interests, at a cash consideration of RMB407,380,000 (the "Disposal"). The total gain from the Disposal, net of associated transaction taxes of RMB52,415,000, amounted to RMB84,712,000 (the "Total Gain"). The Group has recognised a realised portion of the Total Gain of RMB41,509,000, representing 49% of the Total Gain, in the consolidated income statement for the year ended 31 December 2008. The unrealised portion of the Total Gain of RMB43,203,000 is deferred and will be amortised on a straight-line basis over the useful lives of the related property, plant and equipment.

(b) In July 2007, the Company injected certain property, plant and equipment (mainly port facilities) with carrying value of RMB32,493,000 to XHICT as its contracted capital contribution of RMB76,950,000 to XHICT. The gain on the capital contribution amounted to RMB44,457,000 (the "Gain From XHICT"), 49% of which, being RMB21,784,000, has been recognised in the consolidated income statement for the year ended 31 December 2007. The unrealised portion of the Gain From XHICT of RMB22,673,000 is deferred and will be amortised on a straight-line basis over the useful lives of the related property, plant and equipment.

## 29. OTHER GAINS — NET (Continued)

(b) (Continued)

In February 2008, XPD injected a land use right with carrying value of RMB46,650,000 to XPYCH, a jointly controlled entity in which XPD has 60% equity interest, as its contracted capital contribution of RMB58,590,000 to XPYCH. The gain on the capital contribution amounted to RMB11,940,000 (the "Gain From XPYCH"), 40% of which, being RMB4,774,000 has been recognised in the consolidated income statement for the year ended 31 December 2008. The unrealised portion of the Gain From XPYCH of RMB7,166,000 is deferred and will be amortised on a straight-line basis over the useful life of the related land use right.

## 30. EMPLOYEE BENEFIT EXPENSES

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Salaries, wages and bonuses | 298,808 | 253,769 |
| Welfare, medical and other expenses | 59,869 | 60,413 |
| Contributions to pension plans | 61,511 | 51,356 |
| Contributions to supplementary pension scheme | 4,638 | — |
| | 424,826 | 365,538 |

The employees of the Group participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is obliged to make monthly defined contributions to these plans based on 13% to 36.5% (2007: 13% to 36.5%) of the employees' monthly salaries and wages, depending on the applicable social security regulations. In addition, from 2008, the Group has also participated in a supplementary pension scheme under which the Group is required to make monthly payments to insurance companies for its existing qualifying employees, capped at the ceiling of 4% of the annual salary of the qualifying employees. The Group has no further obligation for payments of retirement and other post-retirement benefits beyond the above contributions. Contributions to these pension plans or scheme are expensed as incurred.

## 31. EXPENSES BY NATURE

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Cost of inventories sold/consumed (Note 14) | **2,011,970** | 1,549,519 |
| Employee benefit expenses (Note 30) | **424,826** | 365,538 |
| Depreciation of property, plant and equipment (Note 5) | **170,665** | 159,069 |
| Distribution, transportation and labour outsourcing | **98,878** | 83,434 |
| Business tax, stamp duty and real estate tax | **73,628** | 75,160 |
| Advertising and marketing expenses | **27,353** | 24,973 |
| Amortisation of | | |
| — land use rights (Note 6) | **22,458** | 22,654 |
| — intangible assets (Note 7) | **3,518** | 2,963 |
| Operating lease rental in respect of property, plant and equipment | **19,507** | 15,174 |
| General office expenses | **21,748** | 20,929 |
| Repairs and maintenance | **20,322** | 24,902 |
| Property insurance expenses | **15,328** | 14,738 |
| Auditors' remuneration | **3,529** | 3,430 |
| Provision for/(reversal of) impairment of: | | |
| — inventories | **4,152** | (26) |
| — receivables and advances to suppliers | **12,248** | 11,829 |
| — property, plant and equipment | **215** | — |
| Others | **73,524** | 64,483 |
| Total cost of sales, selling and marketing expenses and general and administrative expenses | **3,003,869** | 2,438,769 |

## 32. FINANCE INCOME AND COSTS

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Interest income | **21,455** | 21,015 |
| Net foreign exchange gain | **5,744** | 6,661 |
| | **27,199** | 27,676 |
| Interests on bank borrowings | **(60,231)** | (45,702) |
| Less: amounts capitalised | **26,959** | 28,544 |
| | **(33,272)** | (17,158) |
| Finance (costs)/income — net | **(6,073)** | 10,518 |

Borrowing costs capitalised are related to the construction of property, plant and equipment. The weighted average interest rate on such capitalised borrowings for the year ended 31 December 2008 was 6.79% (2007: 6.10%) per annum.

