

## CONNECTED TRANSACTIONS

Pursuant to the Reorganisation, Xiamen Port Holding has retained certain non-core port business and assets from the Group and certain members of Xiamen Port Holding Group have been and will be entering into transactions with the Group from time to time. Under the Listing Rules, members of Xiamen Port Holding Group are deemed associates and hence connected persons of the Company. Therefore, any transaction between any member of the Group and any member of Xiamen Port Holding Group or other connected persons that will continue following the Global Offering will constitute a connected transaction of the Company for the purpose of Chapter 14A of the Listing Rules, and which may be subject to the reporting, announcement and/or independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### Technical Support from Hutchison Delta Ports

XICT is a Sino-foreign equity joint venture established in the PRC. Hutchison Ports holds a 49% equity interest in XICT and Xiamen Haicang Port Company, a 70%-owned subsidiary of the Company, holds the remaining 51% equity interest of XICT. Therefore, Hutchison Ports is a substantial shareholder of the Company's subsidiary and hence a connected person of the Company.

Hutchison Delta Ports Investment Limited ("**Hutchison Delta Ports**") is a shareholder of Hutchison Ports directly holding 50% interest in the issued share capital of Hutchison Ports, hence Hutchison Delta Ports is an Associate of Hutchison Ports and a connected person of the Company.

Hutchison Delta Ports has been providing technical support to XICT, primarily for procurement of software and software development and consulting services. The provision of such technical support services is beyond Hutchison Ports' scope of responsibilities under the relevant joint venture contract, and hence fees are charged for such services. For the three years ended 31 December 2004, RMB194,213, RMB460,170 and RMB194,213 were paid by XICT to Hutchison Delta Ports under the aforesaid arrangement.

The Directors note that the terms and conditions of the relevant technical support services were negotiated on arm's length basis with Hutchison Delta Ports. The Directors therefore consider that such transactions are conducted on normal commercial terms and entered into in the ordinary course of business of XICT.

Since the annual fees anticipated to be paid under the relevant transactions during the period from 2005 to 2007 will not exceed RMB210,000, and the applicable assets ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotment Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0043% and 0.0065%, respectively, the relevant transactions are exempt from all reporting, announcement and independent

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shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules. Since no revenue is generated for XICT from such transaction, the Directors are of the view that the revenue ratio test is not applicable.

### **Remuneration of Hutchison Ports Staff**

Hutchison Ports has sent three senior staff to XICT for the daily management of the overall business operation, finance and administration of XICT. It is agreed that XICT pays Hutchison Ports a lump sum fee per year in lieu of remuneration to the relevant senior staff. For the three years ended 31 December 2004, RMB1,083,765, RMB1,083,765 and RMB1,083,765 were paid by XICT to Hutchison Ports under the aforesaid arrangement.

The Directors note that the lump-sum fee paid by XICT to Hutchison Ports was negotiated with Hutchison Ports with reference to applicable market rates. The Directors therefore consider that such transactions are conducted on normal commercial terms and entered into in the ordinary course of business of XICT.

Since the annual fees anticipated to be paid under the relevant transactions during the period from 2005 to 2007 will not exceed RMB1,100,000, and the applicable assets ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the market capitalisation of the Company immediately following the Global Offering will be HK Dollar 3,078,856,000) will be no more than 0.0224% and 0.0343%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### **Technical Support by Xiamen Haicang Port Company**

Each of XICT and Xiamen Haicang Port Company is a non-wholly owned subsidiary of the Company having a shareholder outside the Group holding more than 30% equity interest in and involving in business management by appointing director(s)/senior management to the relevant subsidiary. Hence, each of XICT and Xiamen Haicang Port Company is deemed as a connected person of the Company pursuant to Rule 14A.06 of the Listing Rules and transactions between those two subsidiaries constitute connected transactions of the Company.

In its capacity as a shareholder holding 51% interest in XICT, Xiamen Haicang Port Company has sent several senior staff to XICT for the provision of technical supports and expertise in respect of port operations. In return, XICT pays a lump sum fee per year to Xiamen Haicang Port Company.

The Directors note that the terms and conditions for the provision of technical support services were negotiated on arm's length basis between XICT and Xiamen Haicang Port Company. The Directors therefore consider that such transactions are conducted on normal commercial terms and in the ordinary course of business of XICT.

Since the annual fees anticipated to be collected under the relevant transactions during the period from 2005 to 2007 will not exceed RMB1,100,000, and the applicable assets ratio, revenue ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the market capitalisation of the Company immediately following the Global Offering will be HK

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Dollar 3,078,856,000) will be no more than 0.0224%, 0.0968% and 0.0343%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### Office Premises Management

Xiamen Port Property is a wholly-owned subsidiary of Xiamen Port Holding, and hence a connected person of the Company.

Certain members of the Group have retained Xiamen Port Property to provide property management services for their office premises occupied. The relevant management fees are negotiated by the parties concerned with reference to prevailing market rates at the time. The Directors therefore consider the level of the management fees charged by Xiamen Port Property on the Group is fair and reasonable and the transactions are conducted on normal commercial terms.

Since the annual fees anticipated to be paid under the relevant transactions during the period from 2005 to 2007 will not exceed RMB790,000, and the applicable assets ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotment Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0161% and 0.0246%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### Freight Forwarding Services to Sanming Customs Centre

三明市進出口貨物報驗中心有限公司 (Sanming Import & Export Customs Clearance Centre Co. Ltd) ("Sanming Customs Centre") is a 81.97%-owned subsidiary of Shihushan Co and Shihusan Co is a wholly-owned subsidiary of Xiamen Port Holding. Therefore, Sanming Customs Centre is a deemed Associate of Xiamen Port Holding and hence a connected person of the Company.

Sanming Customs Centre is primarily engaged in customs clearance ancillary services, including storage and handling of goods carried by road transportation. Sanming Customs Centre has, as an agent, retained Xiamen Port Logistics, a subsidiary of the Company, to provide freight forwarding services for the customers of Sanming Customs Centre.

The Directors note that the freight forwarding services have been provided on terms that normally applied by the Group to third parties. The Directors therefore consider that such transactions are conducted on normal commercial terms and entered into in the ordinary course of business of Xiamen Port Logistics.

Since the annual fees anticipated to be collected under the relevant transactions during the period from 2005 to 2007 will not exceed RMB291,000, and the applicable assets ratio, revenue ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotments Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end

of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0059%, 0.0256% and 0.0091%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### **Railway Concession**

The section of a railway linking the Group's Dongdu terminal with the North Train Station of Xiamen City is retained and owned by Xiamen Port Holding pursuant to the Reorganisation. The relevant section of the railway is engaged in transportation of containers/cargos from the Dongdu terminal to the city's railway station and provides freight forwarding services to the owners of the containers/cargos handled at Dongdu terminal. It is in the benefit of Xiamen Port Development to take over from Xiamen Port Holding the control of the daily maintenance and administration work of this particular section of the railway line that is used at Dongdu terminals of the Group so as to ensure the railway's normal and efficient operation and to prevent intervention of business that may be caused by irregularity in the railway operation.

