

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

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 39, 40 and 41 to the accounts, respectively.

Results and appropriations

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 37.

The directors have declared an interim dividend of 4.6 HK cents per share, totaling HK\$31,636,000, which was paid on 19th November 2004.

The directors recommend the payment of a final dividend of 3.4 HK cents per share, totaling HK\$30,956,000.

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 100.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts respectively.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are shown in note 13 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 27 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.

Report of the Directors

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 directors ("Participants") 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 (the "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 37,850,000 shares and represent 4.16% of the issued share capital of the Company.

Report of the Directors

Share options (Cont'd)

Details of the share options outstanding as at 31st December 2004 which have been granted under the scheme are as follows:

	Number of options				Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1st January 2004	Exercised during the year	Lapsed/ cancelled during the year	Granted during the year and held at 31st December 2004				
Directors								
Mr. Wang Guanghao	3,500,000	—	(3,500,000) ³	—	6.136	17th April 1998	10th June 1998	21st November 2007
	5,004,000	—	(5,004,000) ²	—	3.34	13th April 1999	18th September 1999	17th March 2004
				1,000,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Dr. Ren Xuefeng	—	—	—	900,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Yu Rumin	2,000,000	—	(2,000,000) ³	—	6.136	17th April 1998	10th June 1998	21st November 2007
				900,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Chen Zihe	2,000,000	—	(2,000,000) ¹	—	6.136	17th April 1998	10th June 1998	21st November 2007
(resigned as director on 30th December 2003)	4,332,000	—	(4,332,000) ¹	—	3.34	13th April 1999	18th September 1999	17th March 2004
Dr. Zhang Hongru	—	—	—	800,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Nie Jiansheng	—	—	—	700,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Dr. Wang Jiandong	—	—	—	600,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. He Xiuheng	2,000,000	—	(2,000,000) ³	—	6.136	17th April 1998	10th June 1998	21st November 2007
				300,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Yang Liheng	2,000,000	—	(2,000,000) ³	—	6.136	17th April 1998	10th June 1998	21st November 2007
				300,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Sun Zengyin	—	—	—	300,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Dr. Pang Jinhua	—	—	—	300,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Mr. Ye Disheng	—	—	—	300,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007
Continuous contract								
employees	200,000	—	—	200,000	2.204	23rd May 2001	1st July 2003	21st November 2007
				500,000 ³	3.10	23rd December 2004	28th December 2004	21st November 2007

Notes:

1. The share options of Mr. Chen Zihe lapsed on 30th January 2004 following his resignation.
2. The share options expired on 17th March 2004.
3. The share options granted to Participants on 17th April 1998 were cancelled. New share options were granted to Participants on 23rd December 2004.

Report of the Directors

Directors

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

Executive directors:

Mr. Wang Guanghao
Dr. Ren Xuefeng *(appointed on 1st August 2004)*
Mr. Zhou Sichun *(resigned on 1st August 2004)*
Mr. Yu Rumin
Dr. Zhang Hongru
Mr. Nie Jiansheng *(appointed on 16th February 2004)*
Dr. Wang Jiandong
Mr. He Xiuheng
Mr. Yang Liheng
Mr. Sun Zengyin
Dr. Pang Jinhua

Non-executive directors:

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

* *Independent Non-executive Directors*

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs Wang Guanghao, Ren Xuefeng, Zhang Hongru, Pang Jinhua, Lau Wai Kit and Cheng Hon Kwan 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 terminable by the Group within one year without payment of compensation (other than statutory compensation).

