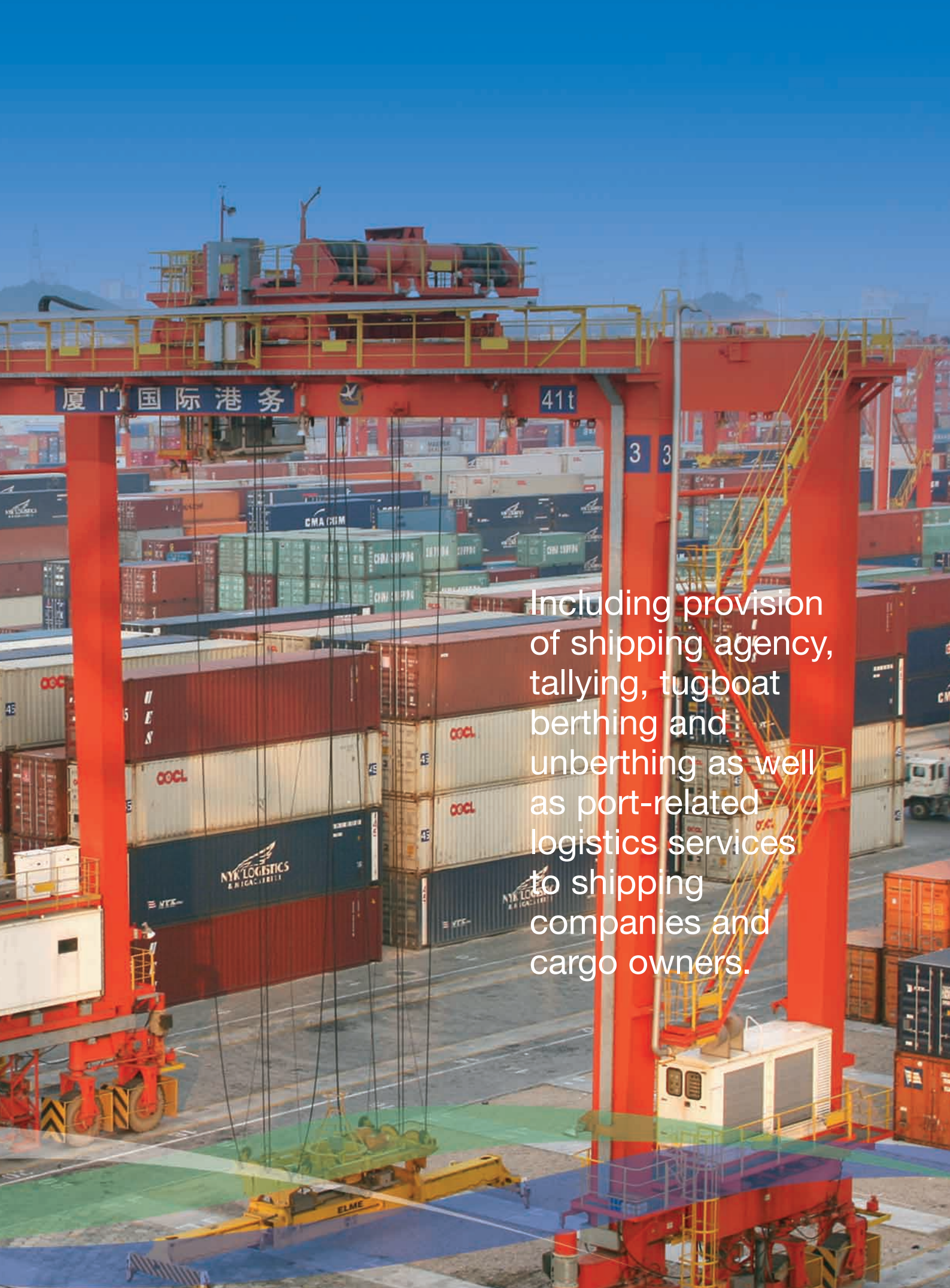


A wide range of
ancillary value-added
port services





Including provision of shipping agency, tallying, tugboat berthing and unberthing as well as port-related logistics services to shipping companies and cargo owners.

Corporate Governance Report

The board of directors of the Company (the “Board”) recognises their mission of maximising operating profit, corporate values and shareholders’ returns. To this end, we strive to improve corporate governance measures, ensure appropriate business supervision and management procedures are in place and review such procedures on a regular basis so as to maximise Shareholders’ return.