Pursuant to a railway concession agreement dated 1 August 2004 between the predecessors of each of the Company and Xiamen Port Development and supplemented by a consent letter issued by Xiamen Port Development on 20 January 2005 (collectively, the "Railway Concession Agreement"), Xiamen Port Holding grants Xiamen Port Development a concession to:

- make routine check-up and maintenance of the railway line;
- manage and co-ordinate with the administrative authority of railway in Xiamen for freight train schedule; and
- collect railway usage fees for and on behalf of Xiamen Port Holding from the railway users

Xiamen Port Development charges a maintenance services fee at a fixed rate of RMB1,080,000 per year based on estimation of cost of the maintenance work. The above functions are undertaken on daily basis by the relevant staff at Xiamen Port Development. In the event that irregular maintenance and substantive repair of the railway are required, Xiamen Port Development will hire third party contractors with requisite qualifications and skills to undertake the works, and the fees charged by such third party contractor which exceed the fixed fees of RMB1,080,000 collected from Xiamen Port Holding (after deducting the maintenance cost of Xiamen Port Development other than third party's fees) will be reimbursed by Xiamen Port Holding. The Directors are of the view that the relevant agreement and the maintenance services fee thereof were negotiated on arm's length basis and entered into in the ordinary course of business of Xiamen Port Development and on normal commercial terms.

Since the annual fees anticipated to be collected under the relevant transactions during the period from 2005 to 2007 will not exceed RMB1,100,000, and the applicable assets ratio, revenue ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotment Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end

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of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0224%, 0.0968% and 0.0343%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### **Terminal Management Entrustment**

Liuwudian Co is a wholly-owned subsidiary of Xiamen Port Holding and hence a connected person of the Company.

Pursuant to a management entrustment agreement dated 30 June 2005, Liuwudian Co and Xiamen Port Holding entrusted Xiamen Port Development to manage and operate the assets and business at Liuwudian terminal for a term of three years ending on 31 December 2007. Xiamen Port Development would charge an annual management fee which comprises two parts: the basic costs of RMB60,000 per year and a bonus in the amount of 40% of the net profit that is generated by the terminal under the management of Xiamen Port Development per year provided that the net profit of Liuwudian Co is no more than RMB500,000. If the net profit of Liuwudian Co is more than RMB500,000 but less than RMB1,000,000, the aforesaid profit sharing ratio will be reduced from 40% to 30%; and if the net profit is more than RMB1,000,000, the relevant ratio will be further reduced to 20%.

The Directors are of the view that the above agreement and the management fee thereof were negotiated on arm's length basis and entered into in the ordinary course of business of Xiamen Port Development and on normal commercial terms.

Since the annual fees anticipated to be collected under the relevant transactions during the period from 2005 to 2007 will not exceed RMB400,000, and the applicable assets ratio, revenue ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotment Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0082%, 0.0352% and 0.0125%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

On the basis that the business mode of handling general cargo's loading and unloading at Liuwudian terminal is similar to that at the terminals of the Group and the Group's management expertise is needed by Liuwudian Co to improve its operation, the Company has agreed to enter into the above entrustment arrangement with Liuwudian Co and Xiamen Port Holding with a view to (i) capitalising on its management expertise to generate revenue and (ii) exploring potentials for the expansion of its business as well as the exercise of various options under the Option Agreement discussed above. Currently there is no intention for the Group to enter into similar arrangement with Shihushan Co or Gaoqi Co of Xiamen Port Holding Group given that the business mode at Shihushan terminal is different from that at the terminals of the Group and Gaoqi terminal may be subject to closing-down or renovation due to city planning.

### **Power Supply and Maintenance**

Prior to the Reorganisation, Xiamen Power Supply, a wholly-owned subsidiary of the Company, was responsible for the management and maintenance of Xiamen port's internal electricity supply network and facilities. It supplied electricity and provided management and

maintenance services for the relevant facilities and devices. After the Reorganisation, Xiamen Power Supply continues to supply electricity and provide ancillary services to the members of the Group and the members of Xiamen Port Holding Group.

Since the relevant fees charged by Xiamen Power Supply to the members of Xiamen Port Holding Group are at the same rates as those charged to the members of the Group and in accordance with the relevant pricing standards set up by the state administration of pricing, the Directors consider that such transactions are conducted on normal commercial terms and entered into in the ordinary course of business of Xiamen Power Supply.

Since the annual fees anticipated to be collected under the relevant transactions during the period from 2005 to 2007 will not exceed RMB1,100,000, and the applicable assets ratio, revenue ratio and consideration ratio calculated by reference to Rule 14.07 of the Listing Rules and based on the latest audited accounts of the Company (with the assumption that the Over-allotment Option is not exercised at all and the market capitalisation of the Company immediately following the Global Offering will be HK\$3,078.86 million based on the lower end of the Offer Price of HK\$1.18 per H Share) will be no more than 0.0224%, 0.0968% and 0.0343%, respectively, such transactions are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### Trademark Licensing

Certain members of the Group have been using "Penavico" in the trade names and services marks. "Penavico" is a registered trademark owned by 中國外輪代理有限公司 (China Ocean Shipping Agency Co. Ltd), a substantial shareholder holding 40% interest in one of the subsidiaries, Xiamen Ocean Shipping Agency. Hence, China Ocean Shipping Agency Co. Ltd is a connected person of the Company.

Pursuant to a trademark licensing agreement dated 23 June 2005 between China Ocean Shipping Agency Co. Ltd and Xiamen Ocean Shipping Agency, China Ocean Shipping Co. Ltd grants a licence at nil consideration for Xiamen Ocean Shipping Agency to use the trademark "Penavico" and other trademark(s) which may be acquired by China Ocean Shipping Co. Ltd during the term of the trademark licensing agreement in its shipping agency business for a term of 4 years commencing from the date of the agreement.

Under the PRC trademark registration system, normally the term of registration of a trademark is only of 10 years. Since the remaining term of the trademark registration of "Penavico" is about 4 years by the time the agreement is entered, existing licensing period under the trademark licensing agreement is 4 years only.

It is provided under the trademark licensing agreement that the term of the agreement is automatically renewable for a further term of 3 years each time upon expiration, unless one party to the agreement raises disagreement in writing or the agreement is terminated pursuant to the relevant provisions in the agreement before expiration.

The Directors are of the view that the above agreement was entered into in the ordinary course of business of Xiamen Ocean Shipping Agency and on terms favorable to Xiamen Ocean Shipping Agency, which is in the interest of the shareholders of the Company as a whole.

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Since the consideration of the relevant transaction is nil, such transaction is exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Transactions with Xiamen Port Holding Group

##### A. *Lease of premises*

Certain members of the Group have entered into lease agreements with Xiamen Port Holding and its subsidiary, 廈門水產集團公司 (Xiamen Shuichan Group Co. Ltd) ("Xiamen Shuichan") in respect of leasing of premises (the "Lease Agreements") since extra office and operation premises are needed by the Group and Xiamen Port Holding Group possesses the required premises by the Group. Xiamen Port Holding is a substantial shareholder of the Company and a subsidiary of Xiamen Port Holding is deemed as Associate of Xiamen Port Holding, therefore each of Xiamen Port Holding and Xiamen Shuichan is a connected person of the Company.

A summary of the Lease Agreements is set out below.

