Management Discussion and Analysis

REVIEW OF OPERATING RESULTS

Despite prevailing ferocious market competition during the first half of 2006, the Group leveraged on its large-scale operation and brandname advantages, together with its quality and efficient service network by adopting pro-active marketing strategies in consolidating and expanding its business continuously. The Group has actively implemented general marketing strategies with a focus on major customers. Efforts have been focused on enhancing marketing capabilities targeting at the corporate headquarters of shipping companies and overseas market, with a view to continuously increase customer's satisfaction. Optimisation of the Group's production process continues to be strengthened and the information management system of the new terminals has been improved and transformed in order to upgrade the operational efficiency of its service. The above efforts have enabled the Group to maintain steady growth in operating revenue with sound and healthy financial condition and further enhancement in market competitive edge.

For the six months ended 30 June 2006, the Group achieved turnover of approximately RMB708,058,000, representing a 15.8% increase over RMB611,570,000 in the corresponding period in 2005. Profit attributable to shareholders of the Company amounted to approximately RMB146,527,000, representing a 38.5% increase over RMB105,817,000 in the corresponding period in 2005. For the six months ended 30 June 2006, the earnings per share was RMB5.38 cents (same period of 2005: RMB5.98 cents).

BUSINESS REVIEW

The Group operates its port terminal business at 13 berths in Dongdu and Haicang port areas in Xiamen (excluding berth Nos. 4 and 5 of Haicang port area which had a soft opening on 30 June 2006). Port business of the Group mainly includes container port business, bulk/general cargo port business and ancillary value-added port services. In addition, the Group also has operation of manufacturing and selling of building materials.

Management Discussion and Analysis

Container Port Business

Driven by the economic growth of the PRC, the Group's container throughput sustained its growth during the first half of 2006 and achieved an absolutely dominating position in the Xiamen port market. Details are as follows:

Container throughput	Six months ended 30 June 2006 (TEUs)	 2005 (TEUs)	 % increase
Xiamen Haitian Container Terminals Co., Ltd. ("Haitian")	**688,432**	629,860	9.30%
XICT*	**576,621**	525,150	9.80%
Xiamen Port Development Co., Ltd. Dongdu Branch ("Dongdu Branch")	**125,548**	112,582	11.52%
The Company (berth Nos. 4 and 5 of Haicang port area (Hairun Terminal))**	**66,949**	N/A	N/A
Total throughput	**1,457,550**	1,267,592	14.99%

* 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. The Company holds a 51% interest in XICT through Xiamen Haicang. 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.

** During the first half of 2006, berth Nos. 4 and 5 of the Company at Haicang port area (Hairun Terminal) were in the stage of installation and fine-tuning and had a soft opening on 30 June 2006. Its throughput for the first half of 2006 has been included in the total throughput of the Group. In view of the fact that the berths were in the stage of installation and fine-tuning, net income generated from the throughput handled by them during the first half of 2006 was capitalised in property, plant and equipment.

Bulk/General Cargo Port Business

Bulk cargo and most of the general cargo of the Group, principally stone products, steel and grains (soybean), are primarily handled centrally through Dongdu Terminal. In the first half of 2006, in terms of bulk/general cargo throughput, the Group ranked first among all port terminal operators in Xiamen, with an overall growth in throughput as follows:

Bulk/general cargo throughput	Six months ended 30 June 2006 (tonnes)	 2005 (tonnes)	 % increase/ (decrease)
XICT* (see above)	**105,760**	185,390	(42.95%)
Dongdu Branch	**2,071,089**	1,829,191	13.22%
Total throughput	**2,176,849**	2,014,581	8.05%

Management Discussion and Analysis

Ancillary Value-added Port Service

The Group is pro-active in developing shipping agency, tallying, tugboat berthing and unberthing and port-related logistics services and will continue to integrate related resources in order to provide one-stop comprehensive ancillary value-added port services to its customers. Meanwhile, by applying information technology extensively in its business development, the Group is actively developing and promoting e-commerce sales mode of Xiamen Penavico with a view to further shorten the time for customs clearance of goods and thus reduce logistics costs. The Group's "bonded logistics park" close to Haitian container terminal commenced its trial operation on 1 March 2006, and a bonded logistics warehouse with a total area of 29,000m^2 has been completed recently, which will further enhance the expansion and development of the Group's bonded logistics business.