Since its listing, the Company has strived to comply with the code provisions of the Code on Corporate Governance Practices (the “Corporate Governance Code”) under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in order to implement a good and proper corporate governance. The Company has put in place corporate governance practices to comply with all the code provisions of the Corporate Governance Code and it has complied with all the code provisions during the year. This report attempts to elaborate the corporate governance practices of the Company by reference to the Corporate Governance Code and cover information in respect of the mandatory disclosure requirements and most of the recommended disclosures set out under Appendix 23 of the Listing Rules.

Board

Accountable to the Shareholders, the Board is collectively responsible for formulating the strategic business direction and setting management objectives of the Group, overseeing its performance and assessing the effectiveness of management’s strategies.

Directors

As at 31 December 2006, the Directors and Supervisors 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)

On 10 April 2007, the seventeenth meeting of the first session of the Board accepted the resignation of Mr. ZENG Yingguo as Chairman and Director of the Company, the retirement of Mr. Lin Kaibiao, Director as deputy general manager of the Company and the appointment of Mr. ZHENG Yongen, Director as Chairman of the Board of the Company. The Board also approved the re-designation of Mr. ZHENG Yongen from Non-executive Director to Executive Director and the re-designation of Mr. LIN Kaibiao from Executive Director to Non-executive Director. Further, the meeting also resolved that subject to Shareholders' approval at the forthcoming 2006 Annual General Meeting of the Company, Ms. HONG Lijuan be appointed as an Executive Director to fill the casual vacancy of the Board of the Company, for a term of appointment from the date of passing the relevant Shareholders' resolution at the forthcoming 2006 Annual General Meeting until the expiry of the term of the current session of the Board.

Corporate Governance Report

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

Executive Directors:

Mr. ZHENG Yongen (re-designated from a Non-executive Director to an Executive Director on 10 April 2007)

Mr. CHEN Dingyu

Mr. FANG Yao

Mr. HUANG Zirong

Mr. ZENG Yingguo (resigned on 10 April 2007)

Non-executive Directors:

Mr. FU Chengjing

Ms. MIAO Luping

Mr. LIN Kaibiao (re-designated from an Executive Director to a Non-executive Director on 10 April 2007)

Mr. KE Dong

Independent Non-executive Directors:

Mr. HUANG Shizhong

Mr. ZHEN Hong

Mr. HUI Wang Chuen

Supervisors:

Mr. FANG Zuhui

Mr. LUO Jianzhong

Mr. WU Jianliang

Mr. TANG Jinmu

Mr. HE Shaoping

The biographical details of the Directors and Supervisors are set out on pages 46 to 54 of this annual report. The composition of the Board is well-balanced. The Company believes that, with members of the Board having different background, experience and skills, the decisions of the Board will be more prudent and considerate.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on their confirmations, the Company is of the opinion that all Independent Non-executive Directors are still considered to be independent.

During the year 2006, the Board has complied with the provisions of the Listing Rules in having at least three Independent Non-executive Directors, including one Independent Non-executive Director with appropriate professional qualifications or professional knowledge 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, giving 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, announcing other price-sensitive information and other financial disclosure matters as required by the Listing Rules, and reporting any discloseable information to regulatory authorities in accordance with the statutory requirements.

The Board has fiduciary and statutory obligations to the Company and the Group and also exercises a number of reserved 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 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;

Corporate Governance Report

- 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;
- Formulating detailed rules and regulations of the Company

To ensure a proper balance between power and authority, the roles of the Chairman and the General Manager are segregated. In 2006, Mr. ZENG Yingguo (who was succeeded by Mr. ZHENG Yongen as Chairman on 10 April 2007) and FANG YAO are Chairman and General Manager of the Company respectively. 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 guiding 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 provisions of the Articles of Association (the "Articles") of the Company.

Other than their working relationships with the Company, none of the Directors, Supervisors or the senior management has any financial, business or family relationships and any relationships in other material aspects with each other that disclosure may be required.

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 3 years. Other than the service contract entered into by each of them, none of the Directors and the Supervisors has any interest, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2006.

Other than the general functions exercisable by the Directors as provided in the Articles of the Company, 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 the continuing connected transactions of the Group. The Company strives to facilitate maximum attendance of Independent Non-executive Directors at its Board meetings in order to enhance their opportunities in expressing their independent judgement and opinions thereat. Approval of Independent Non-executive Directors are 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.