Item	Lessor	Lessee	Premises leased	Area (sq.m.)	Annual rental <sup>(2)</sup> (RMB)
(a)	Xiamen Port Holding	Company	Office premises	3,543.91	727,903.8 <sup>(1)</sup>
(b)	Xiamen Port Holding	Xiamen Port Development	Office premises	2,707.12	487,281.6
(c)	Xiamen Port Holding	Xiamen Port Development	Office premises	1,034.63	186,233.4
(d)	Xiamen Port Holding	Xiamen Power Supply	Office premises	787.16	141,688.8
(e)	Xiamen Port Holding	Xiamen Port Development	Land <sup>(3)</sup>	77,223	3,243,366
(f)	Xiamen Shuichan	Xiamen Port Development	Land <sup>(3)</sup>	20,366	1,710,744
(g)	Xiamen Port Holding	Xiamen Port Logistics Xiamen Port Development	Land <sup>(3)</sup>	67,666	5,683,944
Total:					12,181,161.6

##### Notes:

- (1) The rental includes management fee
- (2) The annual rental for 2005 is around RMB7.8 million since certain leases commenced during the middle rather than the beginning of 2005.

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- (3) The three lots of leased land are located at the rear of the berths and used or to be used by Xiamen Port Development Group as depots or logistics park for storage and/or transmission of cargoes and containers. The total area of such leased land accounts for less than 7% of the total land area that occupied by the Group.

### *Rental*

The aggregate annual rental under the Lease Agreements is RMB12,181,161.6 per year. The rental under the Lease Agreements was negotiated between the parties by reference to prevailing market rent at the time. The Directors therefore consider the level of rental under the Lease Agreements to be fair and reasonable to the Group. Sallmanns (Far East) Limited, an independent valuer, has reviewed the Lease Agreements and has confirmed that the current rental payable by the Group to Xiamen Port Holding Group under the Lease Agreements is fair and reasonable, and reflects prevailing market rent.

### *Term and termination*

Each of the Lease Agreements is for a contractual term commencing from 1 January 2005 and ending on 31 December 2007 (except for the Lease Agreement under item (b) of the above table which is for a term of 3 years commencing from 1 August 2004 and ending on 31 July 2007). It is provided in each of the Lease Agreements that the lessee has the right to terminate the agreement unilaterally, whereas the lessor does not have the same right.

### *Historical figures and forecast*

Prior to the Reorganisation and the assets swap arrangement as discussed in the “Business — Shares allocation of the Shares of Xiamen Port Development” and “Business — Assets swap between the Company and Xiamen Port Development” sections of this Prospectus, Xiamen Port Holding Group and the Group were operated on integral business basis and there had been no such commercial lease arrangements (except for items (b) and (d) of the above table, which were RMB628,916 in total in 2004) during the three years ended 31 December 2004.

The Directors expect that there will be no annual increase in the total area of leased premises under the Lease Agreements nor in the fixed rentals thereof. On that basis, the Directors expect that the aggregate rental that will be paid by the Group to Xiamen Port Holding Group for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB7.8 million, RMB12.2 million and RMB12.2 million, respectively. Since certain leases commenced during the middle rather than at the beginning of 2005, the aggregate annual rental under the Lease Agreements in 2005 will be less than that of 2006 and 2007 even though the rental rates are fixed the same for the entire three-year period. Hence, the aforesaid maximum amount for each year is set as the annual cap for such transactions in aggregate.

### **B. *Logistical property management services by Xiamen Port Property***

Xiamen Port Property is a wholly-owned subsidiary of Xiamen Port Holding, and hence a connected person of the Company.



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Xiamen Port Property has been retained by Xiamen Haitian Company to provide logistical and property management services for support of Xiamen Haitian Company's business operation. Xiamen Haitian Company outsources the property logistical services for cost efficiency purpose to Xiamen Port Property which possesses the required experience and staff to deliver the services. A logistical property management services agreement was entered into between Xiamen Port Property and Xiamen Haitian Company on 24 June 2005 (the "Property Services Agreement") setting out the terms and conditions upon the relevant services are provided.

### *Type of services and charge rates*

- Provision of property management and security services for the office premises and terminal area.
- Provision of hygiene and cleaning services.
- Provision of food and beverage for staff.
- Provision of environmental and landscaping services.

As the charges for the relevant services are determined based on costs and with reference to prevailing market rates, the Directors consider that those charges are primarily comparable to the prevailing local market rates.

### *Opt out*

Xiamen Haitian Company has the right to choose a third party to provide these services if such party can provide comparable services on terms more favourable than those offered by Xiamen Port Property pursuant to the Property Services Agreement.

### *Term and termination*

The Property Services Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The parties may extend the term at the time six months prior to the expiration of the initial term, unless at any time Xiamen Haitian Company gives at least three months' prior written notice of termination to Xiamen Port Property.

### *Historical figures and forecast*

The relevant transactions commenced from July 2002. For the three years ended 31 December 2004, the aggregate management fees paid by the Group to Xiamen Port Property for the relevant property management services amounted to approximately RMB3,211,658, RMB5,732,624 and RMB6,386,223, respectively.

The Directors expect that there will be approximately a -13%, 27% and 3% decrease/increase, respectively, in each year over the preceding year during the period from 2005 to 2007 in terms of services to be rendered under the Property Services Agreement. The uneven decrease/increase rate estimated for each year is due to the fact that in 2005, certain premises occupied by Xiamen Haitian Company are under renovation and therefore the demand for relevant services is reduced; and in 2006,

berths numbers 4 and 5 in the Haicang port area will commence trial operation and Xiamen Haitian Company may be contracted to operate the new berths and thus its demand for logistical property management services will be surged in 2006. On that basis and with reference to the historical figure in 2004, the Directors expect that the aggregate charged fees that will be paid by the Group to Xiamen Port Property for each of the three years ending on 31 December 2007, will not exceed a maximum amount of approximately RMB5,580,000, RMB7,080,000 and RMB7,320,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

### **C. Comprehensive services by Xiamen Port Holding**

The Group outsources composite services for cost efficiency purpose and Xiamen Port Holding Group possesses the required facilities, staff and experience to deliver the services. Pursuant to a comprehensive services agreement dated 1 August 2004 and amended on 24 June 2005 (the "Comprehensive Services Agreement"), Xiamen Port Holding has been retained by Xiamen Port Development, a 55.13% subsidiary of the Company, to provide certain comprehensive services to Xiamen Port Development Group. The major terms and conditions of the Comprehensive Services Agreement are set out below.

#### *Types of services and charge rates*

- Provision of staff quarters and ancillary facilities to certain employees of Xiamen Port Development Group. The rates for charge of the relevant services are the same as or not higher than those charged by Xiamen Port Holding to its own employees and the employees of Xiamen Port Development Group will directly pay for the charges.
- Provision of canteen and shower facilities and ancillary services to the employees of Xiamen Port Development Group. Xiamen Port Development Group will pay a lump-sum fee of RMB749,500 per year to Xiamen Port Holding. Such fee is determined with reference to the estimated costs to be incurred in connection with provision of such services by Xiamen Port Holding.
- Provision of environmental, hygiene and landscaping services for the office and production premises of Xiamen Port Development Group. The aggregate fees charged for such services are RMB1,496,254 per year. The fees are determined with reference to the prevailing market price.
- Provision of labour services for container/cargo loading and unloading at the berths operated by Xiamen Port Development Group. The rate for charge of provision of such services is the labour costs plus a 5% management fee.

As the charges for the relevant services are determined either based on costs or costs plus a management fee or the prevailing market price, the Directors consider that those transactions are entered into on normal commercial terms and the applicable relevant charges are at market rates.