FINANCIAL REVIEW

Turnover

Turnover from the Group increased by approximately 15.8% from approximately RMB611,570,000 for the six months ended 30 June 2005 to approximately RMB708,058,000 during the six months ended 30 June 2006, primarily due to the increase in turnover of the Group's container loading and unloading and storage businesses, bulk/general cargo loading and unloading businesses, ancillary value-added port service as well as manufacturing and selling of building materials.

Turnover from the Group's container loading and unloading and storage businesses increased by approximately 8.9% from approximately RMB283,852,000 for the six months ended 30 June 2005 to approximately RMB309,023,000 for the six months ended 30 June 2006. This increase was primarily due to the additional shipping routes operated by certain shipping companies during the period, leading to an increase in container throughput handled by the Haitian and XICT.

Turnover from the Group's bulk/general cargo loading and unloading business, increased by approximately 14.7% from approximately RMB69,851,000 for the six months ended 30 June 2005 to approximately RMB80,089,000 during the six months ended 30 June 2006, mainly due to the growth in the throughput of bulk/general cargo and the faster growth of goods like stone products which have higher loading and unloading tariff.

Turnover from the Group's ancillary value-added port services increased by approximately 6.1% from approximately RMB179,911,000 for the six months ended 30 June 2005 to approximately RMB190,810,000 for the six months ended 30 June 2006. Such increase was primarily due to the increase in container and bulk/general cargo throughput handled by the Group, which in turns led to a corresponding increase in the demand for the Group's ancillary value-added port services, such as tugboat berthing and unberthing and provision of shipping agency services.

Management Discussion and Analysis

Turnover from the Group's manufacturing and selling of building materials increased by approximately 64.4% from approximately RMB77,956,000 for six months ended 30 June 2005 to approximately RMB128,136,000 for the six months ended 30 June 2006. Such increase was primarily due to higher overall market demand on concrete in Xiamen due to investment in the construction of infrastructure facilities during the first half of 2006 as compared to the same period of 2005.

Cost of Sales

Cost of sales of the Group increased by approximately 18.5% from approximately RMB342,919,000 for six months ended 30 June 2005 to approximately RMB406,516,000 for the six months ended 30 June 2006. Such increase was primarily due to increases in costs of raw materials and consumables used, fuel and energy consumed, employee benefit expenses and rental expenses.

- Cost of raw materials and consumables used increased by approximately 60.1% from approximately RMB63,453,000 for the six months ended 30 June 2005 to approximately RMB101,557,000 for the six months ended 30 June 2006. Such increase was mainly due to the increase in consumption of raw materials and consumables used in production of concrete for manufacturing and selling of building materials.

- Costs of fuel and energy increased by approximately 36.4% from approximately RMB30,983,000 for the six months ended 30 June 2005 to approximately RMB42,250,000 for the six months ended 30 June 2006. Such increase was mainly due to the upsurge in consumption and higher unit prices of fuel and oil. Costs of fuel and oil as a percentage of total cost of sales increased from 9.0% for the six months ended 30 June 2005 to 10.4% for the six months ended 30 June 2006.

- Employee benefit expenses increased by approximately 7.7% from approximately RMB88,191,000 for the six months ended 30 June 2005 to approximately RMB94,985,000 for the six months ended 30 June 2006. Such increase was mainly due to general expansion of the Group's overall business volume for the six months ended 30 June 2006.

- Rental expenses increased by approximately 52.2% from approximately RMB6,662,000 for the six months ended 30 June 2005 to approximately RMB10,137,000 for the six months ended 30 June 2006. Such increase was mainly due to the expansion of business and more space/warehouses need to be rented for storing bulk/general cargo for the six months ended 30 June 2006.

Income Tax Expense

The Group's income tax expense increased by approximately 17.8% from approximately RMB38,447,000 for the six months ended 30 June 2005 to approximately RMB45,290,000 for the six months ended 30 June 2006. Such increase was primarily due to the growth in profit before tax of the Group and the fact that XICT enjoyed a 50% reduction in income tax during the six months ended 30 June 2006, while it was fully exempt from income tax during the six months ended 30 June 2005.

Management Discussion and Analysis

Liquidity, Financial Resources and Capital Structure

The Group mainly used its cash for operating costs, construction of terminals and berths and loan repayment. As at 30 June 2006, the Group's cash and cash equivalents were approximately RMB593,251,000 (31 December 2005: RMB1,099,589,000).

As compared to the same period last year, the net cash from operating activities has changed from net operating cash inflow of approximately RMB381,153,000 to net operating cash outflow of approximately RMB8,845,000 for the year ended 30 June 2006. The net cash outflow as of 30 June 2006 is mainly contributed by the payment of approximately RMB119,512,000 to National Council for Social Security Fund (the "NCFSS"). The significant net operating cash inflow for the six month ended 30 June 2005 is mainly due to the other receipt of approximately RMB144,451,000 from Xiamen Port Holding Group Co., Ltd, the parent company of the Company.

