




Operates two international container terminals, the Hai Tian container terminal with seven berths in the Dongdu port area and the Xiamen International Container Terminal ("XICT") with two berths in Haicang port area.



**Total container
throughput
increased
18.62% to
2,630,501 TEUs
in 2005**



Management discussion and analysis

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Industry Overview

Significant Growth of China's Container Trade

Since China's accession to the World Trade Organisation (the "WTO") in December 2001, the value of its foreign trade achieved significant growth. In 2005, the total value of foreign trade amounted to approximately USD1,420 billion, representing a year-on-year growth of approximately 23.2%. In terms of value of its foreign trade, China has been a net exporter since 1994. In 2005, China's exports and imports accounted for approximately 53.6% and approximately 46.4% respectively of its total value of foreign trade, deriving a trade surplus of approximately USD101.88 billion. As all member states of the WTO had to remove their quota restrictions since January 2005, China's foreign trade recorded further growth. China's port cargo and container throughputs have been ranked first in the world for three consecutive years, in particular, as a result of the robust growth of China's container trade. In 2005, China's container port throughput amounted to approximately 75.8 million TEUs, representing a year-on-year growth of approximately 23%.





Foreign Trade and Port Terminals of Xiamen

As revealed by the information provided by the Fujian Statistics Bureau, the gross domestic product of Fujian Province in 2005 continued to record a strong growth. The ports in Fujian Province also serve adjacent provinces, namely, Jiangxi, Hunan, Zhejiang and Guangdong. In 2005, Fujian Province's total value of exports and imports was approximately USD54.43 billion, representing a year-on-year growth of approximately 14.5%. Cargo and container throughputs were approximately 196 million tonnes and 4.9248 million TEUs respectively, representing an increase of approximately 23.8% and approximately 15.7% respectively over 2004.

Xiamen Port, situated in Xiamen, one of the five Special Economic Zones of China, has premier geographical advantages in its location. Capitalising on its extensive market coverage and sound environments of a natural harbour, Xiamen Port handled a container throughput of 3.3428 million TEUs in 2005, an increase of approximately 16.41% on 2004 and continued to be one of the top ten container ports in China. It ranked seventh among the ports in China and accounted for over 67.9% of Fujian Province's total container throughput.

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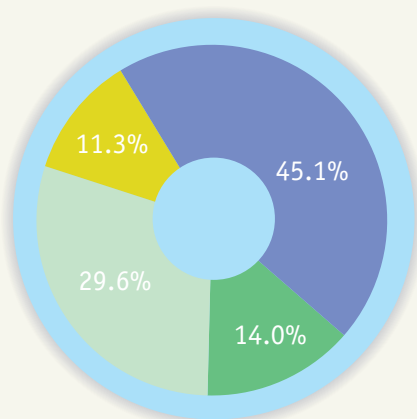
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Business Review

For the year ended 31 December 2005, the Group was engaged in port terminal operations in the Dongdu and Haicang port areas in Xiamen. The Group operates two international container terminals, namely, the Hai Tian container terminal with seven berths in the Dongdu port area and the XICT with two berths in the Haicang port area.

Turnover Analysis



For the year ended 31 December 2005

- Container loading & unloading and storage
- Bulk/general cargo loading & unloading
- Ancillary value-added port services
- Manufacturing and selling of building materials

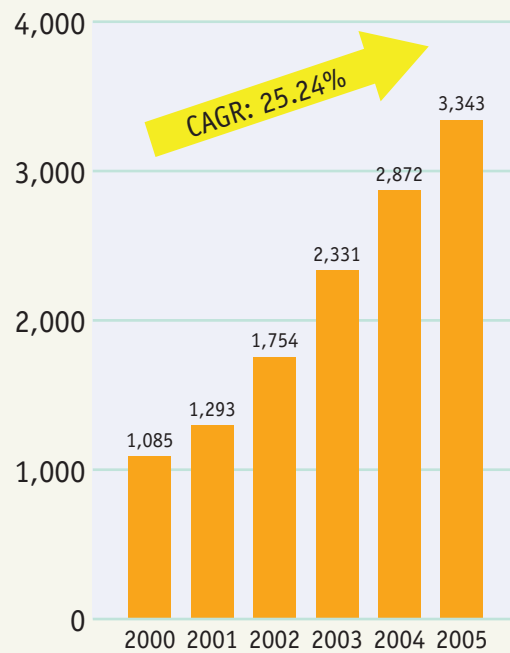




In addition, the Group also operates, in the Dongdu port area, one terminal with four berths for bulk/general loading and unloading in respect of both international and domestic trade and container loading and unloading in respect of domestic trade.