## 33. TAXATION

### (a) Income tax expense

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the year ended 31 December 2008 (2007: Nil).

The Corporate Income Tax Law of the PRC (the "new CIT Law") as approved by the National People's Congress has standardised the corporate income tax rate to 25% with effect from 1 January 2008. Prior to the effective date of the new CIT Law, all of the Company's subsidiaries and jointly controlled entities (other than XICT and XHICT) (collectively the "Entities") were all entitled to the preferential corporate income tax rate of 15%. Pursuant to the new CIT Law, the Entities can still enjoy a transitional period to gradually increase the applicable tax rate to 25% over a period of five years. Hence, the applicable tax rates for the Entities in coming five years, starting from 1 January 2008, would be 18%, 20%, 22%, 24% and 25% respectively.

XICT is entitled to a five-year exemption from corporate income tax followed by a 50% reduction in corporate income tax for subsequent five years, commencing from its first cumulative profit-making year in 2001. The current year is the third year which XICT should enjoy the 50% reduction in corporate income tax. Given the tax preferential treatment remains valid under the new CIT Law, the applicable corporate income tax rate for XICT for the year ended 31 December 2008 was 9% (2007: 7.5%).

XHICT is entitled to a three-year exemption from corporate income tax followed by a 50% reduction in corporate income tax for subsequent three years, commencing from 2008. The current year is the first year which XHICT could enjoy the corporate income tax exemption. Given the tax preferential treatment remains valid under the new CIT Law, therefore XHICT has not made any provision for corporate income tax for the year ended 31 December 2008 (2007: Nil).

The Company is entitled to a five-year exemption from corporate income tax followed by a 50% reduction in corporate income tax for subsequent five years, commencing from 2007. The current year is the second year which the Company could enjoy the corporate income tax exemption. Given the tax preferential treatment remains valid under the new CIT Law, therefore the Company has not made any provision for corporate income tax for the year ended 31 December 2008 (2007: Nil).

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and the corresponding change in accounting estimate will be accounted for prospectively.

## 33. TAXATION (Continued)

### (a) Income tax expense (Continued)

The amount of income tax expense charged to the consolidated income statement represents:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| PRC corporate income tax | 31,990 | 62,567 |
| Deferred income tax credit (Note 13) | (4,182) | (5,935) |
| | 27,808 | 56,632 |

The difference between the actual income tax charge in the consolidated income statement and the amounts which would result from applying the enacted tax rate to profit before income tax expense can be reconciled as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Profit before income tax expense | 502,067 | 563,207 |
| Less: share of results of associates | (1,994) | (4,471) |
| | 500,073 | 558,736 |
| Tax calculated at the applicable tax rate of 18% (2007: 15%) | 90,013 | 83,810 |
| Effect of tax holidays of: | | |
| — the Company | (44,442) | (25,272) |
| — XICT | (5,400) | (7,059) |
| — XHICT | (1,555) | — |
| Additional tax deduction obtained for expenses incurred in the prior year | (13,688) | (15,618) |
| Impact of change in applicable tax rate for deferred income tax assets and liabilities due to the new CIT Law | — | (5,056) |
| Income not subject to income tax | (391) | (447) |
| Expenses not deductible for income tax purposes | 3,824 | 26,694 |
| Others | (553) | (420) |
| Income tax expense | 27,808 | 56,632 |

## 33. TAXATION (Continued)

### (b) Business tax ("BT") and related taxes

The Group is subject to BT of 3% or 5% of the service fee income received and receivable. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 7% and 4% of BT payable, respectively.

### (c) Value-added tax ("VAT") and related taxes

Certain subsidiaries of the Company are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of raw material or products can be used to offset the output VAT to determine the net VAT payable. In addition, some of other subsidiaries are subject to output VAT calculated at 6% of the product selling prices with no input credit. The above subsidiaries are also subject to CCT and ES based on 7% and 4% of net VAT payable, respectively.

## 34. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2008 are dealt with in the financial statements of the Company to the extent of RMB421,266,000 (2007: RMB341,552,000).

