

# Report of the directors

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The board of directors (the “Board”) hereby present the report of the directors together with the audited financial statements and its notes for the year ended 31 December 2005 of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”).

## Principal activities and geographical analysis of operations

The Group is engaged in container, bulk and general cargo loading and unloading businesses at Dongdu port area and Haicang port area in Xiamen, ancillary value-added port services including port-related logistics, shipping agency, tugboat berthing and unberthing services, tallying and building materials manufacturing, processing and selling (collectively the “Core Businesses”). Besides the Core Businesses, the Group is also engaged in long-term investment holding. The principal activities of the subsidiaries of the Company are set out in note 43 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 all of the Group’s activities are conducted in the PRC.

## Group reorganisation

On 3 March 2005, the Company was transformed into a joint stock limited company with limited liability under the Company Law of the People’s Republic of China (the “PRC”) for the purposes of reorganising businesses and assets in preparation for its listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Reorganisation and the basis of preparation of the financial statements and its notes are set out in note(s) 1 and 2 to the financial statements respectively.

## Results

The Group’s results for the year are set out in the consolidated income statement on page 69.

## Dividend

In accordance with the relevant regulations of the Ministry of Finance of the PRC, the Company announced before December 2005 to distribute a special dividend of RMB108,401,702 to Xiamen Port Holding Group Company Limited (“**Xiamen Port Holding**”), the promoter of the Company at the time of the Company’s incorporation as a joint stock limited company, out of the Company’s net profit for the period from 1 October 2004 (being the first day after the date of the valuation of the assets of the Company) to 2 March 2005 (being the day immediately prior to the transformation of the Company into a joint stock limited company), which was determined in accordance with the general accepted accounting principles (“GAAP”) of the PRC.

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Except that, the Board proposed not to distribute the final dividend for the year ended 31 December 2005, which will be put forward to the annual general meeting to be held on 16 June 2006 for shareholders' consideration and approval.

### Reserves

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

### Share Capital

The table below sets out the structure of share capital of the Company as at 31 December 2005:

Type of shares	Number of shares	Proportion (%)
Domestic shares	1,751,200,000	67.12
H Shares	858,000,000	32.88
Total	2,609,200,000	100.00

Details of the movements in share capital of the Company during the year are shown in note 26 to the financial statements.

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 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. The Company received net proceeds of approximately HK\$157 million from the issue of the additional H Shares as described aforesaid.

### **Reserves available for distribution**

Pursuant to the PRC Company Law, the Company may distribute dividend only out of the current year's profit 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 statutory surplus reserve and statutory public welfare reserve and, if any, the discretionary profit reserve (in order of their priorities). Pursuant to the Articles of Association 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 2005, the amount of the reserves available for distribution, calculated on the above basis, is approximately RMB171,600,000.

### **Pre-emption rights**

Pursuant to the Articles of Association 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.

### **Financial highlights**

Highlights of the Group's results and assets and liabilities are set out on page 4.

### **Purchase, sale and redemption of securities**

During the year, none of the Company and any of its subsidiaries had purchased, sold or repurchased any securities (as defined in the Listing Rules) of the Company.

## Report of the directors

### Directors and Supervisors

As of the date of this report, the Directors and Supervisors in office during the year are:

#### Executive Directors:

Mr. ZENG Yingguo	(appointed on 3 March 2005)
Mr. CHEN Dingyu	(appointed on 3 March 2005)
Mr. FANG Yao	(appointed on 3 March 2005)
Mr. HUANG Zirong	(appointed on 3 March 2005)
Mr. LIN Kaibiao	(appointed on 3 March 2005)

#### Non-executive Directors:

Mr. ZHENG Yongen	(appointed on 3 March 2005)
Mr. FU Chengjing	(appointed on 3 March 2005)
Ms. MIAO Luping	(appointed on 3 March 2005)
Mr. KE Dong	(appointed on 3 March 2005)

#### Independent Non-executive Directors:

Mr. HUANG Shizhong	(appointed on 23 March 2005)
Mr. ZHEN Hong	(appointed on 23 March 2005)
Mr. HUI Wang Chuen	(appointed on 23 March 2005)

#### Supervisors:

Mr. FANG Zuhui	(appointed on 3 March 2005)
Mr. LUO Jianzhong	(appointed on 3 March 2005)
Mr. WU Jianliang	(appointed on 3 March 2005)
Mr. TANG Jinmu	(appointed on 23 March 2005)
Mr. HE Shaoping	(appointed on 23 March 2005)

As the Articles of Association of the Company do not have any provision on retirement by rotation, all existing Directors will remain in office.