Container Throughput in Xiamen Port

TEUs ('000)



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Container Port Business

During the year under review, benefited by the growth of China's foreign trade, the container throughput of the Group recorded growth as follows:

Container throughput	2005 (TEUs)	2004 (TEUs)	Increase
Xiamen Haitian Container Terminals Co., Ltd. ("Haitian") (international trade)	1,286,901	1,280,328	0.51%
XICT* (international trade)	1,103,415	746,109	47.89%
Xiamen Port Development Co., Ltd. Dongdu Branch ("Dongdu Branch") (domestic trade)	240,185	191,208	25.61%
Total throughput	2,630,501	2,217,645	18.62%

* XICT is a jointly controlled entity between Xiamen Haicang Port Co., Ltd. ("Xiamen Haicang"), 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 were proportionately consolidated in the Group's financial statements. However, in terms of the operational statistics, such as TEUs and cargo throughput, the Group has included 100% of XICT's figures.

Container Throughput of the Group





Bulk/General Cargo Port Businesses

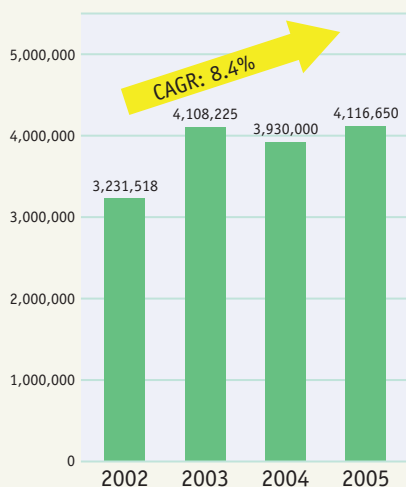
All bulk cargo and most of the general cargo of the Group, primarily grains (soybean), chemical fertilisers, steel and stone products, are centrally handled through Dongdu terminal. Currently, the Group is the only enterprise in Xiamen operating berths for the loading and unloading of large scale and bulky grains and chemical fertilisers and its Dongdu Terminal is one of the key distribution centres in the handling of imported raw stones in China. In 2005, in terms of bulk/general cargo throughput, the Group ranked first among all port terminal operators in Xiamen, with an overall growth in throughput:

Bulk/general cargo throughput	2005 (tonnes)	2004 (tonnes)	Increase/ (decrease)
XICT	321,110	460,000	(30.19%)
Dongdu Branch	3,795,540	3,470,000	9.38%
Total throughput	4,116,650	3,930,000	4.75%

Ancillary Value-added Port Services

As the most important port terminal operator in Xiamen, the Group has been active in its efforts to provide one-stop comprehensive ancillary value-added port services to its customers. With the continuing increases in import and export trade, the Group has been proactive, during the year, in developing ancillary value-added port services, including provision of shipping agency, tallying, tugboat berthing and unberthing and port-related logistics services to shipping companies and owners, in order to capitalise on the ever-arising opportunities.

**Bulk/General Cargo Handling
Volume of the Group**
Tonnes



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The following is a summary of the ancillary value-added port services of the Group:

Ancillary value-added port services	Business	Customers
Shipping agency Cooperative partnership with China Ocean Shipping Agency Co. Ltd. and usage of the world renown trademark of "Penavico"	Agency services for — foreign trade vessels — cargoes — containers	Shipping companies Cargo owners
Tallying	— tallying services of containers and general cargo — vanning and devanning tallying services of containers	Shipping companies Cargo owners
Tugboat berthing and unberthing	— berthing and unberthing services — tug and craft services — marine rescue and fire-fighting services	Shipping companies
Port-related logistics services	— transportation of containers and cargo — warehousing — vanning and devanning of containers, container consolidation and stacking — packaging and repackaging of bulk/general cargo — repairing, leasing and cleaning of containers — pre-inspection and maintenance of standard cargo containers, refrigerated containers and dangerous goods containers — logistics information consultancy services	Shipping companies Cargo owners

Scale of Operations

For the year ended 31 December 2005, the Group operated three terminals with a total of 13 berths. The terminals occupy a total site area of approximately 1,400,000 square metres, with a total berth length of approximately 2,927 metres and a depth alongside ranging from 9.9 metres to 13.8 metres. The Group has warehousing facilities inside and outside the terminal areas occupying a total site area of approximately 848,738.51 square metres and approximately 316,667.30 square metres respectively. At the same time, the Group also has berths under construction in the Haicang port area. It is estimated that, upon completion, the berths at Haicang port area will be able to accommodate vessels of up to 100,000 dwt and carrying capacity of 12,000 TEUs, which will further strengthen the operational capability of the Group.