In 2006, notices and agenda of all regular Board meetings of the Company were despatched at least 14 days in advance of the meeting dates. The Company strives to schedule other Board meetings at least 14 days in advance in order to facilitate maximum attendance of the Directors.

Corporate Governance Report

The agenda is prepared in consultation with members of the Board. The Board held 6 meetings during the year 2006. The attendance of each individual Director at the Board meetings is set out below:

Members of the Board	Number of Board meetings attended in person/by proxy	Attendance rate
<i>Executive Directors</i>		
ZHENG Yongen (re-designated from a non-executive Director to an executive Director on 10 April 2007)	6/0	100%
CHEN Dingyu	6/0	100%
FANG Yao	6/0	100%
HUANG Zirong	6/0	100%
ZENG Yingguo (resigned as an executive Director of the Company on 10 April 2007)	6/0	100%
<i>Non-Executive Directors</i>		
FU Chengjing	6/0	100%
MIAO Luping	6/0	100%
LIN Kaibiao (re-designated from an executive Director to a non-executive Director on 10 April 2007)	6/0	100%
KE Dong	5/1 ^a	100%
<i>Independent Non-executive Directors</i>		
HUANG Shizhong	5/1 ^b	100%
ZHEN Hong	6/0	100%
HUI Wang Chuen	6/0	100%

Notes:

- a Mr. KE Dong was present in five of the six Board meetings, and the remaining Board meeting was attended and voted on his behalf by another authorised Director during his business trip out of Xiamen.

- b Mr. HUANG Shizhong was present in five of the six Board meetings, and the remaining Board meeting was attended and voted on his behalf by another authorised independent non-executive Director during his business trips out of Xiamen.

Minutes of Board meetings and meetings of Board committees are kept by the duly appointed company secretary and all Directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Board Committees

In furtherance of good corporate governance, the Board has set up three committees, including:

- the Audit Committee;
- the Remuneration Committee; and
- the Business Strategy Committee

Each committee has specific functions and authority. Members of the committees are authorised to make decisions within the authority delegated to each committee. Particulars of these Committees are set out hereunder.

Audit Committee

The Committee comprises two Independent Non-executive Directors, Mr. HUANG Shizhong and Mr. ZHEN Hong and one Non-executive Director, Mr. FU Chengjing. The chairman of the committee is Mr. HUANG Shizong. All Committee members possess appropriate professional qualifications, accounting or related financial management expertise in discharging their responsibilities as a member of the Audit Committee. The primary functions of the Audit Committee are: to propose the reappointment, oversee the performance and approve the remuneration of the independent auditors, review financial information and oversee the financial reporting system and internal control procedures.

Corporate Governance Report

The Group has formulated and adopted the terms of reference of the Audit Committee which complies with the code provisions of the Corporate Governance Code.

In the year 2006, the Audit Committee convened a total of two meetings primarily to review the 2005 audited accounts of the Group, internal and external audit findings, accounting principles and practices adopted by the Group, continuing non-exempt connected transactions, re-appointment of auditors and fixing of audit fees, the 2006 interim results and the establishment of the Internal Audit Department and to submit recommendations to the Board for approval. The members' attendance records of meetings of the Audit Committee are as follows:

Members of 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 is chaired by Mr. HUI Wang Chuen, an Independent Non-executive Director and with two other members, Mr. HUANG Shizhong, an Independent Non-executive Director and Mr. ZHENG Yongen (Mr. ZHENG resigned as member and was succeeded by Mr. CHEN Dingyu on 10 April 2007), an Executive Director. The primary functions of the Remuneration Committee is to review human resource management policies regularly, make recommendations on the compensation and benefit plans of Directors and senior executives, as well as setting performance goals for senior executives of the Group.

The Group has formulated and adopted the terms of reference of the Remuneration Committee which complies with the Corporate Governance Code.

The Remuneration Committee met once in 2006 to review and approve the Directors' and senior executives' remuneration including granting of annual bonus, reviewing remuneration policy and setting key performance indicators for senior management. In discharging its functions, the Remuneration Committee has taken full consideration of factors such as the general market remuneration level or has made reference to the remuneration level of its peers in the PRC.

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

Members of Remuneration Committee	Number of committee meetings attended	
	in person/by proxy	Attendance rate
HUI Wang Chuen	1/0	100%
ZHENG Yongen	1/0	100%
HUANG Shizhong	1/0	100%

Remuneration Policy for 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 and discretionary bonus.