## 35. DIVIDEND

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Final, proposed dividend | | |
| — Domestic share | **95,673** | 99,151 |
| — H-share | **54,268** | 56,242 |
| | **149,941** | 155,393 |

At a meeting held on 17 April 2009, the directors of the Company proposed a final dividend of RMB5.5 cents per share. This proposed dividend is not reflected as dividend payable in the consolidated financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

## 36. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company for the year ended 31 December 2008 of RMB376,659,000 (2007: RMB374,417,000) by the weighted average number of the Company's shares in issue during the year of 2,726,200,000 (2007: 2,726,200,000) shares.

Diluted earnings per share is equal to basic earnings per share as the Company has no potential dilutive ordinary shares.

## 37. EMOLUMENTS OF DIRECTORS AND SUPERVISORS

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| **Directors and supervisors** | | |
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 2,642 | 2,688 |
| Contributions to pension plans | 219 | 132 |
| Discretionary bonuses | 2,083 | 2,039 |
| | 4,944 | 4,859 |

Other allowances and benefits-in-kind mainly represent the miscellaneous allowance for living expenses, travelling allowance and telephone allowance.

## 37. EMOLUMENTS OF DIRECTORS AND SUPERVISORS (Continued)

The emoluments received by individual directors and supervisors are as follows:

### Year ended 31 December 2008

| Name | Basic salaries, housing allowances, other allowances and benefits-in-kind RMB'000 | Contributions to pension plans RMB'000 | Discretionary bonuses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Directors and supervisors** | | | | |
| Zheng Yongen | 324 | 21 | 348 | 693 |
| Chen Dingyu | 256 | 21 | 322 | 599 |
| Fu Chengjing | 87 | — | — | 87 |
| Miao Luping | 87 | — | — | 87 |
| Lin Kaibiao | 87 | — | — | 87 |
| Fang Yao | 262 | 38 | 320 | 620 |
| Huang Zirong | 231 | 36 | 287 | 554 |
| Hong Lijuan | 225 | 36 | 290 | 551 |
| Ke Dong | 296 | 37 | 270 | 603 |
| Huang Shizhong | 87 | — | — | 87 |
| Zhen Hong | 87 | — | — | 87 |
| Hui Wang Chueng | 195 | — | — | 195 |
| Fang Zuhui | 54 | — | — | 54 |
| Luo Jianzhong | 54 | — | — | 54 |
| Wu Jianliang | 171 | 30 | 226 | 427 |
| Wu Weijian (*) | 31 | — | 20 | 51 |
| Tang Jinmu | 54 | — | — | 54 |
| He Shaoping | 54 | — | — | 54 |
| | 2,642 | 219 | 2,083 | 4,944 |

* Appointed on 23 October 2008

## 37. EMOLUMENTS OF DIRECTORS AND SUPERVISORS (Continued)

### Year ended 31 December 2007

| Name | Basic salaries, housing allowances, other allowances and benefits-in-kind RMB'000 | Contributions to pension plans RMB'000 | Discretionary bonuses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Directors and supervisors** | | | | |
| Zheng Yongen | 265 | 13 | 273 | 551 |
| Zeng Yingguo (**) | 127 | 4 | 137 | 268 |
| Chen Dingyu | 282 | 19 | 295 | 596 |
| Fu Chengjing | 80 | — | — | 80 |
| Miao Luping | 80 | — | — | 80 |
| Lin Kaibiao | 97 | 2 | 22 | 121 |
| Fang Yao | 288 | 19 | 295 | 602 |
| Huang Zirong | 254 | 19 | 262 | 535 |
| Hong Lijuan | 246 | 19 | 262 | 527 |
| Ke Dong | 272 | 18 | 299 | 589 |
| Huang Shizhong | 80 | — | — | 80 |
| Zhen Hong | 80 | — | — | 80 |
| Hui Wang Chueng | 180 | — | — | 180 |
| Fang Zuhui | 50 | — | — | 50 |
| Luo Jianzhong | 50 | — | — | 50 |
| Wu Jianliang | 157 | 19 | 194 | 370 |
| Tang Jinmu | 50 | — | — | 50 |
| He Shaoping | 50 | — | — | 50 |
| | 2,688 | 132 | 2,039 | 4,859 |

** Resigned on 10 April 2007

## 37. EMOLUMENTS OF DIRECTORS AND SUPERVISORS (Continued)

The emoluments of the directors and supervisors of the Company fall within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2008** | 2007 |
| **Directors and supervisors** | | |
| Nil to HK$1,000,000 (equivalent to RMB881,890) | **18** | 17 |

During the year, no directors or supervisors of the Company have waived their emoluments and no emoluments were paid by the Company to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

The five individuals whose emoluments were the highest in the Group during the current and the prior year are all directors whose emoluments are reflected in the analysis above.