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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 2004, 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 Issuers ("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
Mr. Wang Guanghao	—	1,000,000	1,000,000 ¹	0.11%
Dr. Ren Xuefeng	—	900,000	900,000 ¹	0.10%
Mr. Yu Rumin	—	900,000	900,000 ¹	0.10%
Dr. Zhang Hongru	—	800,000	800,000 ¹	0.09%
Mr. Nie Jiansheng	—	700,000	700,000 ¹	0.08%
Mr. He Xiuheng	—	300,000	300,000 ¹	0.03%
Mr. Yang Liheng	—	300,000	300,000 ¹	0.03%
Mr. Sun Zengyin	—	300,000	300,000 ¹	0.03%
Dr. Pang Jinhua	—	300,000	300,000 ¹	0.03%
Mr. Ye Disheng	—	300,000	300,000 ¹	0.03%
Dr. Wang Jiandong	450,000	600,000	1,050,000 ¹	0.12%

Note:

1 These interests are held in the capacity as a beneficial owner.

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Directors' interests in shares (Cont'd)

Interest in the Company (Cont'd)

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 2004, 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	Approximate percentage of issued Shares
Tsinlien Group (<i>Note 2</i>)	Interest of controlled corporations	583,189,143 (L)	64.05%
Tsinlien Group (<i>Note 3</i>)	Option seller	40,000,000 (S)	4.39%
Deltaway Inc. (<i>Note 4</i>)	Beneficial owner	90,000,000 (L)	9.89%
Pacific Foundation Assets Management Limited (<i>Note 5</i>)	Interest of a controlled corporation	90,000,000 (L)	9.89%
Lo Shiu Wing, Chester (<i>Note 5</i>)	Interest of controlled corporations	90,000,000 (L)	9.89%
Lo Tak Wing, Benson (<i>Note 5</i>)	Interest of controlled corporations	90,000,000 (L)	9.89%

Notes:

- The letter "L" stands for the shareholder's long position (within the meaning of the SFO) in Shares. The letter "S" stands for the shareholder's short position (within the meaning of the SFO) in Shares.

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Substantial shareholders (Cont'd)

2. As at 31st December 2004, Tianjin Investment Holdings Limited and Tsinlien Property Services Limited, both being wholly-owned subsidiaries of Tsinlien Group, held 581,167,133 shares and 2,022,000 shares respectively. Mr. Wang Guanghao who acted as a trustee of Tianjin Investment Holdings Limited held 10 shares. By virtue of the SFO, Tsinlien Group is taken to have interest in the shares held by Tianjin Investment Holdings Limited and Tsinlien Property Services Limited.
3. These Shares are subject to call options sold by Tsinlien Group to Credit Suisse Group.
4. The interest of Deltaway Inc. (an independent third party) were held pursuant to the option agreement dated 15 January 2004 entered into between Deltaway Inc. and the Company whereby the Company granted an option to Deltaway Inc. to subscribe for 90,000,000 new shares at a subscription price of HK\$4.10 per option share, for a consideration of HK\$2.4 million.
5. Pacific Foundation Assets Management Limited, Mr. Lo Shiu Wing, Mr. Chester and Mr. Lo Tak Wing, Benson were deemed under the SFO to be interested in 90,000,000 shares held by Deltaway Inc. pursuant to the option agreement as referred to in note 4 above.

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 2004.

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.

Save for the road management contracts mentioned above, 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.

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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 Group")

- (i) The Group had a service provision agreement with Tsinlien Group, the ultimate holding company of the Company, whereby Tsinlien Group 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 Group 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 Group shall not give such notice prior to the expiration of three years commencing from the date of the agreement.

A total fee of HK\$919,000 was paid to Tsinlien Group in respect of the year ended 31st December 2004 (2003: HK\$1,164,000).

- (ii) The Group has various tenancy agreements with Tsinlien Group 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 paid to Tsinlien Group in respect of the year ended 31st December 2003 was HK\$1,349,000.

- (iii) The Group entered into tenancy agreements with Tsinlien Realty Limited ("Tsinlien Realty"), a wholly owned subsidiary of Tsinlien Group, to lease 10 car parks and office premises for the period from 1st August 2002 to 31st December 2003 at a monthly rental of HK\$370,000. The tenancy agreement was renewed on 2nd March 2004 for a period of one year commencing from 1st January 2004 to 31st December 2004 at the same monthly rental of HK\$370,000. The tenancy agreement was further renewed on 21st April 2005 for a further one year commencing from 1st January 2005 at the same 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 2004 (2003: HK\$4,440,000).