Prospects

The PRC Government estimated that its national economic growth rate and size of foreign trade growth rate in 2006 shall be approximately 8% and approximately 15% respectively. The Fujian provincial and the Xiamen municipal governments estimated that their national economic growth rate shall be approximately 9.5% and approximately 16% respectively and their import and export value of foreign trade shall grow approximately 12% and approximately 20% respectively. The overall trends of robust economic and trade growths shall bring forth a favourable market environment for sustained development of the Xiamen port industry.

Looking ahead, the sound growth trends of international and domestic port industries and the strong development in the economy and trade of Xiamen and the vicinity shall endow Xiamen Port Co. with sound development opportunities. Its premier geographical advantages, with a unique natural deepwater port and an enhanced transportation network give the Group added impetus in market development. In this market environment overwhelmed by opportunities, the Group will continue to expand its capacity and intend to increase the number of its berths and terminals in order to upgrade its loading and unloading capacity. At present, the Group's berths number 1, 4 and 5 in the Haicang port area are under construction. It is estimated that berths number 4 and 5 will be completed in June 2006, following which the Group's designed annual container throughput capacity will be raised from the present capacity of 2.8 million TEUs to 2.91 million TEUs. Upon completion of berth number 1 in December 2006, the Group's designed annual container throughput capacity will be further raised to 3.26 million TEUs.

In addition, the Group will proactively broaden its scopes of services by developing a port area interactive project to enhance its capability to provide value-added services and to extend its coverage of services. Currently, Xiamen is one of the eight pilot ports in China designated to establish a "bounded logistics park". Developing warehousing and logistics within the area of such park will simplify the cargo handling procedures of imported and exported cargo. The Group has established a bounded logistics park close to the Hai Tian container terminal, which commenced operation on 1 March 2006, to assist the Group in providing more effective port services to its customers.

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While broadening the scope of its services, the Group also will continue to improve the quality and efficiency of the value-added port services and aims to provide one-stop comprehensive logistics services. The Group is dedicated to expand its existing port-related logistics services through upgrading transportation network, accelerating market extension by developing joint sea-rail transportation, as well as establishing representative offices in Nanchang, Ganzhou, Shantou and Fuzhou. The Group will endeavour to enhance its competitiveness, and actively seeking opportunities for strategic cooperation with shipping companies, major international port terminal operators to increase its container throughput by fortifying cooperation with international operators and leveraging upon their global networks.

On the other hand, the parent company of the Company, Xiamen Port Holding Group Company Limited ("Xiamen Port Holding") has granted the Group an option to purchase, lease or manage any port-related businesses, projects and assets owned by Xiamen Port Holding in Fujian Province which are the same or similar to those of the Group's businesses. Xiamen Port Holding has also granted the Group the first right of refusal to any related future business opportunities which may involve business competitive to that of the Group, provided that the construction of the underlying projects/assets of such business opportunities have already been completed. At present, the total designed capacity of terminals under construction by Xiamen Port Holding amounted to 2.04 million TEUs and 1.65 million tonnes of general cargo, including the berths being constructed at Phase 1 of the Songyu container terminal (berths number 1, 2 and 3) by Xiamen Songyu Container Terminal Co., Ltd, an equity joint venture between Xiamen Port Holdings and APM Terminals Xiamen Company Limited (a member of A.P. Moller-Maersk Group). It is estimated that the completion of the Songyu container terminal in the second half year of 2007 will foster rosy prospects in driving the Group's future growth with an opportunity to increase the container throughput capacity of additional 1.80 million TEUs.

While the Group is consolidating its container, bulk/general cargo port services and ancillary value-added port services, it will continue to develop transshipment services with the target of becoming the key transshipment port in south-eastern China and the Taiwan Strait. Leveraging on its unique geographical advantages, huge throughput capacity, full service and strong logistics support, the Group will endeavour to become a leading port operator in China by implementing its business strategies and continue to provide quality services to its customers and create bountiful returns to its shareholders.