## 38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to net cash generated from operations:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Profit before income tax | 502,067 | 563,207 |
| Adjustments for: | | |
| — Share of results of associates | (1,994) | (4,471) |
| — Depreciation of property, plant and equipment | 170,665 | 159,069 |
| — Amortisation of land use rights | 22,458 | 22,654 |
| — Amortisation of intangible assets | 3,518 | 2,963 |
| — Gain from capital contribution to a jointly controlled entity | (4,774) | (21,784) |
| — Gain on disposal of property, plant and equipment | (43,662) | (135) |
| — Fair value loss on derivative financial instrument | 4,525 | 7,536 |
| — Provision for impairment of property, plant and equipment | 215 | — |
| — Provision for/(reversal of) impairment of inventories | 4,152 | (26) |
| — Provision for impairment of receivables and advances to suppliers | 12,248 | 11,829 |
| — Dividend income | (2,170) | (2,980) |
| — Interest income | (21,455) | (21,015) |
| — Interest expenses | 33,272 | 17,158 |
| — Unrealised foreign exchange losses/(gains) | 1,376 | (6,201) |
| — Gain on disposal of an associate | — | (3,622) |
| | 680,441 | 724,182 |
| Changes in working capital: | | |
| — Accounts and notes receivable | 47,558 | (113,295) |
| — Other receivables and prepayments | 190,466 | (296,695) |
| — Financial assets at fair value through profit or loss | 8,931 | (8,931) |
| — Inventories | 265,826 | (284,934) |
| — Accounts and notes payable | (451,640) | 351,159 |
| — Other payables and accruals | (4,073) | 94,969 |
| — Restricted cash | (52,078) | (510) |
| Net cash generated from operations | 685,431 | 465,945 |

(b) The major non-cash transactions for the year ended 31 December 2008 and 2007 represented the Group's non-monetary capital contribution to XPYCH and XHICT, details of which are set out in Note 29(b).

## 39. COMMITMENTS

### (a) Capital commitments

(i) The Group's capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

| | Group 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Purchases of property, plant and equipment | | |
| — the Group | **349,481** | 311,002 |
| — a jointly controlled entity | **41,054** | 8,326 |
| | **390,535** | 319,328 |
| Capital contribution to a jointly controlled entity | **—** | 58,590 |
| | **390,535** | 377,918 |

(ii) The Company's capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

| | Company 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Purchases of property, plant and equipment | **277,774** | 310,767 |

Committed capital expenditure as at 31 December 2008 mainly related to the construction and upgrade of port and storage infrastructure, acquisitions of new loading and other machineries, acquisitions of vessels and renovation of buildings.

## 39. COMMITMENTS (Continued)

### (b) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases on property, plant and equipment are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Not later than 1 year | **14,482** | 14,706 |
| Later than 1 year and not later than 5 years | **13,097** | 15,158 |
| Later than 5 years | **10,325** | 6,620 |
| | **37,904** | 36,484 |

The Company has no operating lease commitment as at 31 December 2008 and 2007.

## 40. CONTINGENT LIABILITIES

As at 31 December 2008 and 2007, the Group and the Company have no significant contingent liabilities.

## 41. SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Company is controlled by Xiamen Port Holding, the parent company, which is in turn subject to the control of the PRC Government.

In accordance with HKAS 24 "Related Party Disclosure", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, the directors of the Company believe that meaningful information relating to related party transactions has been adequately disclosed.

## 41. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

In addition to those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the year ended 31 December 2008 and balances arising from these significant related party transactions.

(a) During the year, the Group had the following significant transactions with related parties:

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Transaction with Finance Bureau of Xiamen** | | | |
| ***Other income*** | | | |
| Subsidy income | (i) | **11,000** | 11,000 |
| **Transactions with the parent company** | | | |
| ***Expenses*** | | | |
| Operating lease rental in respect of land and office premises | (ii) | **10,862** | 6,284 |
| **Transactions with fellow subsidiaries** | | | |
| ***Expenses*** | | | |
| Comprehensive service fee | (iii) | **16,567** | 19,326 |
| Labour service fee | (iv) | **24,121** | 17,805 |
| ***Others*** | | | |
| Purchases of property, plant and equipment | (v) | **13,381** | 8,366 |
| **Transactions with other state-owned enterprises** | | | |
| ***Revenues*** | | | |
| Loading and unloading services rendered | (vi) | **128,352** | 140,968 |
| Port ancillary services rendered | (vi) | **43,253** | 27,364 |
| Sales of building materials | (vi) | **46,415** | 6,541 |
| Interest income from bank deposits | | **21,455** | 21,015 |
| ***Expenses*** | | | |
| Purchase of goods and raw materials | (vii) | **47,790** | 46,459 |
| Fuel charges | (vii) | **88,680** | 65,206 |
| Interest expenses paid to state-owned banks | (viii) | **57,339** | 40,088 |
| ***Others*** | | | |
| Purchases of property, plant and equipment | (ix) | **115,422** | 193,438 |
| Purchases of land use right | (x) | **—** | 117,632 |
| Disposal of an associate | (xi) | **—** | 15,268 |

## 41. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(i) XPD is entitled to annual subsidy amounting to RMB11,000,000 from Finance Bureau of Xiamen for 5 years commencing from 2004 pursuant to Xia Cai Qi [2004] Document No. 80.

(ii) Operating lease for land and office premises was determined based on the terms stipulated in a lease agreement entered into between the parties involved.

(iii) The comprehensive services provided by Xiamen Port Holding to the Group was determined based on the terms stipulated in the comprehensive services agreement.

(iv) The related labour services were provided by Xiamen Port Labour Services Co., Ltd. and Xiamen Port Hailongchang International Freight Co., Ltd. to the Group. The terms were stipulated in Master Labour Service Agreement as entered into among the parties involved.

(v) The purchase of property, plant and equipment was the expenditure to Xiamen Port Engineering Co. Ltd. for berth construction services, building construction services and other related port engineering services. The terms were mutually agreed by the parties involved.

(vi) The loading and unloading services rendered, port ancillary services rendered and sales of building materials to the related parties and other state-owned enterprises were carried out on terms that were mutually agreed by both contract parties.

(vii) The consideration paid and the terms were mutually agreed by the parties involved.

(viii) Interest was charged for loans with state-owned banks in accordance with the terms set out in the respective agreements or as mutually agreed with the parties involved.

(ix) The purchases of property, plant and equipment from other state-owned enterprises mainly consisted of buildings, port infrastructure, storage infrastructure, loading and other machinery, vehicles, vessels, furniture, fittings and equipments and construction-in-progress, which were conducted at terms that were mutually agreed by the parties involved.

(x) In the year 2007, in relation to the Xiamen Xiangyu Free Trade Logistic Park Zone project (the "Project"), XPD entered into a land grant contract with Xiamen Land Bureau and Xiangyu Administrative Committee on 23 March 2007 (the "Contract"). Pursuant to the Contract, Xiamen Land Bureau granted the land us right of with a total area of approximately 262,210 square meters (the "Land Use Right") to XPD at a consideration of approximately RMB214,488,000. After netting off the compensation received from Xiangyu Administrative Committee of RMB96,856,000 for the resumption of the land use right in connection with the Project, the net amount paid by the Group for the acquisition of the Land Use Right was RMB117,632,000.

## 41. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(xi) Pursuant to an agreement dated 15 July 2007, Xiamen Road & Bridge Building Materials Corporation Ltd., a subsidiary of the Group, transferred its entire 15% equity interest in Xiamen Road and Bridge Concrete Engineering Corporation Ltd., a then associate of the Group, to Xiamen Road & Bridge Construction Group Co., Ltd. at a consideration of RMB15,268,000.

(b) The balances with related parties of the Group at the balance sheet dates are as follows:

| | Note | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| **Balances with the parent company** | | | |
| Other receivables and prepayments | (i) | **4,419** | 307 |
| Other payables and accruals | (i) | **3,613** | 1,742 |
| **Balances with fellow subsidiaries** | | | |
| Accounts receivable | (i) | **1,420** | 2,211 |
| Other receivables and prepayments | (i) | **1,465** | 1,023 |
| Accounts payable | (i) | **9,437** | 9,336 |
| Other payables and accruals | (i) | **3,259** | 5,273 |
| **Balances with minority shareholders of subsidiaries** | | | |
| Dividend payable | (i) | **—** | 15,218 |
| **Balances with other related parties** | | | |
| Other payables and accruals | (ii) | **24,071** | 19,685 |
| **Balances with other state-owned enterprise** | | | |
| Restricted cash | (iii) | **93,829** | 41,751 |
| Long-term bank deposits | (iii) | **—** | 7,306 |
| Term deposits with initial term of over three months | (iii) | **186,316** | 94,050 |
| Cash and cash equivalents | (iii) | **844,558** | 1,001,123 |
| Accounts receivable | (iv) | **82,380** | 81,967 |
| Other receivables and prepayments | (iv) | **9,764** | 16,185 |
| Accounts payable | (iv) | **24,529** | 23,890 |
| Other payables and accruals | (iv) | **9,138** | 5,815 |
| Borrowings | (v) | **582,885** | 917,370 |