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Connected transactions (Cont'd)

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

- (iv) On 26th March 2004, the Group entered into an agreement with Sky Power Property Management Company Limited, a wholly owned subsidiary of Tsinlien Group, to acquire its 49% interest in Tianjin Gang Ning for a consideration of RMB32,140,000 (approximately HK\$30,321,000). The principal activity of Tianjin Gang Ning is property development and management in Tianjin. Upon completion of the acquisition, the Group's interest in Tianjin Gang Ning increased from 51% to 100%.
- (v) On 20th September 2004, the Group entered into a conditional sale and purchase agreement with Tsinlien Group to acquire 94.4% in Electricity Company and 91.4% in Water Company. The acquisitions are satisfied by cash consideration of HK\$160 million and issue of 222,707,143 number of the Company's shares. The principal activity of the Electricity Company is the supply of electricity and of the Water Company is the supply of water in Tianjin Economic-Technological Development Zone respectively. The acquisition was completed on 29th November 2004.

In respect of item (i) of the above connected transactions with Tsinlien Group, the Stock Exchange has, subject to certain conditions, on 1st September 1998 granted waiver to the Company from strict compliance with the requirements of the Listing Rules in relation to connected transactions on each occasion as they arise. In respect of items (ii) and (iii) of the above connected transactions with Tsinlien Group, announcements dated 19th February 2001, 8th November 2001, 26th November 2002, 9th January 2003, 2nd March 2004 and 21st April 2005 have been published by the Company. In respect of items (iv) and (v) above connected transactions with Tsinlien Group, announcement dated 26th March 2004 and 20th September 2004 have been published by the Company. In respect of item (v), a circular dated 13th October 2004 have also been distributed to the shareholders of the Company regarding the sale and purchase agreement.

(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 2004 (2003: RMB3,784,000).

Report of the Directors

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 RMB13,182,000 (approximately HK\$12,429,000) was paid to the Port Authority in respect of the year ended 31st December 2004 (2003: 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 2004 (2003: 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 RMB8,264,000 (approximately HK\$7,792,000) was paid to the Port Authority in respect of the year ended 31st December 2004 (2003: 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 RMB4,147,000 (approximately HK\$3,910,000) was paid to the Port Authority in respect of the year ended 31st December 2004 (2003: RMB3,949,000).

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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 47.4% (2003: 49.5%) of the container handling business of the Port in respect of the year ended 31st December 2004.

- (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 unpackaged bulk fertilisers was handled by the Group during the year. The other allocation has been fulfilled for the year ended 31st December 2004.

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 10.2% (2003: 17.5%) of the non-containerised cargoes handling business of the Port in respect of the year ended 31st December 2004. 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.

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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 lower than the average growth rate of the total non-containerised cargo throughput of the Port.

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.

- (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 RMB55,654,000 (approximately HK\$52,474,000) and aggregate service fee of RMB10,145,000 (approximately HK\$9,565,000) were paid to the Port Authority in respect of the year ended 31st December 2004 (2003: RMB48,349,000 and RMB16,758,000 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 RMB22,157,000 (approximately HK\$20,892,000) in respect of the year ended 31st December 2004 (2003: RMB21,972,000). The service fees paid by the Container Company was RMB8,857,000 (approximately HK\$8,351,000) in respect of the year ended 31st December 2004 (2003: RMB9,107,000).

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Connected transactions (Cont'd)

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

- (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.

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 2003, 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 RMB56,104,000 (approximately HK\$52,900,000) was paid in respect of the year ended 31st December 2004 (2003: RMB44,041,000).

