

▶▶ Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies, associated companies and jointly controlled entities are shown in notes 38, 39 and 40 to the accounts, respectively.

Results and appropriations

The results of the Group for the year ended 31st December 2003 are set out in the consolidated profit and loss account on page 40.

The directors have declared an interim dividend of 3.8 HK cents per share, totaling HK\$25,804,000, which was paid on 19th November 2003.

The directors recommend the payment of a final dividend of 3.9 HK cents per share, totaling HK\$26,822,000.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 101.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts respectively.

Donations

During the year, the Group made no charitable donations.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are shown in note 12 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 26 to the accounts.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Share options

The Company has a share option scheme (the “Scheme”) approved in an extraordinary general meeting on 22nd November 1997 under which the directors may, at their discretion and within 10 years from the approval date, invite any employees or executive directors of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The Company operates the Scheme for the purpose of promoting additional commitment and dedication to the long term objectives of the Group by the participants. The grant will expire on 21st November 2007 or an earlier date as determined by the board of directors. The cash consideration payable for each grant is HK\$1.

Prior to 1st September 2001, the subscription price is determined by the directors and shall be the higher of nominal value of the Company’s share and a price not less than 80% of the market price immediately before the options are granted. The maximum number of shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total shares in issue or to be issued under the Scheme. On 1st September 2001 when the amendments to the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) were effective, the subscription price shall be the higher of the closing price on the date of grant and the average closing price for the five business days immediately preceding the date of grant. The maximum number of shares issued and to be issued upon exercise of the options granted to each employee or director shall not exceed 1% of the total shares in issue in any 12-month period. Shares options granted since 1st September 2001 shall comply with the prevailing Listing Rules.

As at the date of this report, the total number of shares available for issue under the Scheme is 68,644,888 shares and represent 9.98% of the issued share capital of the Company.

Details of the share options outstanding as at 31st December 2003 which have been granted under the Scheme are as follows:

	Number of options			Held at 31st December 2003	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1st January 2003	Exercised during the year	Lapsed during the year					
Directors								
Wang Guanghao	3,500,000	—	—	3,500,000	6.136	17th April 1998	10th June 1998	21st November 2007
	5,004,000	—	—	5,004,000	3.34	13th April 1999	18th September 1999	17th March 2004
Yu Rumin	2,000,000	—	—	2,000,000	6.136	17th April 1998	10th June 1998	21st November 2007
Chen Cuiwan (resigned as director on 15th July 2003)	2,000,000	—	(2,000,000) ²	—				
	4,332,000	—	(4,332,000) ²	—				
Chen Ziheng (resigned as director on 30th December 2003)	2,000,000	—	—	2,000,000²	6.136	17th April 1998	10th June 1998	21st November 2007
	4,332,000	—	—	4,332,000²	3.34	13th April 1999	18th September 1999	17th March 2004
He Xiuheng	2,000,000	—	—	2,000,000	6.136	17th April 1998	10th June 1998	21st November 2007
Yang Liheng	2,000,000	—	—	2,000,000	6.136	17th April 1998	10th June 1998	21st November 2007
Continuous contract employees	1,500,000	(1,300,000) ¹	—	200,000	2.204	23rd May 2001	1st July 2002	21st November 2007

Notes:

- Exercise dates were 6th and 9th October 2003. At the dates before options were exercised, the market value per share was HK\$3.375 on 3rd and 8th October 2003 respectively.
- The share options of Chen Cuiwan and Chen Ziheng lapsed on 15th August 2003 and 30th January 2004 respectively following their resignation.

Directors

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Wang Guanghao
Zhou Sichun
Yu Rumin
Chen Zihe *(resigned on 30th December 2003)*
Chen Cuiwan *(resigned on 15th July 2003)*
Zhang Hongru
Nie Jiansheng *(appointed on 16th February 2004)*
Wang Jiandong *(appointed on 15th July 2003)*
He Xiuheng
Yang Liheng
Sun Zengyin
Pang Jinhua

Non-executive directors:

Ye Disheng
Kwong Che Keung, Gordon
Cheung Wing Yui
Lau Wai Kit
Cheng Hon Kwan

In accordance with Articles 92 and 101 of the Company's Articles of Association, Nie Jiansheng, Wang Jiandong, Sun Zengyin, Kwong Che Keung, Gordon and Cheung Wing Yui retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The terms of office of the non-executive directors are subject to retirement as required by the Company's Articles of Association.