Borrowings of the Group dropped by approximately 15.1% from approximately RMB935,759,000 as at 31 December 2005 to approximately RMB794,047,000 on 30 June 2006, mainly due to early repayment of USD loans of Phase 3 of Dongdu port area.

As at 30 June 2006, the Group's guaranteed loans were approximately RMB102,945,000, which were guaranteed by China Construction Bank. The entrusted loan provided by Huayang Electric Power Co., Ltd. through the Zhangzhou Branch of China Construction Bank was approximately RMB43,827,000. The Group's net debt to equity ratio increased from -4.6% as at 31 December 2005 to 5.1% as at 30 June 2006. The rise in net debt to equity ratio was primarily due to the lower cash and cash equivalents and higher total equity as of 30 June 2006.

Other Financial Positions

As of 30 June 2006, the non-current portion of the Group's available-for-sale financial assets has increased from approximately RMB26,154,000 to approximately RMB85,378,000 as compared to 31 December 2005. The significant increase is mainly contributed by the higher fair value of shares of CITIC Securities Co., Ltd., the stock investment held by one of the subsidiaries of the Group.

As of 30 June 2006, the accruals, other payables and other current liabilities have decreased from approximately RMB378,835,000 to approximately RMB196,724,000 as compared to 31 December 2005. The significant decrease is mainly contributed by the reduction of balance on amount owing to NCFSS and other related parties of RMB106,140,000 and RMB58,582,000 respectively.

Capital Commitments

As at 30 June 2006, the Group's capital expenditure commitments amounted to approximately RMB371,188,000 primarily consisting of construction expenditure of berth No. 1, and a transmission station in Haicang port area.

Management Discussion and Analysis

Interest Rate and Exchange Rate Risk Management

The Group's bank borrowings are denominated in both RMB and USD. To the extent that RMB appreciates (or depreciates) against USD, the value of bank borrowings and repayment cost of such borrowings will decrease (or increase) correspondingly. Furthermore, since only a minor part of the business revenue is settled in foreign currencies, the fluctuation in RMB exchange rate has no material effect on the business operations of the Group. The Group believes that such appreciation of RMB has no material effect on the operating results and financial position of the Group as at 30 June 2006.

Except for forward exchange contracts signed under certain restrictions with the state approved banks, the Group has not used any other means to hedge its foreign currency exposure. Nevertheless, the foreign currency exposure is still monitored by the Directors, who will consider hedging any significant foreign currency exposure should the need arises.

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. 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 bank balances and cash. The borrowings at fixed rates expose the Group to fair value interest rate risk. As of 30 June 2006, the fair value of the derivative financial instrument is amounting to approximately RMB4,797,000, the principal of the interest rate swap contract is amounting to approximately USD12,875,000, which is equivalent to approximately RMB102,945,000.

Contingent Liabilities

As at 30 June 2006, none of the members of the Group have significant contingent liabilities.

Subsequent Events

The directors of the Company approved a Share Transfer Agreement (the "Agreement") entered with Xiamen Port Holding Group Co., Ltd. on 7 July 2006. According to the Agreement, the Company will sell its 30% share in Fujian Electron Port Inc. ("Fujian Electron") to Xiamen Port Holding Group Co., Ltd. at a consideration of RMB4,648,269 and the net operating results generated by Fujian Electron after 1 January 2006 attributable to the 30% share interests in Fujian Electron shall be belonged to or borne by Xiamen Port Holding Group Co., Ltd.

Employee

As at 30 June 2006, the Group had 4,785 staffs. 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.

Construction of New Berths

Construction of new berth Nos. 4 and 5 in the Haicang port area (Hairun terminal) of the Company have been on schedule and satisfied the preliminary operational conditions prior to 30 June 2006, and part of such completed construction in progress was transferred to property, plant and equipment on 30 June 2006.

Management Discussion and Analysis

OUTLOOK AND PROSPECTS

In the second half of the year, market conditions faced by the Group will invariably become more complicated, presenting the Group with opportunities as well as challenges. On one hand, the PRC economy and trade shall continue to maintain steady and swift growth and market demand for port terminals and ancillary value-added services will continue to rise. On the other hand, factors like realignments of macroeconomic policy of the State, appreciation of Renminbi and additional international and technical trade barriers, may exert certain influence on the economic conditions and growth rate of foreign trade in the PRC and Xiamen.