- (xiii) Tianjin Port Container Terminal Co., Ltd, a wholly owned subsidiary of the Group, entered into a temporary storage agreement with Tianjin Port Container Transportation Company Limited and Tianjin Port (Group) Company Limited, companies controlled by Port Authority. Pursuant to the agreement, the subsidiary can place containers in the container depots located in Tianjin Port provided by the companies as and when required at an agreed rate of RMB180 each for a 20-foot container and RMB270 for a 40-foot container. The agreement is valid for a term of 18 months from the date of execution of the agreement. An aggregate of RMB15,145,000 (approximately HK\$14,280,000) was paid in respect of the year.

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 of the Listing Rules in relation to connected transactions on each occasion they arise. In respect of (xiii), announcement dated 9th August 2004 has been announced by the Company.

Report of the Directors**Connected transactions (Cont'd)****(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 2004 (2003: RMB120,000).

- (ii) Unprocessed wines, packaging materials and packaging services with aggregate amount of RMB66,989,000 (approximately HK\$63,161,000) were provided by subsidiaries of the Agricultural Group Company during the year (2003: RMB61,258,000).
- (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. The agreement was renewed on 6th August 2004 for a further period of 3 years at a monthly rental of RMB180,000.

An aggregate reimbursement of RMB2,160,000 (approximately HK\$2,037,000) was paid in respect of the year ended 31st December 2004 (2003: RMB2,160,000).

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 of the Listing Rules in relation to connected transactions on each occasion they arise. In addition, announcement dated 9th August 2004 on the renewal has been made by the Company.

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Connected transactions (Cont'd)

(d) Transactions with Tianjin Engineering Bureau

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.

In respect 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 of the Listing Rules in relation to connected transactions 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.

(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 2004 (2003: RMB8,000).

- (ii) On 22nd December 2004, Tianjin Tai Kang Industrial Company Limited ("Tai Kang") entered into capital injection agreement with Tianjin Hua Ze Group Limited ("Hua Ze"), Tianjin Xin Hao Investment Development Limited ("Xin Hao") and Tianjin Tian Fa Heavy Electric Equipment Manufacturing Limited ("Tian Fa Equipment"). Pursuant to the agreement, each of Tai Kang, Xin Hao, Hua Ze and Tian Fa Equipment agreed that the registered capital of Tian Fa Equipment be increased from RMB54,946,000 to RMB86,343,714 by the injection of RMB40,000,000 in cash by Tai Kang to Tian Fa Equipment. Xin Hao is a wholly-owned subsidiary of Mechanical Company. Tian Fa Equipment is an associate of Xin Hao.

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 of the Listing Rules in relation to connected transactions on each occasion they arise. In respect of (ii), announcement dated 22nd December 2004 has been made by the Company.

Report of the Directors

Connected transactions (Cont'd)

The above transactions constitute related party transactions and where material are disclosed in note 35 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.

The above transactions constitute connected transactions under the Listing Rules of the Stock Exchange. The independent non-executive directors, Messrs Kwong Che Keung, Gordon, 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. The independent non-executive directors 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) the Group has dealt with less than 20% of the total annual throughput of the non-containerised cargoes and no unpackaged bulk fertilisers was handled by the Group during the year and b(viii) that the growth rate of the subsidiary of the Group was lower than that of the Port; 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.

Compliance with the Model Code of the Listing Rules

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules in respect of directors' securities transactions throughout the year. The directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Report of the Directors

Audit committee

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

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public 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

On 13th January 2005, Dynasty Fine Wines Group Limited ("Dynasty"), a subsidiary owned as to 62% by the Group, completed a reorganisation. Pursuant to the reorganisation, the interests in Sino-French Joint Venture Dynasty Winery Ltd. were transferred to Dynasty by its respective shareholders.

On 26th January 2005, the shares of Dynasty were listed on the Main Board of the Stock Exchange and the Group's interest in Dynasty was diluted from 62% to 44.8%.

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, 21st April 2005