The determination of the remuneration of Non-executive Directors (in the form of directors' fee) is determined by the Board.

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 if the plan has been approved by the Board. Subsequent to the approval at the general meeting, the plan will be put into implementation. The emoluments paid to each Director for the year ended 31 December 2006 are set out in note 38 to the financial statements.

Business Strategy Committee

The Business Strategy Committee is chaired by Mr. ZHEN Hong, an Independent Non-executive Director and other members are Mr. CHEN Dingyu and Ms. MIAO Luping. The Business Strategy Committee assumes the following responsibilities:

- Evaluating long-term strategic development plan

Corporate Governance Report

- Evaluating major investment and financing requiring Board approvals under the Articles
- Evaluating major capital and asset management requiring Board approval under the Articles
- Evaluating other major business which may affect the development of the Company
- Monitoring the implementation of the above activities
- Any other business authorised by the Board.

The Business Strategy Committee did not hold any meeting in 2006. However, members of the Business Strategy Committee have been involved in the evaluation of the Company's major investments, and other business opportunities that may have impact on the future development of the Group's business.

Nomination of Directors

The Company appoints new Directors in accordance with the procedures as provided in its Articles. Generally, the candidates for directorship are proposed by the controlling shareholder for the Board's consideration and approval prior to the submission by the Board for consideration and approval at the general meetings of the Company. The primary principles of the controlling shareholder in nominating and of the Board in assessing candidates for directorship are:

- the relevant knowledge, background, ability, industry experience and qualifications of the candidates;
- 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.

For the year ended 31 December 2006, there were no changes in members of the Board.

Written notice in respect of the intention to nominate a candidate and the candidate's expressed willingness to accept nomination shall be delivered to the Company not earlier than the day subsequent to the despatch of the notice of general meeting and not later than seven days prior to the convening of general meeting.

External Auditors

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong were re-appointed as the PRC and international auditors of the Company respectively at the 2005 annual general meeting held on 16 June 2006, for a term until the expiration of the forthcoming annual general meeting.

For the year ended 31 December 2006, the total remuneration paid and payable to the external auditors amounted to RMB3.00 million, exclusively for audit services. The Company did not pay any fees for non-audit services to the external auditors.

Internal Control

The Board has overall responsibility for the Company's system of internal control. In order to standardise the internal control system, the Board has performed the following work during the year:

- Define internal control responsibility. All departments are required to revise and improve their existing systems of rules and regulations, define workflows and work duration.
- The budgetary control system and the computerised management information system to be implemented will be placed on the agenda.
- Establish a risk prevention system. The Board will implement an operational risk management process for the whole Company appropriately and establish a structure which will be conducive to the determination and management of risks through formulating policies and procedures. The Board will identify, assess and manage the risks faced by all operating units; inspect and assess the appropriateness and compliance of the Company's internal control; inspect and monitor the Company to ensure that it has been prudent and has complied with the laws in developing its business and implementing the control functions.

Corporate Governance Report

- Improve the existing independent inspection mechanism. Undertake independent inspection over risks of major operating and critical application systems and their implementation, deal with relevant risks, and implement control measures.

In 2006, with the approvals of the Audit Committee and the Board, the Company has established the Internal Audit Department, the primary function of which is to assist the Audit Committee and the Board, and be responsible for overseeing the accounting, financial and tax management, and internal control and risks prevention and control. With the participation of the Internal Audit Department, the Company has formulated systems with well defined rules and regulations, namely, “Interim Provisions of Asset Supervision and Management”, “Trial Methods for Financial Reports and Financial Analysis”, “Trial Methods for Tax Planning Management”, “Preparation Methods for Annual Operating Plan”, “Measures for the Administration of Examination and Approval of Contracts”, “Interim Provisions of System Construction and Management”, “Management Methods (Trial) for Equipment Invitation Bidding and Procurement”, “Joint Sales and Marketing Management Methods” and “Information System Security Management Methods (Trial)” announced “Notice in respect of Major Contracts (Agreements) required to be reported” and “Notice in respect of control over Connected Transactions”, drafted documents of “Internal Control Inspection Work Proposal”, compiled the Operating Guide of Auditing Work and initially established a set of audit work papers documentation. In addition, the Company has further enhanced the relevant business supervision system of production deployment system, safety management system, and port area production and video system. The Company believes that, through the application of those rules and regulations and the supervision and inspection of the business supervision system in a timely manner, the relevant system of rules and regulations and business supervision system have been executed more effectively, which in turn promoted a healthy operation of the Company’s business.