Directors' service contracts

Messrs Wang Guanghao, Yu Rumin, He Xiuheng and Yang Liheng have entered into service agreements with the Company for a period of three years commencing 1st December 1997 and will continue thereafter until terminated by either party giving not less than six months' prior written notice to the other.

Save for the above, none of the directors of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' interests in contracts

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in shares

At 31st December 2003, the directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Interest in the Company

Directors	Personal interests in shares	Numbers of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
Wang Guanghao	—	8,504,000	8,504,000 ¹	1.24%
Yu Rumin	—	2,000,000	2,000,000 ¹	0.29%
Chen Zihe ²	—	6,332,000	6,332,000 ¹	0.92%
He Xiuheng	—	2,000,000	2,000,000 ¹	0.29%
Yang Liheng	—	2,000,000	2,000,000 ¹	0.29%
Wang Jiandong	450,000	—	450,000 ¹	0.07%

Notes:

1. These interests are held in the capacity as a beneficial owner.
2. Following the resignation of Chen Zihe as a director of the Company on 30th December 2003, all share options held by him lapsed on 30th January 2004.

Details of the Directors' interests in share options granted by the Company are set out under the section "Share options".

Save as disclosed above, none of the directors and their associates has any interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders

As at 31st December 2003, the following persons or corporations, other than the directors or chief executives of the Company as disclosed above, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/underlying shares held	Percentage to the Company's issued capital
Tsinlien Group Company Limited (Note 2)	Interest of controlled corporation	385,482,000 (L) (Note 2)	56.29%
	Option seller	65,000,000 (S) (Note 3)	9.49%
Credit Suisse Group	Option buyer	65,000,000 (L) (Note 3)	9.49%

Notes:

- The letter "L" stands for the shareholder's long position (within the meaning of the SFO) in shares of the Company. The letter "S" stands for the shareholder's short position (within the meaning of the SFO) in shares of the Company.
- As at 31st December 2003, Tianjin Investment Holdings Limited and Tsinlien Property Services Limited, both being wholly owned subsidiaries of Tsinlien Group Company Limited, held 383,459,990 shares and 2,022,000 shares of the Company respectively. Wang Guanghao acted as trustee of Tianjin Investment Holdings Limited to hold 10 shares of the Company. The corporate interest disclosed under Tsinlien Group Company Limited represents its deemed interests in the shares of the Company by virtue of its interests in Tianjin Investment Holdings Limited and Tsinlien Property Services Limited.
- These shares are subject to call options sold by Tsinlien Group Company Limited to Credit Suisse Group.

Save as disclosed herein, the Company has not been notified by any other person or corporation, other than the directors or chief executives of the Company, who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December 2003.

Management contracts

A subsidiary acquired on 29th December 2003 has a road management agreement dated 12th February 2001 with an independent third party to appoint it to be responsible for the overall management, toll collection and repair and maintenance of the Jinbin Expressway for a term of 5 years commencing from 1st April 2001.

Management contracts (Cont'd)

Save for the road management contracts mentioned above and in the section headed “Connected Transactions” in relation to the management of the Eastern Outer Ring Road, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Major customers and suppliers

During the year, both the aggregate sales attributable to the Group’s five largest customers and the aggregate purchases attributable to the Group’s five largest suppliers were less than 30% of the Group’s sales and purchases respectively.