Financial Review

Turnover

The Group's turnover from continuing operations increased by approximately 14.4% from approximately RMB1,136,923,000 for the year ended 31 December 2004 to approximately RMB1,300,586,000 for the year ended 31 December 2005. This increase was primarily due to increases in turnover from the Group's container loading and unloading and storage business, ancillary value-added port services and manufacturing and selling of building materials.

- Turnover from the Group's container loading and unloading business increased by approximately 12.0% from approximately RMB524,130,000 for the year ended 31 December 2004 to approximately RMB587,115,000 for the year ended 31 December 2005. This increase was primarily due to the additional shipping routes operated by various shipping companies and this had led to increase in container throughput handled by the Haitian container terminal and XICT in 2005.
- Turnover from the Group's bulk/general cargo loading and unloading business which is mostly operated by Dongdu terminal has slightly increased by approximately 3.3% from approximately RMB142,798,000 for the year ended 31 December 2004 to approximately RMB147,452,000 for the year ended 31 December 2005. The turnover in bulk/general cargo loading and unloading business is relatively stable in 2005 as compared to 2004.
- Turnover from the Group's ancillary value-added port services increased by approximately 22.3% from approximately RMB314,423,000 for the year ended 31 December 2004 to approximately RMB384,539,000 for the year ended 31 December 2005. This increase was primarily due to the favourable increase in container throughput handled by XICT, which led to corresponding increase in the demand for the Group's ancillary value-added port services such as tugboat berthing and unberthing and provision for shipping agency services.

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- Turnover from the Group's manufacturing and selling of building materials increased by approximately 16.7% from approximately RMB155,572,000 for the year ended 31 December 2004 to approximately RMB181,480,000 for the year ended 31 December 2005. This increase was primarily due to higher overall market demand on concrete in Xiamen during 2005 as compared to 2004.

Cost of sales

Cost of sales from continuing operations increased approximately 18.6% from approximately RMB628,258,000 for the year ended 31 December 2004 to approximately RMB744,913,000 for the year ended 31 December 2005. This increase was primarily due to increases in cost of inventories consumed, transportation and labour outsourcing cost, and employee benefit expenses.

- Cost of inventories consumed has increased 21.6% from approximately RMB192,863,000 for the year ended 31 December 2004 to approximately RMB234,569,000 for the year ended 31 December 2005. Such increase was mainly due to the increase in the consumption of raw materials and consumables used to produce concrete in manufacturing and selling of building materials segment. In addition, the surge in fuel and oil prices in 2005 has also contributed to the increase in such component of cost of sales.
- Transportation and labour outsourcing cost increased 120.4% from approximately RMB21,061,000 for the year ended 31 December 2004 to approximately RMB46,413,000 for the year ended 31 December 2005. This increase was primarily due to the fact that the Group had engaged labour outsourcing services from related parties namely Xiamen Port Labour Services Co., Ltd. and Xiamen Port Hailongchang International Freight Co., Ltd. during 2005.
- Employee benefit expenses increased 8.1% from approximately RMB269,976,000 for the year ended 31 December 2004 to approximately RMB291,971,000 for the year ended 31 December 2005. Such increase is in line with the general expansion of the overall business operations. In addition, such increase is also contributed by the increase in average salary rates during 2005.



Gross profit

As a result of the foregoing, the Group's gross profit from continuing operations increased approximately 9.2% from approximately RMB508,665,000 for the year ended 31 December 2004 to approximately RMB555,673,000 for the year ended 31 December 2005. Gross profit margin of the Group was approximately 44.7% for the year ended 31 December 2004 and approximately 42.7% for the year ended 31 December 2005. The slight decrease of 2% in gross profit margin is mainly contributed by the higher proportionate increase in cost of sales from continuing operations of 18.6% as compared to increase in turnover from continuing operations of 14.4% during 2005.

Operating expenses

The Group's operating expenses from continuing operations (comprising the selling and marketing expenses and general and administrative expenses) decreased approximately 3.1% from approximately RMB167,741,000 for the year ended 31 December 2004 to approximately RMB162,583,000 for the year ended 31 December 2005. The decrease was primarily due to the decrease in general and administrative expenses in 2005 as compared to 2004.

Operating profit

The Group's operating profit from continuing operations increased approximately 12.6% from approximately RMB387,676,000 for the year ended 31 December 2004 to approximately RMB436,369,000 for the year ended 31 December 2005. The Group's operating profit margin from continuing operations was approximately 34.1% for the year ended 31 December 2004 and approximately 33.6% for the year ended 31 December 2005.