(i) The balances with the parent company, fellow subsidiaries and minority shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(ii) The balance referred to port construction fee collected on behalf of Xiamen Municipal Port Authority and the balance is unsecured, interest free and has no fixed terms of repayment.

## 41. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) (Continued)

(iii) These balances included restricted cash, cash and cash equivalents and term deposits with state-owned banks and financial institutions and carried interest income at rates as mutually agreed among the parties involved.

(iv) These balances arose from the ordinary course of the Group's business and are unsecured, interest free and no fixed payment terms.

(v) These balances were the current and non-current bank borrowings from state-owned banks and financial institutions and bear interests at rates as mutually agreed among the parties involved.

(c) Key management compensation:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 2,642 | 2,688 |
| Contributions to pension plans | 219 | 132 |
| Discretionary bonuses | 2,083 | 2,039 |
| | 4,944 | 4,859 |

## 42. COLLATERAL SECURITIES FOR MITIGATING CREDIT RISKS

(a) In early 2008, XPD, one of the Company's subsidiaries which is engaged in the trading business of industrial products, discovered that one of its customer (the "Customer") had taken away, without the proper approval or consent from XPD, certain goods at an amount of RMB24,972,000 (the "Inventories") which were previously stored by XPD at a warehouse owned and operated by a third party storage company (the "Storage Company"). XPD subsequently instituted an action against the Customer and the Storage Company and applied for property preservation. As there were other companies (collectively the "Other Claimers") who made claime against the Customer for other liabilities at the same time, a class action was collectively lodged by XPD and the Other Claimers (collectively the "Creditors") against the Customer. In November 2008, the Creditors effectively obtained the disposition right over the properties (the "Properties") owned by the Customer through obtaining an effective control (95%) over the equity interests (the "Equity Interests") of the Customer. In February 2009, the Creditors entered into an agreement (the "Agreement") with two third parties (the "Buyers") pursuant to which, the Creditors would dispose the Equity Interests to the Buyers for a total consideration of RMB66,000,000 (the "Consideration") by three instalments. The proceed of the Consideration will be applied to repay the Creditors. As at the date of this report, the Creditors received the first instalment of RMB23,000,000 from the Buyers. The remaining second instalment of RMB20,000,000 and third instalment of RMB23,000,000 would be paid by the Buyers within 18 months and 24 months respectively after the Agreement became effective. To ensure the full performance of the Agreement, prior to the full settlement of the Consideration by the Buyers, the aforesaid Properties owned by the Customer will be charged to the Creditors as security according to the Agreement.

    To reflect the lost of the Inventories and the claim lodged against the lost, XPD had derecognised the Inventories of RMB24,972,000 and recognised a receivable (the "Receivable") from the Customer at the same amount as at 31 December 2007, a provision of RMB6,243,000 was also made in the meantime. During the year ended 31 December 2008, XPD made a further impairment provision of RMB1,800,000 after taking into consideration of the estimated recoverable amount and the advanced deposits previously received from the Customer. The impairment provision for the Receivable amounted to RMB8,043,000 as at 31 December 2008 (2007: RMB6,243,000) and the directors of the Company consider that the impairment provision is adequate.

(b) As at 31 December 2008, in addition to the Receivable as described in Note 42(a), certain accounts receivable, advance to suppliers and inventories (collectively the "Assets") in connection with the Group's trading business are also exposed to recoverability risk. To mitigate the credit risk associated with the Assets, the Group has obtained certain merchandise, properties, equipments and land use rights (collectively the "Collaterals") as the securities for the Assets. After assessing the estimated value of the Collaterals, the Company made an aggregate impairment provision on the Assets of RMB12,200,000 (2007: Nil) as at 31 December 2008.