Connected transactions

The Group has entered into the following connected transactions in the ordinary and usual course of the Group's activities:

(a) Transactions with Tsinlien Group Company Limited ("Tsinlien")

- (i) The Group had a service provision agreement with Tsinlien, the ultimate holding company of the Company, whereby Tsinlien provided to the Group utilities, staff benefits, electronic data processing services and support and office facilities, such as telephones and telephone systems and other services, used by the Group in its offices located at 26th–28th, 30th, 36th and 38th floor, Tianjin Building, 167 Connaught Road West, Hong Kong for a monthly fee of HK\$97,000 subject to adjustment annually. The provision of services shall continue until terminated by either Tsinlien or the Company by giving six months' written notice to the other party provided other than in a situation of material breach by the Company, Tsinlien shall not give such notice prior to the expiration of three years commencing from the date of the agreement.

A total fee of HK\$1,164,000 was paid to Tsinlien in respect of the year ended 31st December 2003 (2002: HK\$1,164,000).

- (ii) The Group has various tenancy agreements with Tsinlien to lease 14 residential units for a fixed term of three years from 1st November 1997 to 31st October 2000 at an aggregate monthly rental of HK\$151,000 inclusive of management fee. The tenancy agreements were renewed on 15th February 2001 for a further term of three years from 1st November 2000 to 31st October 2003 at the same monthly rental. On 31st May 2001, the tenancy agreement of one of the residential units with monthly rental of HK\$16,100 was terminated. The tenancy agreements for the remaining 13 residential units expired on 31st October 2003 and were not renewed.

Total aggregate rental of HK\$1,349,000 was paid to Tsinlien in respect of the year ended 31st December 2003 (2002: HK\$1,619,000).

- (iii) The Group entered into tenancy agreements with Tsinlien Realty Limited ("Tsinlien Realty"), a wholly owned subsidiary of Tsinlien, to lease 10 car parks and the office premises of the Company located at 26th - 28th, 30th, 36th and 38th floor, Tianjin Building, 167 Connaught Road West, Hong Kong for the period from 1st August 2001 to 31st July 2002 at a monthly rental of HK\$394,000. The agreement was further renewed from 1st August 2002 to 31st December 2003 at a monthly rental of HK\$370,000.

A total rental of HK\$4,440,000 was paid to Tsinlien Realty in respect of the year ended 31st December 2003 (2002: HK\$4,608,000).

Connected transactions (Cont'd)

(a) Transactions with Tsinlien Group Company Limited ("Tsinlien") (Cont'd)

- (iv) On 27th June 2003, the Group entered into an agreement with Tsinlien to sell the entire issued share capital of Tianjin Development Trading Limited ("Tianjin Trading") to Tsinlien at a cash consideration of HK\$2.00. As part of the transaction, the Group made a loan to Tianjin Trading in the sum of HK\$15,600,000 and gave guarantees of a maximum sum of HK\$23,500,000 to several banks to secure the banking facilities granted by such banks to Tianjin Trading with an indemnity to be given by Tsinlien and Tianjin Trading together with its three wholly owned subsidiaries in favour of the Group.

The loan of HK\$15,600,000 bore interest at 2.2% per annum and was fully repaid by Tianjin Trading before 31st December 2003. The guarantees were released before 31st October 2003.

Total interest income of HK\$178,000 was recognised in respect of the year ended 31st December 2003.

In respect of item (i) of the above connected transactions with Tsinlien, The Stock Exchange of Hong Kong Limited ("Stock Exchange") has, subject to certain conditions, on 1st September 1998 granted waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange on each occasion they arise. In respect of items (ii) and (iii) of the above connected transactions with Tsinlien, announcements dated 19th February 2001, 8th November 2001, 26th November 2002 and 9th January 2003 have been published by the Company. In respect of item (iv) of the above connected transactions with Tsinlien, announcement dated 27th June 2003 has been published by the Company.

(b) Transactions with Tianjin Port Authority (the "Port Authority")

- (i) The Group has a lease agreement with the Port Authority to lease a certain parcel of land (approximately 731,643 square metres) upon which one of the Group's subsidiaries' cargo handling terminal and its related facilities are erected for the period from 29th October 1997 to 28th October 2017 at a rental of RMB3,658,000 per annum for the whole term. On 10th July 2002, the Group entered into another lease agreement with the Port Authority to lease a certain parcel of land (approximately 6,313 square metres) for a period of ten years from 30th June 2002 to 29th June 2012 for a rental of RMB126,000 per annum.