### *Opt out*

Xiamen Port Development Group has the right to choose a third party to provide these services if such party can provide comparable services on terms more favourable than those offered by Xiamen Port Holding pursuant to the Comprehensive Services Agreement.

### *Term and termination*

The Comprehensive Services Agreement is for a term commencing from 1 August 2004 and ending on 31 December 2007. The parties may extend the term at the time six months prior to the expiration of the initial term, unless at any time Xiamen Port Development gives at least three months' prior written notice of termination to Xiamen Port Holding.

### *Implementation agreements*

The parties to the Comprehensive Services Agreement (including their respective relevant subsidiaries) may, from time to time, enter into separate implementation agreement for each specific transaction contemplated under the Comprehensive Services Agreement to reflect the detailed requirements of Xiamen Port Development Group. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Comprehensive Services Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Comprehensive Services Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Historical figures and forecast*

The relevant services have been provided to Xiamen Port Development Group from the middle of 2003. For the two years ended 31 December 2004, the aggregate fees paid by Xiamen Port Development Group to Xiamen Port Holding Group for the relevant comprehensive services amounted to approximately RMB10,169,528 and RMB15,580,684, respectively.

The Directors expect that there will be approximately a 23% increase in 2005 over 2004 and thereafter a 13% increase in 2006 over 2005 and a 16% increase in 2007 over 2006 in terms of the service volume in aggregate. The uneven increase rate estimated for each year is based on estimation of increase of handling throughput and demands of ancillary services of the terminals operated by Xiamen Port Development Group during the relevant period. On that basis and with reference to the historical figure in 2004, the Directors expect that the aggregate fees that will be paid by Xiamen Port Development Group to Xiamen Port Holding Group for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB19,150,000, RMB21,690,000 and RMB25,220,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

## D. *Construction project management*

Prior to the Reorganisation, some of the Group's construction projects including berth construction and other port-related infrastructure works were undertaken or managed by 廈門港口開發建設有限公司 (Xiamen Port Development and Construction Co. Ltd) ("Xiamen Port Construction"). Pursuant to the Reorganisation, the non-core port related business, including the port infrastructure construction and management business of Xiamen Port Construction, were retained by Xiamen Port Holding from the Group, and Xiamen Port Construction became wholly-owned by Xiamen Port Holding. Hence, Xiamen Port Construction is a connected person of the Company.

After the Reorganisation and in connection with the projects currently under construction or to be constructed in the future by the Group, the Company has entered into a master construction project management agreement with Xiamen Port Construction on 24 June 2005 (the "Master Project Management Agreement") entrusting Xiamen Port Construction to manage the Group's construction projects.

### *Services and charges*

- Xiamen Port Construction will provide the Company with project management services on projects involving the construction of berths or other port-related facilities and infrastructure, which include management of project bidding, land requisition and clearance and project construction;
- In return for its project management services, the Company will pay Xiamen Port Construction a management fee of up to 2% of the construction budget if the budget is equal to or exceeds RMB1 billion, and up to 2.5% if the Company's construction budget is below RMB1 billion. The management fee is determined with reference to the relevant pricing policy prescribed by the relevant governmental authority;
- If Xiamen Port Construction is able to manage the construction projects such that the final costs fall below the amount the Company has budgeted, the Company will pay Xiamen Port Construction a bonus fee, which will be in the amount equal to 20% of the difference between the budget and the final cost; and
- If the final costs of the project managed by Xiamen Port Construction are higher than the budgeted amount, Xiamen Port Construction will pay the Company the difference between the final costs and the budgeted amount up to a maximum amount which is equal to 40% of the management fee that it is entitled provided that the difference is not caused by (i) a change of law or government policies; (ii) factors attributed to the Company; (iii) force majeure events; or (iv) material change of circumstances.

Xiamen Port Construction's services are primarily construction project management. It retains contractors to undertake the construction works through public bidding or by other manners pursuant to the Master Project Management Agreement and the Company's authorizations from time to time.

### *Opt out*

The Company has the right to choose a third party to provide these services if such party can provide comparable services on terms more favorable than those offered by Xiamen Port Construction pursuant to the Master Project Management Agreement.

### *Term and termination*

The Master Project Management Agreement is for a term commencing from 1 January 2005 and ending on 31 December 2007 and is subject to renewal upon agreement, unless it is terminated by the Company unilaterally with three months prior notice giving to Xiamen Port Construction before the expiration of the contractual term.

### *Implementation agreements*

The members of the Group may, from time to time, enter into separate implementation agreements with Xiamen Port Construction or other members of Xiamen Port Holding Group under the Master Project Management Agreement to reflect the detailed requirements of the relevant services. The terms and conditions of these implementation agreements must follow the binding principles, guidelines and terms as set out in the Master Project Management Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Master Project Management Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Reasons for the services required*

The Directors believe that it is in the Company's best interest to enter into the Master Project Management Agreement with Xiamen Port Construction having considered the following factors:

- port construction and management business are capital intensive and construction project management services are customary for complex construction projects and the outsourcing of project management services allows the Group to concentrate its resources on its core business operations; and
- the staff of Xiamen Port Construction possesses port construction experience and knowledge for management of the Group's construction projects.

### *Historical figures and forecast*

Prior to the Reorganisation, Xiamen Port Holding Group and the Group were operated on integral business basis and no management fees were charged by Xiamen Port Construction from the Group during the past three years ended on 31 December 2004. Hence, there is no historical whole-year figures available.

## CONNECTED TRANSACTIONS

The Directors expect that aggregate fees that will be paid by the Group to Xiamen Port Construction for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB7,750,000, RMB9,000,000 and RMB3,750,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

The Directors have determined the above cap on the basis of the estimated aggregate capital expenditure budget for construction projects of approximately RMB820,000,000, primarily including berths numbers 1, 4 and 5 being constructed and a power switching station to be constructed at Haicang port area. The total capital expenditure is expected to be spent in the amount of each year of RMB310,000,000, RMB360,000,000 and RMB150,000,000, respectively, for the three years ending on 31 December 2007. As the Company may not have full control over the development process of large construction projects, and that the capital expenditure throughout the development phases of construction projects may not be evenly spread out from one year to the next, the Directors have considered the possibility that a large amount of capital expenditure may incur within one single year. In addition, the Directors have assumed that the Company will pay the maximum management fee at the rate of 2.5% in calculating the above cap.

### **E. *Port facilities engineering and construction***

Prior to the Reorganisation, 廈門港務工程公司 (Xiamen Port Engineering Company) undertook the engineering and maintenance of the berths, depots and other port-related facilities and the cleaning of voyage channel. Other than the aforesaid services, it has also been engaged in other non-port related engineering services. Following the Restructuring, the relevant business and staff of Xiamen Port Engineering Co. Ltd are retained from the Group by Xiamen Port Holding.

Xiamen Port Holding Group continues to provide such engineering and maintenance services to the members of the Group. The Group outsources berth facility engineering and maintenance functions so that it could focus on the operation of the berths, and Xiamen Port Holding Group possesses the required experience and staff to undertake such functions. In this connection, the Company entered into a master engineering services agreement with Xiamen Port Holding on 24 June 2005 (the "Master Engineering Agreement"). The Master Engineering Agreement contains the principles and terms and conditions upon which Xiamen Port Holding Group provides the relevant services to the members of the Group.