## 42. COLLATERAL SECURITIES FOR MITIGATING CREDIT RISKS (Continued)

(b) (Continued)

As at 31 December 2008, the carrying amounts and the impairment provisions for the Assets are as follows:

| | Carrying amounts RMB'000 | Impairment provisions RMB'000 |
|---|---|---|
| Accounts receivable (Note 15) | 86,739 | (6,000) |
| Advance to suppliers (Note 16) | 30,933 | (3,000) |
| Inventories (Note 14) | 14,253 | (3,200) |
| | 131,925 | (12,200) |

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

### (a) Subsidiaries

As at 31 December 2008, the Company had direct and indirect interests in the following principal subsidiaries:

| | | Issued share/ paid-in capital | | Attributable equity interests | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2008 | | 2007 | | |
| | | 2008 | 2007 | Directly | Indirectly | Directly | Indirectly | |
| Name | Type of legal entity | (RMB'000) | | held | held | held | held | Principal activities |
| **Listed** | | | | | | | | |
| Xiamen Port Development Co., Ltd.) | Joint stock limited company | 531,000 | 531,000 | 55.13% | — | 55.13% | — | Container loading and unloading for domestic trade and bulk/ general cargo loading and unloading for both domestic and international trade |
| **Unlisted** | | | | | | | | |
| China Ocean Shipping Agency (Xiamen) Co., Ltd. | Limited liability company | 30,000 | 30,000 | — | 33.08% | — | 33.08% | Shipping agency services for international vessels |
| Xiamen Waili Tally Co., Ltd. # | Limited liability company | 17,000 | 17,000 | — | 47.41% | — | 47.41% | Tallying of cargo and container services |
| Xiamen Port Shipping Co., Ltd. | Limited liability company | 60,000 | 60,000 | 10% | 49.62% | 10% | 49.62% | Tugboat berthing and unberthing |
| Xiamen Haicang Port Co., Ltd. | Limited liability company | 120,000 | 120,000 | 70% | — | 70% | — | Cargo stevedoring and barging |
| Xiamen Port Logistics Co., Ltd. | Limited liability company | 65,000 | 65,000 | — | 55.26% | — | 55.26% | Container deposit, land transport, international freight agency |
| Xiamen Haitian Container Terminal Co., Ltd. | Limited liability company | 200,000 | 200,000 | 85% | 8.29% | 85% | 8.29% | Container loading and unloading for international trade |

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

### (a) Subsidiaries (Continued)

| Name | Type of legal entity | Issued share/ paid-in capital 2008 (RMB'000) | 2007 (RMB'000) | Attributable equity interests 2008 Directly held | 2008 Indirectly held | 2007 Directly held | 2007 Indirectly held | Principal activities |
|---|---|---|---|---|---|---|---|---|
| **Unlisted (Continued)** | | | | | | | | |
| Xiamen Port (Group) Domestic Shipping Agent Co., Ltd.# | Limited liability company | 2,000 | 2,000 | — | 44.10% | — | 44.10% | Shipping agency services for domestic trade |
| Xiamen Port Power Supply Service Co., Ltd. | Limited liability company | 10,000 | 10,000 | 80% | 18.66% | 80% | 18.66% | Operation and management of the equipment at the transformer substation |
| Xiamen Road and Bridge Building Materials Corporation Ltd. | Limited liability company | 20,000 | 20,000 | — | 52.37% | — | 52.37% | Manufacturing, processing and selling of building materials |
| Xiamen Penavico International Freight and Forwarding Co., Ltd.# | Limited liability company | 6,000 | 6,000 | — | 33.08% | — | 33.08% | Agency services for import and export of products/technology, international and domestic agency services |
| Xiamen Penavico Navigation Co., Ltd.# | Limited liability | 2,000 | 2,000 | — | 33.08% | — | 33.08% | Domestic transportation agency and labour services |
| Xiamen Penavico Customs Broker Co., Ltd.# | Limited liability company | 1,800 | 1,800 | — | 33.08% | — | 33.08% | Agency services for customs declaration |
| Xiamen Penavico Logistics Co., Ltd.# | Limited liability | 3,800 | 3,800 | — | 33.08% | — | 33.08% | Agency services for imports and exports of products and technology and operations of bonded warehouse |
| Xiamen Penavico Air Freight Co., Ltd.# | Limited liability company | 5,000 | 5,000 | — | 33.08% | — | 33.08% | Agency services for international air transportation |