Total rental of RMB3,784,000 (approximately HK\$3,568,000) was paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB3,784,000).

Connected transactions (Cont'd)

(b) Transactions with Tianjin Port Authority (the "Port Authority") (Cont'd)

- (ii) The Group has a lease agreement with the Port Authority to lease certain berths with total quay length of 1,775 metres, railway of 15,209.5 metres long and storage space with total floor area of 224,754 square metres for the period from 29th October 1997 to 28th October 2017. The rental was RMB2,096,000 for the year 1997 and from the year of 1998, the annual rental is RMB11,956,000 subject to an increment of 5% every three years until the lease expires.

Total rental of RMB12,554,000 (approximately HK\$11,838,000) was paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB12,554,000).

- (iii) The Group has a lease agreement with the Port Authority to lease a parcel of land (approximately 633,365 square metres) upon which one of the Group's subsidiaries' cargo handling terminal and its related facilities are erected for the period from 29th October 1997 to 28th October 2017 for a rental of RMB3,167,000 per annum for the whole term.

Total rental of RMB3,167,000 (approximately HK\$2,986,000) was paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB3,167,000).

- (iv) The Group has a lease agreement with the Port Authority to lease certain berths with total quay length of 1,292 metres and railway of 905 metres long for the period from 29th October 1997 to 28th October 2017. The rental was RMB1,314,000 for the year 1997 and from the year of 1998, the rental is RMB7,496,000 per year subject to an increment of 5% every three years until the lease expires.

A rental of RMB7,870,000 (approximately HK\$7,420,000) was paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB7,870,000).

- (v) The Group has a lease agreement with the Port Authority to lease certain equipment for loading and unloading for the period from 29th October 1997 to 28th October 2017. The rental was RMB1,361,000 for the year 1997 and from the year of 1998, the rental is RMB7,760,000 per year subject to an increment of 5% every three years until the lease expires. Pursuant to an approval by the Port Authority dated 15th September 2000, the monthly rental has reduced to RMB570,000 to July 2000 and RMB516,000 from August 2000 onwards. Pursuant to another approval dated 13th August 2001, the annual rental for the year ended 31st December 2001 was RMB5,277,000 and for 2002 was RMB4,703,000. On 3rd July 2002, further approval was obtained to revise rental downward to RMB3,949,000 for the year ended 31st December 2002.

A rental of RMB3,949,000 (approximately HK\$3,723,000) was paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB3,949,000).

Connected transactions (Cont'd)

(b) Transactions with Tianjin Port Authority (the "Port Authority") (Cont'd)

- (vi) The Group has a business allocation agreement with the Port Authority whereby the Port Authority has agreed that if necessary they will use their best endeavours to allocate 60% of the container handling business of the Port of Tianjin (the "Port") to the Group for the period up to 31st December 1997, 55% for the year ended 31st December 1998 and not less than 50% after 31st December 1998 subject to certain conditions.

The Group has dealt with 49.48% (2002: 47.29%) of the container handling business of the Port in respect of the year ended 31st December 2003.

- (vii) The Group has another business allocation agreement with the Port Authority whereby the Port Authority would allocate to the Group the handling of the following cargo types and amounts for a period of 10 years commencing from 10th December 1997:

- 100% of all imported unpackaged bulk grains;
- at least 40% of all exported coke until 31st December 1999;
- 100% of all imported solidified sulphur;
- 100% of all imported unpackaged bulk sugar;
- 100% of all imported chromium;
- 100% of all imported unpackaged bulk fertilisers not handled by entities controlled by the Port Authority; and
- such other cargoes so as to fulfill the obligation of the Port Authority mentioned in (b)(viii) below.

No imported chromium and unpackaged bulk fertilisers were handled by the Group and the Port and only 91.65% of unpackaged bulk sugar was allocated to the Group during the year. In return, about 6% of the exported coke and 14% of bulk coal were allocated to the Group by the Port Authority as compensation. The other allocation has been fulfilled for the year ended 31st December 2003.