#### *Type of services and charge rates*

Xiamen Port Holding Group will provide with the Group services in relation to (i) berth construction and maintenance and voyage channel clearing and maintenance; (ii) berth structure and facilities renovation and maintenance; and (iii) building construction and interior engineering; and other related port engineering services that the relevant parties may agree in implementation agreements from time to time. None of the members of the Group carries the aforesaid business except certain minor regular maintenance during daily operation. Charges for those services are determined according to:

- (a) State-prescribed price;

## CONNECTED TRANSACTIONS

- (b) Where there is no State-prescribed price, the comparable local market price;
- (c) Where there is no comparable local market price, the rates negotiated by the parties drawing reference to the customary charge rates set by Xiamen Port Holding Group and applied to third parties; and
- (d) Where the project is subject to public bidding, the pricing principle established during the bidding.

### *Opt out*

The Company has the right to choose a third party to provide these services if such party can provide comparable services on terms more favorable than those offered by Xiamen Port Holding Group pursuant to the Master Engineering Agreement.

### *Term and termination*

The Master Engineering Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007, and is renewable upon agreement by the parties. The Company has the right to terminate unilaterally the Master Engineering Agreement by giving three months prior notice to Xiamen Port Holding Group during the contractual term.

### *Implementation agreements*

The members of the Group and Xiamen Port Holding Group may, from time to time, enter into separate implementation agreements under the Master Engineering Agreement, to reflect the detailed requirements of the relevant services. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Master Engineering Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Master Engineering Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Historical figures and forecast*

For the three years ended 31 December 2004, the aggregate fees paid by the Group to Xiaman Port Holding Group for the relevant services amounted to approximately RMB25,414,438, RMB18,483,773 and RMB13,856,405, respectively.

The Directors expect that the aggregate fees that will be paid by the Group to Xiamen Port Holding Group for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB27,950,000, RMB22,300,000 and RMB21,350,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

The Directors have determined the above caps on the basis of the estimated annual budget which is RMB27,950,000, RMB22,300,000 and RMB21,350,000 for each of the three years ending on 31 December 2007, respectively, for the proposed capital expenditure and costs to be incurred in relation to the regular and irregular maintenance and renovation of related port facilities which were made with reference to historical figures in 2004 and plans for facilities maintenance and renovation, and on the assumption that the relevant works will be undertaken by Xiamen Port Holding Group.

### F. **Labour services**

The Group outsources labour-intensive operation to achieve cost efficiency, and Xiamen Port Holding Group possess the required labour force and experience. There are certain on-going transactions between certain members of Xiamen Port Holding Group and members of the Group with respect to the provision of port-related labour services by these connected persons to the Group. A summary of these members of Xiamen Port Holding Group is set out below.

#### *Connected persons*

- 廈門港務集團勞動服務有限公司 (Xiamen Port Labour Services Co. Ltd.) (“Xiamen Port Labour”) is a wholly-owned subsidiary of Xiamen Port Holding, hence a connected person of the Company.
- 廈門港務集團海龍昌國際貨運有限公司 (Xiamen Port Hailongchang International Freight Co. Ltd.) (“Hailongchang Freight”) is owned as to 80% by Xiamen Port Labour and 20% by Xiamen Port Holding, hence a connected person of the Company.

On 24 June 2005, the Company entered into a master port labour services agreement with Xiamen Port Labour (the “Master Labour Services Agreement”) setting out the principles and terms and conditions upon which Xiamen Port Labour and its subsidiaries will provide the relevant port labour services to the members of the Group.

#### *Services and charge rates*

The relevant labour services include (i) bundling and unbundling of the reinforced components of container and general cargo; (ii) bulk cargo packaging and unwrapping; (iii) container mantling and dismantling; and (iv) other ancillary labour services agreed by the contracting parties. Relevant members of Xiamen Port Holding Group charge for their services provided to the members of the Group with reference to the prevailing market rates at the time entering into the Master Labour Services Agreement, and those standard rates that listed in the Master Labour Services Agreement may be adjusted within a range of 10% each year over the preceding year with reference to prevailing governmental index of consumer price and local market rates.

#### *Opt out*

The Company has the right to choose a third party to provide these services if such party can provide comparable services on terms more favourable than those offered by Xiamen Port Holding Group pursuant to the Master Labour Services Agreement.



### *Term and Termination*

The Master Labour Services Agreement is for a term of the three years commencing from 1 January 2005 and ending on 31 December 2007. The Company has the right to unilaterally terminate the agreement by giving three months prior notice to Xiamen Port Labour.

### *Implementation agreements*

The members of the Group may, from time to time, enter into separate implementation agreements with Xiamen Port Labour and its subsidiaries under the Master Labour Services Agreement to reflect the detailed requirements of the relevant services. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Master Labour Services Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Master Labour Services Agreement and therefore, those agreements will not constitute new categories of connected transactions.

### *Historical figures and forecast*

For the three years ended 31 December 2004, the aggregate fees paid by the Group to Xiamen Port Holding Group for the relevant services are approximately RMB13,536,040, RMB19,367,174 and RMB18,875,276, respectively.

The Directors expect that there will be an annual increase of 22%, 23% and 15%, respectively, for each year over the preceding year in the period from 2005 to 2007 in terms of the relevant labour services in aggregate. The uneven increase rate estimated for each year is due to the fact that the new berths currently being constructed at Haicang port areas are all expected to commence trial operation around the middle and the end of 2006, respectively, and therefore extra demand for labour services will be surged in late 2005 and 2006 and followed in 2007. On that basis and with reference to the historical figure in 2004, the Directors expect that the Group will pay fees to Xiamen Port Holding Group for each of the three years ending on 31 December 2007, which on an aggregate basis, will not exceed a maximum amount of RMB23,000,000, RMB28,400,000 and RMB32,500,000 per year, respectively.

Hence, the maximum amounts for each year are set as the annual cap of such transactions respectively.

### **G. *Electrical equipment maintenance***

Prior to the Reorganisation, members of Xiamen Port Holding Group had retained the Company's subsidiary, Xiamen Power Supply to provide installation and maintenance services for electrical equipment and facilities. Xiamen Power Supply possesses the relevant experienced and skillful staff to provide the relevant services required by Xiamen Port Holding Group and generates revenues for such services.

## CONNECTED TRANSACTIONS

After the Reorganisation, Xiamen Port Holding Group continues to retain Xiamen Power Supply to provide such services. In this connection, Xiamen Port Holding entered into a master electrical equipment installation and maintenance agreement with Xiamen Power Supply on 24 June 2005 (the “Master Equipment Maintenance Agreement”).

### *Service fees*

Xiamen Power Supply charges fees for the installation and maintenance services provided to Xiamen Port Holding Group at the rates either prescribed by the relevant governmental authority or, if no such prescribed rate, determined by reference to the prevailing market rates.

### *Term and termination*

The Master Equipment Maintenance Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007, which is renewable for a further term upon agreement of the parties.

### *Implementation agreements*

Xiamen Power Supply may, from time to time, enter into separate implementation agreements with members of Xiamen Port Holding Group under the Master Equipment Maintenance Agreement to reflect the detailed requirements of the relevant services. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Master Equipment Maintenance Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Master Equipment Maintenance Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Historical figures and forecast*

The relevant services commenced from September 2003. For the two years ended 31 December 2004, the aggregate fees collected by the Group from Xiamen Port Holding Group for the relevant services amounted to approximately RMB38,896 and RMB1,931,169, respectively.