### Directors' and Supervisors' service contracts

Each of the Directors and Supervisors of the Company has entered into a service contract with the Company for a term of three years. 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, other than statutory compensation.

## **Remuneration of the Directors and Supervisors**

Details of the remuneration of the Directors and Supervisors are set out in note 38 to the financial statements.

## **Directors' and Supervisors' interests in contracts**

The Directors or Supervisors did not have any contracts of significance to which the Company, its subsidiaries, its fellow subsidiaries or its ultimate holding company was a party 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**

Biographies of Directors, Supervisors and senior management are set out on pages 41 to 48.

## **Rights to enable Directors and Supervisors to Acquire Shares or Debentures**

At any time during the year ended 31 December 2005, the Company, its subsidiaries, its fellow subsidiaries or its ultimate holding company 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.

## **Directors' and Supervisors' Interests in Shares**

As at 31 December 2005, none of the Directors, Supervisors or their associates has any interests in the shares 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 Hong Kong 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 will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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## Substantial Shareholders' Interests

As at 31 December 2005, so far as was known to the Directors, the following persons (other than Directors or Supervisors) had an interest or short position in the 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	Type of shares	Number of shares	Capacity	As a % of	As a % of total
				relevant class of share capital	share capital
Xiamen Port Holding Group Co. Ltd.	Domestic Shares	1,678,000,000 (Long Position)	Beneficial owner	95.82%	64.32%
China Shipping (Group) Co. (Note 1)	H Shares	193,166,000 (Long Position)	Interest of controlled corporation	22.51%	7.4%
China Shipping (Hong Kong) Holdings Co, Limited (Note 1)	H Shares	193,166,000 (Long Position)	Beneficial owner	22.51%	7.4%
BNP Paribas S.A.	H Shares	135,726,000 (Long Position)	Interest of controlled corporation	15.82%	5.2%
China Shipping Terminal Development (Hong Kong) Company Limited (Note 2)	H Shares	130,460,000 (Long Position)	Beneficial owner	15.21%	5.0%
The Children's Investment Fund Management (UK) LLP (Note 3)	H Shares	97,784,000 (Long Position)	Investment manager	11.40%	3.75%
The Children's Investment Master Fund (Note 3)	H Shares	97,784,000 (Long Position)	Beneficial owner	11.40%	3.75%

Note 1: The 193,166,000 shares referred to the same batch of shares

Note 2: The 130,460,000 shares formed part of the 193,166,000 shares referred to in Note 1 above

Note 3: The 97,784,000 shares referred to the same batch of shares

Save as disclosed above, as at 31 December 2005, so far as was known to the Directors, no other persons (other than Directors or Supervisors) had an interest or short position in the shares of the Company which would fall to be disclosed to the Company and the Hong Kong 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, the Company did not enter into any contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

### **Major Customers and Suppliers**

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

Except for China Shipping (Group) Co., which has an attributable interest of 7.4% in the issued share capital of the Company as at 31 December 2005, holds 59.87% interest in China Shipping Container Lines Co., Ltd., one of the five largest customers of the Group, none of the Directors, Supervisors, their associates and any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the five largest customers or the five largest suppliers of the Group.

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### Connected Transactions

In 2005, the Group has entered into certain non-exempt continuing connected transactions with Xiamen Port Holding and its subsidiaries (together, "Xiamen Port Holding Group") and certain other parties outside the Group. Set out below is a table summarising the aforesaid non-exempt continuing connected transactions.

Services	Connected Person	Proposed	Actual
		annual cap (RMB)	amounts generated in 2005 (RMB)
A. Office and premises lease	Xiamen Port Holding Group	7,800,000	6,645,000
B. Logistical property services	Xiamen Port Holding Group	5,580,000	4,846,000
C. Comprehensive services	Xiamen Port Holding Group	19,150,000	16,058,000
D. Construction project management	Xiamen Port Holding Group	7,750,000	3,574,000
E. Port facilities engineering and construction	Xiamen Port Holding Group	27,950,000	26,123,000
F. Port-related labour services	Xiamen Port Holding Group	23,000,000	21,017,000
G. Electrical equipment maintenance	Xiamen Port Holding Group	8,100,000	4,202,000
H. Port services	COSCO Container Co. Ltd.	63,650,000	60,325,000
I. Port services	Xiamen Tidak International Transportation Co. Ltd.	2,750,000	2,726,000

Details of the above non-exempt continuing connected transaction are set out in note 42 to the financial statements.



In 2005, members of the Group have also entered into certain intra-group transactions which constitute non-exempt continuing connected transactions of the Company. Set out below are details of the aforesaid transactions.