The management of the Company had numerous discussion regarding the effectiveness of risk management and internal control system with the relevant Directors. The Company believes that the continuous upgrade of internal control system and effective operation of 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.

With respect to procedures and internal controls 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 and has established and implemented procedures for responding to external enquiries

about the Group's affairs. The General Manager and the Secretary of the Board are being selected as the company's authorised persons responsible for addressing enquiries about the Group's affairs.

The Company conducts monitoring and inspection over the progress of implementation of its rules regime and business monitoring systems on an irregular basis so as to ensure that such regime and systems are implemented effectively. In 2006, the Audit Committee made their recommendations to the Board in respect of matters relating to the Group's 2005 audited accounts, internal and external audit findings, accounting principles and practices adopted by the Group, continuing non-exempt connected transactions, re-appointment of auditors and fixing of audit fees, and the 2006 interim results and the establishment of the internal audit department.

The Directors have conducted a review of the effectiveness of the internal control system of the Group and considered that the internal control system of the Group is effective and adequate and has covered the internal control systems of all material internal controls, including financial, operational and compliance controls and risk management functions and complied with the code provisions on internal control of the Corporate Governance Code. There has been no significant material control deficiency and major area of concern identified so far. Accordingly, the Board is basically satisfied with the internal control system of the Group currently in place.

Securities Transactions of Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. During the reporting period, pursuant to the Model Code and taking into account the actual situation of the Company, the Company has compiled the "Code for Securities Transactions by Directors of Xiamen International Port., Ltd", which has been considered and approved by the fourteenth meeting of the first session of the Board of the Company convened on 29 August 2006 and became effective on the even date, as the standard code of conduct in securities transaction of Directors, Supervisors and senior management of the Company.

Following specific enquires made to all Directors, the Company confirmed that, for the year ended 31 December 2006, all directors have complied with the standards required by the Model Code and the Standard Code.

Corporate Governance Report

Statement of Directors' responsibilities

The Directors are responsible for the preparation of the accounts for each financial year which gives a true and fair view of the state of affairs of the Company and the Group. In preparing the accounts for the year ended 31 December 2006, the Directors considered that they have selected appropriate accounting policies, applied them consistently and complied with all relevant accounting standards. Having made 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 which disclose with reasonable accuracy at any time the financial position of the Group.

Shareholders' Rights

The Board and senior management of the Company fully understand their responsibilities to the shareholders as a whole and 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 of general meetings have been clearly and adequately provided in Chapters 7 and 8 of the Articles respectively.

The Company has been actively establishing a number of communication channels through which shareholders can understand timely 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 at the Company's principal places of business in Xiamen, PRC or Hong Kong.

Investor Relationship

The Company firmly believes that good investor relationship is helpful to establish channels of finance and to reflect the corporate implicit value, and create wealth for shareholders.

The Secretary to the Board, who is primarily responsible for investor relationship of the Company, is responsible for the disclosure and communication of information to the public. Since its listing, the Company has strictly followed the information disclosure system by disclosing important information of the Company to the public and investor community on a first time basis through a number of

channels, and maintain sound two-way communications with the general public in order to promote the investors' understanding of the corporate implicit value and to assist the Company to fully understand the investors' concern on any key issues in order to enhance corporate governance standard.

During the period under review, the Company had close and frequent contacts and communications with fund managers, analysts, finance media and held a number of telephone conferences, one-to-one briefings and visits by analysts and investors. The Company has also actively participated in the annual capital market conferences organised by investment banks so as to capture the possibilities to introduce the Company to the market.

During 2006, investors continued to have regular access to the up-to-date corporate information regarding the Group through the corporate website (www.xipc.com.cn), which provides detailed information on the Group's establishment and its latest business developments.

Based on the principles of transparency, honesty, fairness and openness, the Company will continue to maintain smooth communication channels with the general public in order to create better value for the Company and its shareholders.

The year 2006 is the first full year of operation of the Company since its listing. With its long-term experiences, the Company will continue to enhance its corporate governance standard and promote the sustainable healthy development of the Company.

By Order of the Board

ZHENG Yongen

Chairman

Xiamen, PRC

10 April 2007