Evolving with market situation with investors' interests as the focus, the Group will capitalize upon every opportunity for market expansion in the second half of the year, improving operational quality through business integration and provision of value-added services; enhancing its marketing capability and customer management and optimizing its customer structure by continuously perfecting the service network; opening up new sources of profit by developing new businesses and injecting new resources; and upgrading its management standard and cost control capability by fortifying its fundamental management, with a focus on the following tasks:

- to procure actively international container shipping routes for the Group's terminals, in particular, berth Nos. 4 and 5 in the Haicang port area (Hairun terminal), in order to establish the operational size of Hairun Terminal as soon as possible after commercial operation commenced, as well as to expedite the construction progress of berth No. 1 in the Haicang port area in order to ensure that the project will commence operation as scheduled, so as to further increase the throughput capacity of the terminals and the operational capability of the Group.

- to accelerate the construction of bonded warehouse phase II in the bonded logistics park, so as to enhance the infrastructure of the Group for the development of its bonded logistics operations and provide customers with more efficient port-related logistics services.

- to continue to consolidate and develop its existing route operations, as well as to pro-actively develop joint container shipping operation for international and domestic trade and heavy container shipping on domestic vessels with relevant shipping companies, and striving to develop new areas for business growth.

- to actively identify opportunities for strategic cooperation with large shipping companies, major international port terminal operators, large manufacturers and cargo owners as strategic cooperation partners for enhancing complementary comparative advantages in order to increase the container throughput of the Group's terminals and continuing to enhance market competitiveness of the Group.

- to continue to implement comprehensive marketing strategies, actively promote e-commerce sales mode of Xiamen Penavico in an effort to facilitate the integration and the mutual development of terminal loading and unloading operations and ancillary value-added services in terms of commercial negotiation and to enhance cargo forwarding capacity and market competitiveness of port enterprises.

- to monitor construction progress or operation conditions of the relevant terminals of Xiamen Port Holding Group Co., Ltd., the parent company of the Company, and to consider exercising options and pre-emptive rights in due course in line with our business development requirements.

Management Discussion and Analysis

- to strengthen risk management and cost control in order to continue perfecting and strictly implementing the budgeting and management system.

We believe that the Group will continue to sustain growth in each of its core operations, improve its operation quality further, strengthen its competitiveness and enhance its profitability. Based on the continuous improvement in management standard, the Group will endeavour to achieve its annual operation target and create significant values for its shareholders.

AMENDMENT TO THE ARTICLES OF ASSOCIATION

Reference was made to the relevant resolutions contained in the circular of the Company dated 28 April 2006. The Company had obtained at the Annual General Meeting held on 16 June 2006 its shareholders' approval of the conversion of the Company into a foreign invested joint stock limited company and their authorisation of the Board of Directors to take any action on behalf of the Company, which included making necessary amendments to the Articles of Association, carrying out application to relevant PRC authorities and completing the conversion formalities.

On 23 August 2006, the Company obtained approval from the Ministry of Commerce of the People's Republic of China to convert it from a joint stock limited company to a foreign invested joint stock limited company. At the request of the Ministry of Commerce and other relevant authorities, the Board of Directors of the Company had approved on 29 August 2006 the amendment of the Articles of Association of the Company as follows:

Article 180 originally reads: "Where the amendment of the Articles of Association involves the Mandatory Provisions for Companies Listing Overseas issued on 27 August 1994 by the State Council Securities Committee and the State Commission for Restructuring the Economic System (the "Mandatory Provisions"), such amendment must be approved by authorities delegated by the State Council for approval of company affairs and competent authorities under the State Council governing securities affairs before taking effect; where company registration is involved, registration of the change shall be duly processed in accordance with the law."

Article 180 as amended now reads: "The amendment to the Articles of Association (including but not limited to the change in registered capital) shall be approved by the original authorities for the approval of commercial affairs in accordance with relevant laws and regulations governing foreign invested enterprises; where it involves the Mandatory Provisions for Companies Listing Overseas issued on 27 August 1994 by the State Council Securities Committee and the State Commission for Restructuring the Economic System (the "Mandatory Provisions"), must be approved by authorities delegated by the State Council for approval of company affairs and competent authorities under the State Council governing securities affairs before taking effect; where company registration is involved, registration of the change shall be duly processed in accordance with the law."

The Company is in the midst of applying the amendment of its business license from the State Administration for Industry and Commerce. It will also complete relevant formalities of the change of the Articles of Association in accordance with relevant laws and regulations of the PRC and Hong Kong.