On the basis of the existing contractual amount of approximately RMB6,300,000 and anticipated contractual amount of approximately RMB1,800,000 for the year of 2005, which is in total of approximately RMB8,100,000, and with the estimation that there will be approximately a 20% annual increase each year over the preceding year in 2006 and 2007 in terms of the volume of the relevant services based on the increasing demands of newly constructed berths of Xiamen Port Holding Group which are to be completed in the following two years as disclosed in this Prospectus, the Directors expect that the aggregate fees that will be charged by the Group on Xiamen Port Holding Group for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB8,100,000, RMB9,720,000 and RMB11,664,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

## CONNECTED TRANSACTIONS

### Intra-Group Transactions

#### H. *Intra-Group Port Services and Container Forwarding Services*

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

XICT and Xiamen Haitian Company, as owners and operators of terminals, have been providing port-related services to Xiamen Port Logistics and Xiamen Penavico International Freight when the latter conduct container and freight forwarding business for third party cargo owners at the relevant terminals. Xiamen Port Logistics also provides container surface forwarding services with XICT. The relevant port service fees and container forwarding fees are charged at rates either prescribed by MOC and the Pricing Bureau of Xiamen Municipal Government or, if there is no such prescribed rates, at rates determined by the parties with reference to prevailing market rates. Certain contracts were entered into among those members of the Group setting out the terms and conditions of the provision of the relevant services (the “Intra-group Agreements”). A summary of the aforesaid contracts is set out in the table below.

<b>Service provider</b>	<b>Service receiver</b>	<b>Service scope</b>	<b>Term of contract</b>
Xiamen Port Logistic	XICT	Container surface forwarding	1 January 2005 to 31 December 2007
Xiamen Haitian Company	Xiamen Penavico International Freight	Port-related services	1 January 2005 to 31 December 2007
XICT	Xiamen Penavico International Freight	Port-related services	1 January 2005 to 31 December 2007
XICT	Xiamen Port Logistic	Port-related services	1 January 2005 to 31 December 2007

#### *Historical and Forecast*

For the three years ended 31 December 2004, the aggregate fees incurred among the above-listed members of the Group under the relevant transactions amounted to approximately RMB3,316,541, RMB6,501,057 and RMB8,315,724, respectively.

The Directors expect that, on average, there will be approximately 55.5% increase in 2005 over 2004 and thereafter a 14.4% increase in 2006 over 2005 and a 18.7% increase in 2007 over 2006 based on estimation of throughput growth within the relevant

period. The unbalanced increase rate expected for 2005 is attributable to the estimation that the container throughput of XICT will be increased by approximately 47% in 2005 comparing with 2004. On that basis and with reference to the historical figures in 2004, the Directors expect that the aggregate fees that will incur among the relevant members of the Group for the relevant transactions for the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB12,926,667, RMB14,778,523 and RMB17,539,522, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

## **Transactions with COSCO Lineres, Tidak Freight and Hutchison Ports**

### **I. *Port services with COSCO Lineres***

中遠集裝箱運輸有限公司 (COSCO Container Lines Co. Ltd.) (“COSCO Lineres”) is indirectly owned as to 63.5% by 中國遠洋運輸(集團)總公司 (China Ocean Shipping (Group) Company). China Ocean Shipping (Group) Company indirectly holds more than 50% interest in 中國外輪代理有限公司 (China Ocean Shipping Agency Co. Ltd.), and China Ocean Shipping Agency Co. Ltd. holds 40% interest in Xiamen Ocean Shipping Agency, a 60%-owned subsidiary of Xiamen Port Development. Therefore, China Ocean Shipping Agency Co. Ltd. is a substantial shareholder of the Company’s subsidiary and a connected person of the Company. Since COSCO Lineres is a deemed Associate of China Ocean Shipping Agency Co. Ltd, it is also a connected person of the Company.

A number of members of the Group have been providing various port-related services to COSCO Lineres and its subsidiaries. In this connection, COSCO Lineres has entered into a master port services agreement with the Company on 9 August 2005 (the “COSCO Master Port Services Agreement”) setting out the principal terms and conditions upon which the port-related services are provided by the relevant members of the Group to COSCO Lineres and its subsidiaries.

#### *Types of service*

- cargo and container loading and unloading services
- other port ancillary services agreed by the parties thereto

#### *Pricing policy*

Under the COSCO Master Port Services Agreement, it is provided that charges for the relevant services shall be set in accordance with the following pricing principles:

- (a) State-prescribed price;
- (b) where there is no State-prescribed price, then follow the comparable local market price;
- (c) where there is no comparable local market price, based on negotiation of the parties with reference to the customary charge rates set by the Group; or

## CONNECTED TRANSACTIONS

- (d) such prices negotiated and agreed by the parties with reference to market rates.

### *Term and termination*

The COSCO Master Port Services Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. The parties may extend the term of contract upon agreement at the time six months prior to the expiration of the initial term.

### *Implementation agreements*

The parties to the COSCO Master Port Services Agreement (including their respective relevant subsidiaries) may, from time to time, enter into separate implementation agreement for each specific transaction contemplated under the Master Port Services Agreement to reflect the detailed requirements of COSCO Lineres and its associates. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the COSCO Master Port Services Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the COSCO Master Port Services Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Historical figures and forecast*

For the three years ended 31 December 2004, the aggregate fees collected by the Group from COSCO Lineres and its subsidiaries for the relevant services amounted to approximately RMB41,135,766, RMB42,348,705 and RMB53,040,506, respectively.

The Directors expect that, with reference to historical increased rate in 2004, there will be a 20% annual increase in each year over the preceding year during the period from 2005 to 2007 in the volume of the relevant services in aggregate. On that basis and with reference to the historical figure in 2004, the Directors expect that the aggregate fees that will be collected by the Group from COSCO Lineres and its subsidiaries for each of the three years ending on 31 December 2007, on an aggregate basis, will not exceed a maximum amount of approximately RMB63,650,000, RMB76,380,000 and RMB91,650,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

### **J. Port services with Tidak Freight**

廈門泰達國際貨運有限公司 (Xiamen Tidak International Transportation Co. Ltd.) (“Tidak Freight”) is a wholly-owned subsidiary of 廈門國貿集團股份有限公司 (Xiamen International Trade Group Co. Ltd.). Xiamen International Trade Group Co. Ltd. is a listed company in the PRC and is engaged primarily in trading, port logistics and real property development business. It holds 30% interest in Xiamen Haicang Port Company, a 70%-owned subsidiary of the Company. Therefore, each of Xiamen International Group Co. Ltd. and Tidak Freight is a connected person of the Company.

## CONNECTED TRANSACTIONS

Tidak Freight engages in the container freight forwarding business for cargo owners. A number of members of the Group have been providing Tidak Freight with port-related services and usage of terminal facilities for its business with cargo owners at the relevant terminals. In this connection, Tidak Freight entered into a master port services and settlement agreement with the Company (the “Tidak Master Port Services Agreement”) on 11 July 2005 setting out the terms and conditions upon which Tidak Freight may conduct its business at the relevant terminals.

### *Charge rates*

Tidak Freight is required to pay fees for use of the Company’s terminal facilities and port-related services. The fees comprise two parts: one part is the fees charged by the government at prescribed rates and collected by port terminal operators for the government; the other part is the fees that are charged by port terminal operators for port related services and counted as their operational revenue (the latter part, “port service fee”). The port service fee is charged by the Group at the rates prescribed by MOC and the Pricing Bureau of Xiamen Municipal Government from time to time or at the rates determined by the parties concerned with reference to prevailing market rates.