Income tax expense

The Group's income tax expenses decreased approximately 0.4% from approximately RMB71,726,000 for the year ended 31 December 2004 to approximately RMB71,409,000 for the year ended 31 December 2005. Despite the fact that the profit before income tax has increased by 13.7% from approximately RMB365,237,000 for the year ended 31 December 2004 to RMB415,202,000 for the year ended 31 December 2005, the income tax expense remain stable in 2005 as compared to 2004. This is primarily caused by the fact that XICT was subject to a complete exemption from EIT in both year ends and the profit of XICT in 2005 is much higher than that in 2004.

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Minority interests

Minority interests increased approximately 49.3% from approximately RMB67,158,000 for the year ended 31 December 2004 to approximately RMB100,239,000 for the year ended 31 December 2005. The increase was because the Group's effective interest in Transferred-out Assets and Companies (as defined in the Prospectus) reduced from 100% to 55.13% in 31 July 2004 as a result of the Assets Swap with XPD. 44.87% of the net profit of the Transferred-out Assets and Companies is attributable to the minority shareholders of XPD for the whole year in 2005 as compared to five months in 2004.

In addition, the increase in minority interests is also due to certain non-wholly owned subsidiaries have improving operating results in 2005 and hence the profit attributable to minority interests was slightly higher in 2005 as compared to 2004.

Property, plant and equipment

The Group's property, plant and equipment increased from approximately RMB2,245,042,000 as at 31 December 2004 to approximately RMB2,786,489,000 as at 31 December 2005. The significant increase is mainly contributed by the additional purchase of property, plant and equipment of RMB663 million, offset against the depreciation charges of RMB120 million during 2005.

Accounts and notes receivable, net

The Group's accounts and notes receivable, increased from approximately RMB343,536,000 as at 31 December 2004 to approximately RMB360,925,000 as at 31 December 2005. This increase was primarily due to the general growth of the Group's business.

On 31 December 2005, the Group's accounts and notes receivable were approximately RMB374,350,000, of which less than six months were approximately RMB320,122,000, accounting for approximately 85.5% of the total accounts and notes receivable, between six months to one year were approximately RMB19,214,000, between one year to two years were approximately RMB22,012,000, between two years to three years were approximately RMB4,771,000 and over three years were approximately RMB8,231,000.



Accounts and notes payable

The Group's accounts and notes payable increased approximately 31.8% from approximately RMB330,096,000 as at 31 December 2004 to approximately RMB434,997,000 as at 31 December 2005. This increase was primarily due to the increase in notes payable. The Group's notes payable increased approximately RMB67,527,000 or approximately 292.9% from approximately RMB23,051,000 on 31 December 2004 to approximately RMB90,578,000 on 31 December 2005.

On 31 December 2005, the Group's accounts and note payables less than one year were RMB426,214,000 accounting for approximately 98.0% of the total accounts and notes payable and over one year were RMB8,783,000, accounting for approximately 2.0%.

Borrowings

The Group's borrowings decreased from RMB1,265,373,000 on 31 December 2004 to RMB935,759,000 on 31 December 2005. The decrease in borrowings was primarily due to loan repayments of RMB450,000,000 to Dongdu Branch in Xiamen of China Construction Bank by the Group from the listing proceeds.

On 31 December 2005, borrowings due within one year were RMB81,111,000, due within one to two years were RMB11,838,000, due within three to five years were RMB213,754,000 and due after five years were RMB629,056,000.

On 31 December 2005, the Group's guaranteed loans were RMB105,310,000 which were guaranteed by China Construction Bank.

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Cash flows and working capital

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

The following table sets out the Group's cash flows with respect to operating activities, investing activities and financing activities for the years ended 31 December 2005 and 2004:

	2005 RMB'000	2004 RMB'000
Net cash generated from operating activities	594,040	180,005
Net cash used in investing activities	(714,761)	(870,792)
Net cash generated from financing activities	737,463	464,475
Net increase/(decrease) in cash and cash equivalents	616,742	(226,312)
Cash and cash equivalents at beginning of the year	482,847	709,159
Cash and cash equivalents at end of the year	1,099,589	482,847

Operating activities

The Group's net cash generated from operating activities increased approximately 230% from approximately RMB180,005,000 in 2004 to approximately RMB594,040,000 in 2005. The significant increase in net cash generated from operating activities was mainly due to the increase in cash received from customers of approximately RMB106,362,000 in 2005 and the decrease in other cash paid of approximately RMB248,745,000. In 2004, the significant other cash payments consisted primarily of cash payments of approximately RMB266,150,000 to Xiamen Port Holding as a result of the restructuring and disposal for the listing.