Each of Xiamen International Container Terminal Ltd. ("**XICT**") and Xiamen Penavico International Freight and Forwarding Co., Ltd ("**Xiamen Penavico International Freight**") is a non-wholly owned subsidiary of the Company having a shareholder outside the Group holding more than 30% equity interest in and involving in business management by appointing director(s)/senior management to the relevant subsidiary. Hence, each of XICT and Xiamen Penavico International Freight is deemed as connected person of the Company pursuant to Rule 14A.06 of the Listing Rules and transactions among those companies and/or with other members of the Group and/or other connected persons of the Group constitute connected transactions of the Company.

XICT and Xiamen Haitian Container Terminals Co. Ltd. ("**Xiamen Haitian Company**"), as owners and operators of terminals, have been providing port-related services to Xiamen Port Logistics Free Trade Co. Ltd ("**Xiamen Port Logistics**") and Xiamen Penavico International Freight when the latter conduct container and freight forwarding business for third party cargo owners at the relevant terminals. Xiamen Port Logistics also provides container surface forwarding services for XICT. The relevant port service fees and container forwarding fees are charged at rates either prescribed by Ministry of Communication and the Pricing Bureau of Xiamen Municipal Government or, if there is no such prescribed rates, at rates 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. A summary of the aforesaid contracts is set out in the table below.

<b>Service Provider</b>	<b>Service Receiver</b>	<b>Service Scope</b>	<b>Term of Contract</b>
Xiamen Port Logistic	XICT	Container surface forwarding	1 January 2005 to 31 December 2007
Xiamen Haitian Company	Xiamen Penavico International Freight	Port-related services	1 January 2005 to 31 December 2007
XICT	Xiamen Penavico International Freight	Port-related services	1 January 2005 to 31 December 2007
XICT	Xiamen Port Logistic	Port-related services	1 January 2005 to 31 December 2007

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The proposed aggregate cap of the above transactions for 2005 is RMB12,926,667, and the actual amount generated is RMB9,967,000.

The Stock Exchange has granted a waiver to the Company for a period ending on 31 December 2007 from strict compliance with the announcement and independent shareholders' approval requirements (where applicable) under the Listing Rules in connection with those continuing non-exempt connected transactions.

The independent non-executive Directors, Mr. HUANG Shizhong, Mr. ZHEN Hong and Mr. HUI Wang Chuen, have reviewed the above connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company or the Group (as the case may be);
- (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 than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the 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 2005 in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Up 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 as disclosed in the Company's prospectus dated 6 December 2005.

### Pension Scheme

Details of the pension schemes of the Group are set out in note 31 to the financial statements.

### Use of H Share Proceeds

As dealings in the Shares on the Main Board of the Stock Exchange commenced on 19 December 2005, the Group had utilised approximately RMB450,000,000 of the proceeds from the H Shares issue to repay the bank borrowing. As at 31 December 2005, all the remaining net proceeds were deposited in the PRC as short-term deposits with licensed banks or financial institutions. Nevertheless, there is no change in the proposed use of net proceeds stated in the prospectus of the Company dated 6 December 2005.

### Entrusted Deposits and Overdue Deposits

On 31 December 2005, the Group did not make any entrusted deposit with financial institutions in the PRC nor was there any overdue term deposit irrecoverable.

### Taxation

The Company is not aware of any entitlement to tax reduction and exemption as a result of holding securities of the Company.

### Compliance with Code on Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules since it was listed on the Stock Exchange on 19 December 2005. Details of the discussion of such compliance are set out in the "Report on Corporate Governance" of this report.

### Sufficiency of Public Float

Based on the information reviewed by the Company and as far as the Directors are aware, as at the date of this Annual Report, the Company has maintained the public float specified in the Listing Rules and as agreed with the Stock Exchange.

### 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 granted on 29 December 2005 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

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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](http://www.szse.cn).

### Auditors

The financial statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, who will retire at the forthcoming annual general meeting, and being eligible, offer its willingness for re-appointment.

By Order of the Board

**ZENG Yingguo**

Chairman

Xiamen, PRC

18 April 2006

*As at the date of this report, executive Directors of the Company are Mr. ZENG Yingguo, Mr. CHEN Dingyu, Mr. FANG Yao, Mr. HUANG Zirong, Mr. LIN Kaibiao; non-executive Directors of the Company are Mr. ZHENG Yongen, Mr. FU Chengjing, Ms. MIAO Luping, Mr. KE Dong; and independent non-executive Directors of the Company are Mr. HUANG Shizhong, Mr. ZHEN Hong, Mr. HUI Wang Chuen.*