### *Term*

The Tidak Master Port Services Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

### *Implementation agreements*

The parties to the Tidak Master Port Services Agreement (including their respective subsidiaries) may, from time to time, enter into separate implementation agreement for each specific transaction contemplated under the Tidak Master Port Services Agreement to reflect the detailed requirements of Tidak Freight and its subsidiaries. The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Tidak Master Port Services Agreement.

The Directors are of the view that the implementation agreements are simply further elaboration on the provision of services as contemplated under the Tidak Master Port Services Agreement and therefore, those agreements shall not constitute new categories of connected transactions.

### *Historical figures and forecast*

For the three years ended 31 December 2004, the aggregate port service fees paid by Tidak Freight to the Group amounted to approximately RMB677,540, RMB1,133,168 and RMB2,285,356, respectively.

The Directors expect that there will be a 20% annual increase in the volume of the relevant port services in aggregate in 2005 and a 30% annual increase in 2006, and thereafter 20% in 2007. The uneven annual increase rate was due to the estimation that relevant port demands will fluctuate unevenly during the relevant period. On that basis and with reference to the historical figure in 2004, the Directors expect that the aggregate fees that will be paid by Tidak Freight and its subsidiaries to the Group for each of the three years ending on 31 December 2007, on an aggregate basis, will not

## CONNECTED TRANSACTIONS

exceed a maximum amount of approximately RMB2,750,000, RMB3,580,000 and RMB4,300,000, respectively. Hence, the aforesaid maximum amount for each year is set as the annual cap of such transactions in aggregate.

### **K. *Joint venture with Hutchison Ports***

Hutchison Ports is a substantial shareholder of the Company's subsidiary, XICT, and hence a connected person of the Company.

On 9 September 2001, Xiamen Port (Group) Co. Ltd., the predecessor of the Company and Hutchison Ports entered into a contract on joint investment for construction of berth number 1 in the Haicang Port area in Xiamen, which was renewed by the Company and Hutchison Ports for a further term running from 8 September 2004 to 31 December 2006 on 13 May 2005 (the "Hutchison Agreement"). Pursuant to the Hutchison Agreement, a joint venture will be set up for construction and operation of berth number 1 in the Haicang Port area ("Hutchison Joint Venture") based on, inter alia, the following terms and conditions:

- the total investment of Hutchison Joint Venture is about RMB1 billion.
- the Company will hold 51% equity interest in Hutchison Joint Venture while Hutchison Ports holds the remaining 49%.
- the Company shall be responsible for the construction of berth number 1 in the Haicang port area and inject the relevant berth assets to Hutchison Joint Venture as capital contribution in kind while Hutchison Ports contributes cash.
- in the event that the appraised value of the relevant berth assets is in excess of the capital contribution committed by the Company, the exceeding part of the assets will be purchased by Hutchison Joint Venture in cash from the Company, or if the appraised value is less than the Company's capital contribution commitment, the inadequate part shall be supplemented by the Company in cash.

It is anticipated that within the term of the Hutchison Agreement, a joint venture contract, articles of association and other related contracts in connection with Hutchison Joint Venture will be entered into between the Company and Hutchison Ports for the specific arrangements and terms and conditions of the incorporation and operation of Hutchison Joint Venture. The establishment of the proposed joint venture is subject to governmental approval.

Hutchison Ports is a connected person of the Company and the Group will comply with the relevant disclosure and shareholders' approval requirements under the Listing Rules when substantiate and implement the Hutchison Agreement, and no waiver for compliance of the aforesaid requirements has been applied with the Stock Exchange.

## CONNECTED TRANSACTIONS

Set out below is a table summarising the above non-exempt continuing connected transactions.

### (i) services to be provided by Xiamen Port Holding Group to the Group

Services	Parties to the transaction		Historical figure (RMB)	Proposed annual cap (RMB)	Basis of annual cap
	Connected person	Group member			
A. Office and premises lease	Xiamen Port Holding	The Company	2002: 0 2003: 0 2004: 628,916	2005: 7.8 million 2006: 12.2 million 2007: 12.2 million	Fixed contractual amount. The independent valuer reviewed the leases and confirmed the rentals are market rate, fair and reasonable
	Xiamen Port Property	Xiamen Port Development			
	Xiamen Shuichan	Xiamen Power Supply			
		Xiamen Port Logistic			
B. Logistical property services	Xiamen Port Property	Xiamen Haitian Company	2002: 3,211,658 2003: 5,732,624 2004: 6,386,223	2005: 5,580,000 2006: 7,080,000 2007: 7,320,000	Based on 2004 figure of RMB6,386,223 and the estimation of a -13%, 27% and 3% decrease/increase rate in 2005–2007. Uneven decrease/increase rate is due to the reason that service demands will be reduced in 2005 because of premises renovation and increased in 2006 since new berths to be completed and new demands generated for Xiamen Haitian Company
C. Comprehensive services	Xiamen Port Holding	Xiamen Port Development	2002: 0 2003: 10,169,528 2004: 15,580,684	2005: 19,150,000 2006: 21,690,000 2007: 25,220,000	Based on 2004 figure of RMB15,580,684 and the estimation of a 23%, 13% and 16% annual increase rate in 2005–2007. Uneven increase rate is due to estimation of increase of handling capacity and demands of ancillary services by the terminals operated by Xiamen Port Development



## CONNECTED TRANSACTIONS

Services	Parties to the transaction		Historical figure (RMB)	Proposed annual cap (RMB)	Basis of annual cap
	Connected person	Group member			
D. Construction project management	Xiamen Port Construction	The Company	2002: 0 2003: 0 2004: 0	2005: 7,750,000 2006: 9,000,000 2007: 3,750,000	Based on estimation of total capital expenditure budget for construction project in 2005–2007 of RMB820,000,000, to be spent in the amount of RMB310,000,000, RMB360,000,000 and RMB150,000,000, respectively, each year in 2005–2007 and maximum management fee at the rate of 2.5% will be paid
E. Port facilities engineering and construction	Xiamen Port Holding	The Company	2002: 25,414,438 2003: 18,483,773 2004: 13,856,405	2005: 27,950,000 2006: 22,300,000 2007: 21,350,000	Based on estimation of capital expenditure and costs to be incurred in relation to the regular and irregular port facilities maintenance and renovation in 2005–2007 (which is of the same amount of the caps)
F. Port-related labour services	Xiamen Port Labour	The Company	2002: 13,536,040 2003: 19,367,174 2004: 18,875,276	2005: 23,000,000 2006: 28,400,000 2007: 32,500,000	Based on 2004 figure of RMB18,875,276 and a 22%, 23% and 15% annual increase rate in 2005–2007. Uneven increase rate is due to new berths to be completed and commerce trial operation around the middle and the end of 2006 and new demands generated

## CONNECTED TRANSACTIONS

### (ii) services to be provided by the Group to Xiamen Port Holding Group

Services	Parties to the transaction		Historical figure (RMB)	Proposed annual cap (RMB)	Basis of annual cap
	Connected person	Group member			
G. Electrical equipment maintenance	Xiamen Port Holding	Xiamen Power Supply	2002: 0 2003: 38,896 2004: 1,931,169	2005: 8,100,000 2006: 9,720,000 2007: 11,664,000	Based on existing (RMB6,300,000) and anticipated (RMB1,800,000) contractual amount for 2005, in total of RMB8,100,000, and a 20% annual increase rate in 2006–2007, estimated based on the increasing demands of the newly constructed berths of Xiamen Port Holding Group which are to be completed in the following two years as disclosed in this Prospectus