Investment activities

The Group's net cash used in investment activities decreased from approximately RMB870,792,000 in 2004 to approximately RMB714,761,000 in 2005. The decrease in net cash used in investment activities consisted primarily of decrease in cash outflow from purchases of property, plant and equipment and disposal of subsidiaries, net of cash disposed of approximately RMB167,986,000 and RMB120,594,000 respectively. The decrease is slightly offset by net increase in term deposit with initial items of over three months of approximately RMB146,115,000.

Financing activities

The Group's net cash generated from financing activities has increased from approximately RMB464,475,000 in 2004 to approximately RMB737,463,000 in 2005. The Group's financial position was significantly improved as a result of the contribution from domestic shareholders and H shareholders amounting to approximately RMB1,094,158,000 in 2005. The net cash generated from financing activities is slightly offset by the repayments of borrowing in 2005 as compared to 2004.

Capital expenditure

The Group's capital expenditure in 2005 and 2004 principally consisted of expenditure on port terminal infrastructure, equipment and machinery. The following table sets out the Group's capital expenditure in 2005 and 2004:

	2005 RMB'000	2004 RMB'000
Total capital expenditure	687,816	822,653

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Capital expenditure commitments

On 31 December 2005, the Group's capital expenditure commitments were approximately RMB206,072,000 primarily consisted of construction expenditure of berth numbers 1, 4 and 5 in Haicang port area and expenditure on purchases of loading and unloading equipment, vessels and other machinery and equipment.

Net debt to equity ratio

The Group's net debt to equity ratio decreased from approximately 35.1% in 2004 to approximately -4.6% in 2005. The decrease in net debt to equity ratio was primarily due to increases in cash from the listing proceeds and the decrease in bank loans as a result of loan repayments from the listing proceeds.

Exchange rate risk

The Group's bank borrowings are denominated in both RMB and USD. As at 31 December 2005, the exchange rate for RMB to the USD is approximately RMB8.04 to USD1.00. To the extent that the RMB appreciates (or depreciates) against the USD, the value of bank borrowings and the repayment cost of such borrowings will decrease (or increase) correspondingly. Furthermore, as only a minor part of the business revenue is settled in foreign currencies, the fluctuation of the RMB exchange rate may not materially affect the business operations of the Group. The Group believes that such appreciation of RMB does not have any material adverse effect on the current operating results and financial position of the Group as at 31 December 2005. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. However, the Directors monitor the foreign currency exposure and will considering hedging the significant foreign currency exposure should the need arise.

Contingent liabilities

At 31 December 2005, the Group and the Company have no significant contingent liabilities.



Employment, training and development

As at 31 December 2005, the Group had over 4,663 employees, representing an increase of 229 employees over 31 December 2004. During the year, total staff costs represented approximately 22.45% of the Group's turnover. Employee remunerations are determined by their performance and experience and the prevailing practices of the industry. Remuneration policy is reviewed on a regular basis. Bonus and rewards may be offered to employees according to annual assessments of their performance. In addition, the payment of rewards is an impetus to motivate each employee.

Subsequent events

- (1) 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 Shares as a result of the exercise of the over-allotment option on 29 December 2005, which had been granted as part of global offering of the H Shares. In this exercise, Xiamen Port Holding has also transferred 11,700,000 domestic shares of the Company to National Council for Social Security Fund (the "NCSSF") and NCSSF entrusted the Company to sell the 11,700,000 shares right immediately after the share transfer. The Company converted these shares into H shares and sold them together with the additional H shares.
- (2) On 13 April 2006, pursuant to the authorisation and entrustment by the Company, Xiamen Port Holding, and Huajian Jiaotong Jingji Kaifa Zhongxing ("Huajian Jiaotong"), a shareholder holding the non-tradable shares of Xiamen Port Development Company Limited ("XPD"), XPD has issued a notice to its shareholders holding the tradable A shares of XPD in respect of the convention of a class meeting on 22 May 2006 for the purpose of seeking approvals by the shareholders holding tradable A shares of conversion of non-tradable shares held by the Company and Huajian Jiaotong in XPD to tradable A shares. For further details, please refer to the announcements of XPD on the website of the Shenzhen Stock Exchange at www.szse.cn.