In any event the total annual volume, in terms of tonnage, of all the cargoes referred above shall not be less than 20% of the total annual throughput of the non-containerised cargoes in the Port for that year.

The Group has dealt with 17.48% (2002: 12.5%) of the non-containerised cargoes handling business of the Port in respect of the year ended 31st December 2003. The management considers that the Group has reached its maximum capacity in respect of handling of non-containerised cargoes and used its best endeavour to achieve the throughput.

Connected transactions (Cont'd)

(b) Transactions with Tianjin Port Authority (the "Port Authority") (Cont'd)

- (viii) In relation to the business allocation agreement in (b)(vii) above, the Port Authority warranted to the Company that for a period of 10 years commencing from 10th December 1997, the growth rate of annual throughput of a subsidiary of the Group should not be lower than the average growth rate of the total non-containerised cargo throughput of the Port for that year. In calculating the said average growth rate, throughput in respect of bulk coal, liquefied petroleum and liquefied chemical products is not taken into account.

During the year, the growth rate of annual throughput of a subsidiary of the Group was higher than the average growth rate of the total non-containerised cargo throughput of the Port.

- (ix) The Group has an agreement with the Port Authority whereby the Group was granted the right of first refusal to develop and operate, or to invest in any new stevedoring operations in the Port (except the Coke Terminal) and to participate in any further capital investment of an amount exceeding US\$5,000,000 in any of the entities controlled by the Port Authority in the Port subject to all relevant provisions of the Listing Rules of the Stock Exchange.
- (x) The Group has two agreements with the Port Authority whereby two subsidiaries of the Group would collect from their customers on behalf of the Port Authority port administration fees stipulated by the Central Government and receive the provision of water, electricity, telecommunications, maintenance, sewage, rail, dredging and other miscellaneous services.

Total port administration fee of RMB48,349,000 (approximately HK\$45,586,000) and aggregate service fee of RMB16,758,000 (approximately HK\$15,800,000) were paid to the Port Authority in respect of the year ended 31st December 2003 (2002: RMB41,646,000 and RMB10,984,000 respectively).

- (xi) The Group's two subsidiaries have entered into agreements with a company connected with the Port Authority. Pursuant to the agreements, that company would provide logistic services such as provision of water, heat, fuel, spare parts, equipment repairs, casual labour, catering and laundry services to the two subsidiaries. The service fees paid by the Second Stevedoring Company was RMB21,972,000 (approximately HK\$20,717,000) in respect of the year ended 31st December 2003 (2002: RMB20,732,000). The service fees paid by the Container Company was RMB9,107,000 (approximately HK\$8,587,000) in respect of the year ended 31st December 2003 (2002: RMB8,712,000).
- (xii) The Group's two subsidiaries have entered into agreements with a company connected with the Port Authority. Pursuant to the agreements, that company would provide logistic services in respect of inventories management and material supplies to the two subsidiaries for a period of five years.

Connected transactions (Cont'd)

(b) Transactions with Tianjin Port Authority (the "Port Authority") (Cont'd)

In return, the Second Stevedoring Company and the Container Company would pay services fees, calculated at 15% and 18% mark up respectively, on the cost of the material supplies and consumed by them. With effect from 1st July 2002, service fees for both companies are revised to 4% mark up on cost of material supplies and consumed by them plus a fixed annual service charge of RMB1,587,429 and RMB1,545,172 for the Second Stevedoring Company and the Container Company respectively.

An aggregate of RMB44,041,000 (approximately HK\$41,525,000) was paid in respect of the year ended 31st December 2003 (2002: RMB34,116,000).

In respect of items (i) to (x) of the above connected transactions with the Port Authority, the Stock Exchange has on 21st January 1998, while in respect of items (xi) to (xii) of the above connected transactions with Port Authority, the Stock Exchange has on 9th June 2000 and 27th June 2001 respectively, subject to certain conditions, granted waivers to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on each occasion they arise.

(c) Transactions with Tianjin Agricultural Cultivation Group Company (the "Agricultural Group Company")

- (i) The Group has a lease agreement with the Agricultural Group Company to lease a certain portion of land (approximately 24,073 square metres) occupied by a subsidiary of the Group for the period from 29th October 1997 to 14th June 2047 for a rental of RMB120,000 per annum for the whole term.