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

### (a) Subsidiaries (Continued)

| Name | Type of legal entity | Issued share/ paid-in capital 2008 (RMB'000) | 2007 (RMB'000) | Attributable equity interests 2008 Directly held | 2008 Indirectly held | 2007 Directly held | 2007 Indirectly held | Principal activities |
|---|---|---|---|---|---|---|---|---|
| **Unlisted (Continued)** | | | | | | | | |
| Xiamen Port Logistics Free Trade Co., Ltd. | Limited liability | 35,000 | 35,000 | — | 55.25% | — | 55.25% | Agency services for import and export of products/ technology and operations of bonded warehouse |
| Xiamen Ganghua Container Service Co., Ltd. | Limited liability company | 6,630 | 6,630 | 50% | 27.63% | 50% | 27.63% | Repair, maintenance, cleaning and renovation of containers |
| Xiamen Port Transportation Co., Ltd. | Limited liability company | 40,000 | 40,000 | — | 55.13% | — | 55.13% | Container deposit, land transport |
| Xiamen Port Trading Co., Ltd. | Limited liability company | 10,000 | 10,000 | — | 55.13% | — | 55.13% | Commodity export agency and sales |
| Xiamen Port Hailuda Building Material., Ltd.# | Limited liability company | 7,000 | 7,000 | — | 44.10% | — | 44.10% | Manufacturing, processing and selling of building materials |
| Xiamen Waili logistics management Co., Ltd.# | Limited liability company | 300 | 300 | — | 47.41% | — | 47.41% | Container deposit, land transport and logistics management |

# The directors of the Company consider that the Group has control over these companies through its representatives on the board of directors and voting power in these companies.

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

### (b) Jointly controlled entities

As at 31 December 2008, the Group had interests in the following jointly controlled entities:

| Name | Paid-in capital 2008 (RMB'000) | Paid-in capital 2007 (RMB'000) | Proportion of ownership held by the Group 2008 | Proportion of ownership held by the Group 2007 | Principal activities |
|---|---|---|---|---|---|
| Xiamen International Container Terminals Ltd. | 1,148,700 | 1,148,700 | 51% | 51% | Container loading and unloading for international trade |
| Xiamen Gangtong Logistic Co., Ltd. | 5,000 | 5,000 | 50% | 50% | Container storage and land transportation |
| Xiamen Haicang International Container Terminals Ltd. | 150,883 | 150,883 | 51% | 51% | Container loading and unloading for international trade |
| Xiamen Port YCH Logistics Co., Ltd. * | 97,650 | — | 60% | — | Agency services for import and export of products/ technology and operations of bonded warehouse |

* Established by XPD during the year ended 31 December 2008

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

### (c) Associates

As at 31 December 2008, the Group has interests in the following associates:

| Name | Type of legal entity | Issued share/paid-in capital 2008 (RMB'000) | Issued share/paid-in capital 2007 (RMB'000) | Attributable equity interests 2008 | Attributable equity interests 2007 | Principal activities |
|---|---|---|---|---|---|---|
| **Unlisted** | | | | | | |
| Xiamen Penavico Tungya Logistics Co., Ltd. | Sino-foreign cooperative joint venture | 18,000 | 18,000 | 35.7% | 35.7% | Provision of storage services |
| Quanzhou Qing Meng logistics Co., Ltd. | Limited liability company | 10,000 | 10,000 | 40% | 40% | Provision of container storage, traffic and maintenance services |
| Xiamen Sandeli Container Storage Co., Ltd. | Limited liability company | 10,000 | 10,000 | 45% | 45% | Provision of container transit, storage, cleaning and maintenance services; and import and export customs declaration services |
| Xiamen Harbour Lurong Water-and-Railway Coordinated Transportation Co., Ltd. | Limited liability company | 500 | 500 | 48% | 48% | Provision of railway cargo transportation and agency services |
| Xiamen Jida Building Materials Technology Co., Ltd. | Limited liability company | 1,500 | 1,500 | 40% | 40% | Manufacturing, processing and selling of building materials |

All subsidiaries, jointly controlled entities and associates are incorporated in Xiamen, the PRC.

The operations of all subsidiaries, jointly controlled entities and associates are principally carried out in Xiamen, the PRC.

## 43. PARTICULARS OF SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

Except for XPD which is listed company in the PRC, all subsidiaries, jointly controlled entities and associates are private companies having substantially the same characteristics as a Hong Kong incorporated private company.

The English names of certain subsidiaries, jointly controlled entity and associates referred to in this report represent management's best effort at translating the Chinese names of these companies as no English names have been registered.



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