### (iii) Intra-group transactions

Services	Parties to the transaction		Historical figure (RMB)	Proposed annual cap (RMB)	Basis of annual cap
	Connected person	Group member			
H. Port services	XICT		2002: 3,316,541 2003: 6,501,057 2004: 8,315,724	2005: 12,926,667 2006: 14,778,523 2007: 17,539,522	Based on 2004 figure of RMB8,315,724 and the estimation of a 55.5%, 14.4% and 18.7% annual increase rate, on average, in 2005–2007. The unbalanced increase rate is attributable to the estimation of XICT's increase of throughput in 2005 of 47%
	Xiamen Penavico International Freight				
	Xiamen Haitian Company				
	Xiamen Port Logistics				

## CONNECTED TRANSACTIONS

### (iv) Transaction with COSCO Lineres, Tidak Freight and Hutchison Ports

Services	Parties to the transaction		Historical figure (RMB)	Proposed annual cap (RMB)	Basis of annual cap
	Connected person	Group member			
I. Port services	COSCO Lineres	The Company	2002: 41,135,766 2003: 42,348,705 2004: 53,040,506	2005: 63,650,000 2006: 76,380,000 2007: 91,650,000	Based on 2004 figure of RMB53,040,506 and the estimation of a 20% annual increase rate in 2005–2007 with reference to historical increase rate in 2004
J. Port services	Tidak Freight	The Company	2002: 677,540 2003: 1,133,168 2004: 2,285,356	2005: 2,750,000 2006: 3,580,000 2007: 4,300,000	Based on 2004 figure of RMB2,285,356 and the estimation of a 20%, 30% and 20% annual increase rate in 2005–2007. Uneven increase rate is attributable to uneven fluctuation of port demands estimated.
K. Proposed joint venture	Hutchison Ports	The Company	N/A	N/A	N/A

### Benefits of entering connected transactions with Xiamen Port Holding

Xiamen Port Holding Group has been providing these port ancillary services and facilities to the Group before its proposed listing. The provision of these services and facilities to the Group upon the Proposed Listing could ensure the continuity and could minimise any disruption to the operation of the Group if a new company is engaged to provide the same services. The benefits of engaging Xiamen Port Holding Group to provide the above services include:

- (i) the relevant members of Xiamen Port Holding Group are customary to the operation of port business of the Group and hence have sound understanding of the standards and quality required for the relevant services;
- (ii) Xiamen Port Holding Group is experienced in the industry based on long term operation of the relevant port related ancillary business including port construction management, port facilities engineering, construction and maintenance, composite service, property managerial services and port labour services;
- (iii) the staff and workers of Xiamen Port Holding Group have the requisite experience, skill and qualification to carry out the relevant works;
- (iv) retaining of Xiamen Port Group to provide the relevant services would ensure the operation continuity and minimise any disruption to the operation of the Group; and

- (v) as to property management and leasing of office and premises, Xiamen Port Holding Group has the premises and ancillary property management services that fit in the requirements of the Group.

### **APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTION**

Following completion of the Global Offering, the Company will continue the transactions described under the section headed “Non-exempt continuing connected transactions” above. The transactions will, upon listing of H Shares on the Stock Exchange, constitute continuing connected transactions pursuant to the Listing Rules. In the opinion of the Directors, including independent non-executive Directors, the continuing connected transactions are in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole, and that the proposed annual caps for these continuing connected transactions referred to above are fair and reasonable.

It is expected that, for each of the transactions or for each group of the transactions, where applicable, under the Lease Agreements, the Comprehensive Services Agreement, the Property Services Agreement, the Master Project Management Agreement, the Master Engineering Agreement, the Master Equipment Maintenance Agreement, the Intra-group Agreements and the Tidak Master Port Services Agreement, the highest of the percentage ratios (other than the profits ratio and equity ratio which the Directors believe are not applicable to the relevant transactions) calculated by reference to Rule 14.07 of the Listing Rules, where applicable, on the basis of projections of annual cap for the years from 2005 to 2007, will be less than 2.5%. Accordingly, pursuant to Rule 14A.34(1) of the Listing Rules, such transactions will be exempt from independent shareholders’ approval requirements under the Listing Rules, but such transactions will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

It is also expected that each of the transactions or each group of the transactions, where applicable, under each of the Master Labour Services Agreement and the COSCO Master Port Services Agreement will constitute non-exempt continuing connected transactions pursuant to Rule 14A.35 of the Listing Rules, and accordingly such transactions will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders’ approval requirements set out in Rule 14A.48 of the Listing Rules.

Pursuant to the Listing Rules, each of the transactions outlined in the section headed “Non-exempt Continuing Connected Transaction” above, unless exemptions provided for in the Listing Rules are available, would normally need to comply with the announcement and independent shareholders’ approval requirements (where applicable), on each occasion when such transaction arises. As the transactions are expected to occur on a regular and continuous basis in the ordinary and usual course of business, the Directors (including the independent non-executive Directors) consider that to strictly comply in full with the Listing Rules would be unduly burdensome, impracticable and add additional administrative costs. Accordingly, the Company has requested the Stock Exchange to grant, and the Stock Exchange has granted a waiver under Rule 14A.42(3) of the Listing Rules to the Company from strict compliance with the announcement and/or independent shareholders’ approval requirements (where applicable) relating to continuing connected transactions under the Listing Rules in respect of each of the transactions described in the section headed “Non-exempt Continuing Connected Transaction” above (excluding the transactions under the

## CONNECTED TRANSACTIONS

Hutchison Agreement). If any terms of the aforesaid transactions are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange.

Further, under Rule 14A.35(1) of the Listing Rules, a continuing connected transaction which is not fully exempted must be governed by an agreement for a fixed period not exceeding three years unless there are special circumstances requiring a longer duration. The Directors and the Sponsor are of the view that special circumstances requiring a longer duration exist in the case of the Comprehensive Services Agreement which is for a term commencing from 1 August 2004 and ending on 31 December 2007, namely, a term of three years and five months. The Directors and the Sponsor are of the view that it is necessary from the perspective of practicality for the term of the said agreement to be ended at the year end of 2007 so that the parties to the contract may estimate the annual cap of the underlying transactions more concisely for the year of 2007 and formulate new pricing formula and annual cap with reference to previous whole-year trading records for renewal of the contractual arrangement in the future.

### CONFIRMATION FROM THE SPONSOR

The Sponsor has reviewed the relevant documentation, information and historical figures provided by the Company in relation to the transactions above. The Sponsor has communicated and participated in discussion with the Company and the Company's advisers and has considered representations and confirmations from the Company to satisfy itself of the reliability of the documentation, information and historical figures provided. Based on the above, the Sponsor is of the opinion that the continuing connected transactions set out above are in the ordinary and usual course of business of the Group, are on normal commercial terms (except for the trademark licensing arrangement under the Trademark Licensing Agreement, the terms of which are more favourable to the Group), fair and reasonable and in the interests of the shareholders of the Company as a whole, and the proposed annual caps for the continuing connected transactions referred to above are fair and reasonable.