A rental of RMB120,000 (approximately HK\$113,000) was paid to the Agricultural Group Company in respect of the year ended 31st December 2003 (2002: RMB120,000).

- (ii) Unprocessed wines, packaging materials and packaging services with aggregate amount of RMB61,258,000 (approximately HK\$57,758,000) were provided by subsidiaries of the Agricultural Group Company during the year (2002: RMB52,662,000).

- (iii) The Group has an agreement with Dynasty Alliance Business Development Limited ("DABD"), a wholly owned subsidiary of the Agricultural Group Company. Pursuant to the terms of the agreement, DABD would provide the use of the transformation station to the Group for a period of five years from 1st May 1999. The monthly rental is RMB180,000.

An aggregate reimbursement of RMB2,160,000 (approximately HK\$2,037,000) was paid in respect of the year ended 31st December 2003 (2002: RMB2,160,000).

Connected transactions (Cont'd)

(c) Transactions with Tianjin Agricultural Cultivation Group Company (the "Agricultural Group Company") (Cont'd)

In respect of items (i) and (ii) of the above connected transactions with the Agricultural Group Company, the Stock Exchange has on 21st January 1998, while in respect of item (iii) of the above connected transactions with Agricultural Group Company, the Stock Exchange has on 10th June 1999, subject to certain conditions, granted waivers to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on each occasion they arise.

(d) Transactions with Tianjin Engineering Bureau

- (i) The Group has a road management contract with Tianjin Eastern Outer Ring Road Co., Ltd. (the "Road Company"), a wholly owned subsidiary of the Tianjin Engineering Bureau, whereby the Road Company is appointed to manage, operate and maintain the Eastern Outer Ring Road owned by the Group. A supplemental agreement was entered on 18th July 1999 with the Road Company. Pursuant to the supplemental agreement, the Road Company is excluded from the obligation to manage, operate and maintain the Xinkaihe Station and Haihenan Station, and the right to collect toll fee therefrom.

A fee of RMB34,894,000 (approximately HK\$32,900,000) was paid to the Road Company in respect of the year ended 31st December 2003 (2002: RMB32,612,000).

- (ii) On 13th October 1998, the Group entered into agreements with Tianjin Engineering Bureau to purchase 6.62% interest in fourteen joint ventures which build, operate and manage Tang Jin Expressway, for a consideration of RMB218,400,000 (approximately HK\$204,900,000).

Amounts totalling RMB187,072,000 (approximately HK\$174,952,000) have been made to Tianjin Engineering Bureau up to 31st December 2003 (2002: RMB181,000,000).

- (iii) The Road Company has provided guarantee jointly with the Company in respect of bank loan facilities amounting to RMB850 million (approximately HK\$801 million) to one of the Group's subsidiaries. The bank loan outstanding at 31st December 2003 amounted to RMB750 million (2002: RMB850 million). Such bank loan was fully repaid subsequent to year end and the guarantee was released.

In respect of item (i) of the above connected transactions with Tianjin Engineering Bureau, the Stock Exchange has, subject to certain conditions, on 21st January 1998, granted waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on each occasion they arise. A circular dated 3rd March 1999 have also been distributed to the shareholders of the Company regarding the supplemental agreement.

Connected transactions (Cont'd)

(d) Transactions with Tianjin Engineering Bureau (Cont'd)

In respect of items (ii) and (iii) of the above connected transactions with Tianjin Engineering Bureau, respective circulars dated 4th November 1998 and 3rd March 1999 have been distributed to the shareholders of the Company.

(e) Transactions with Tianjin Mechanical and Electrical Holding Company (the "Mechanical Company")

- (i) The Group has a lease agreement with the Mechanical Company to lease a certain parcel of land for the period from 29th October 1997 to 19th August 2037 at a fixed rental of RMB8,000 per annum for the whole term.

A rental of RMB8,000 (approximately HK\$7,500) was paid to the Mechanical Company in respect of the year ended 31st December 2003 (2002: RMB8,000).

- (ii) On 16th April 2003, the Group entered into an agreement with a subsidiary ("Vendor") of the Mechanical Company, an associate of the Vendor and an independent third party to acquire 69.2% equity interests in the registered capital of Tianjin Airfreight Port Equipment Manufacturing Co., Ltd. ("Port Equipment Company") by ways of:

- (1) Capital injection of RMB15,840,000 (approximately HK\$14,935,000) representing 54.21% equity interests of the enlarged registered capital of Port Equipment Company; and
- (2) Share transfer from the Vendor approximately 14.99% equity interests of the enlarged registered capital of Port Equipment Company at a cash consideration of RMB4,380,000 (approximately HK\$4,130,000).

In respect of item (i) of above connected transactions with the Mechanical Company, the Stock Exchange has, subject to certain conditions, on 21st January 1998, granted waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on each occasion they arise.

In respect of item (ii) of the above connected transactions with the Mechanical Company, announcement dated 16th April 2003 has been published by the Company.

The above transactions constitute related party transactions and where material are disclosed in note 34 to the accounts except for b(vi), b(vii), b(viii) and b(ix) where no actual transactions have taken place with the Port Authority.

Connected transactions (Cont'd)

The above transactions constitute connected transactions under the Listing Rules of the Stock Exchange. The independent non-executive directors, Messrs Kwong Che Keung, Gordon, Cheung Wing Yui, Lau Wai Kit and Cheng Hon Kwan have reviewed the above transactions in conjunction with the auditors of the Company who have also reviewed the above transactions and confirm that:

- (a) the transactions have been entered into in the ordinary course of business;
- (b) the transactions have been entered into on terms that are fair and reasonable so far as the interests of shareholders of the Company are concerned;
- (c) save for b(vi) above for which a shortfall is noted in the percentage of container handling business dealt with by the Group, b(vii) above for which only 91.65% of unpackaged bulk sugar was allocated to the Group, and the Group has dealt with less than 20% of the total annual throughput of the non-containerised cargoes; the transactions have been entered into either in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (d) the values of the transactions are within the limits set out under the relevant transactions in the section headed "Connected Transactions" of the prospectus dated 2nd December 1997 and respective waivers granted by the Stock Exchange subsequently.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

Audit committee

An audit committee currently comprising three independent non-executive directors, namely Kwong Che Keung, Gordon, Lau Wai Kit and Cheng Hon Kwan was established in 1998.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company. The Audit Committee held two meetings during the year.

Subsequent events

- (i) On 18th October 2002, Tianjin Jin Zheng Transportation Company and TEDA Investment Holding Co., Ltd. entered into a letter of intent (as amended by a supplemental agreement), pursuant to which Tianjin Jin Zheng Transportation Company has agreed to transfer to TEDA Investment Holding Co., Ltd., its Income Receiving Right, with effect from 1st January 2004, for a consideration of RMB750 million (approximately HK\$707 million) together with all interest payable in respect of the outstanding bank loans of RMB750 million owed by Tianjin Jin Zheng Transportation Company to a bank for the period from 1st January 2004 to 12th February 2004. The consideration was satisfied by TEDA Investment Holding Co., Ltd. in February 2004.
- (ii) The Group has on 26th March 2004, entered into the equity transfer agreement with Sky Power Property Management Co., Ltd., a wholly owned subsidiary of Tsinlien, whereby the Group agreed to acquire further 49% equity interest in Tianjin Gang Ning Real Estate Development Co., Ltd., a 51% owned subsidiary of the Group as at 31st December 2003, at RMB32,140,000 (approximately HK\$30,321,000). The transaction was entered into at arm's length and on normal commercial terms. Details of the transactions have been disclosed in announcement dated 26th March 2004.
- (iii) On 1st April 2004, the Group submitted a formal application for the separate listing in the shares of Coastal Rapid Transit Company Limited on the Main Board of the Stock Exchange. The spin-off is subject to the approval from the Listing Committee of the Stock Exchange.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Wang Guanghao

Chairman

Hong Kong SAR, 26th April 2004