Management Discussion and Analysis

SUMMARY OF THE GROUP'S CORE BUSINESSES

Scope of the Group's core businesses and the position of the Group in the industry

The Group is principally engaged in river trade transportation between Hong Kong and the ports in the Pearl River Delta region (the "PRD"). The Group has made its presence for nearly 40 years in the market, providing ship-owners and traders with a wide range of cargo transportation services including shipping agency, river trade cargo direct shipment and transhipment, wharf cargo handling, cargo consolidation and godown storage, as well as container hauling and trucking.

At present, the Group has established 25 representative offices at 25 ports in the PRD. In Hong Kong, the Group operates and manages Chu Kong Godown in Tuen Mun with a total gross floor area of approximately 220,000 square feet, a container stacking area with an effective gross floor area of 210,000 square feet, and a private container terminal with two berths for an anchorage of two ocean going vessels of 2,000 loading tons. Besides, the Group also engages in the operation of wharf cargo handling business in respect of the 11 berths of the five Public Cargo Working Area under the management of the Marine Department, and has a fleet of 50 container trucks and 75 trailors.

Based on the number of river trade vessels operated under its agency and the handling capacity of river trade cargoes, the Group dominates the river transportation industry in the PRD.

Operating status of the Group's core businesses in 2000

Despite an average increase of 67% in the price of fuel oil as compared with last year and the downward adjustment of 5% to 15% of freight rate, the core businesses still recorded growth in varying degrees, with operating turnover of HK$446 million, and operating profit before tax of HK$63.56 million, an increase of 3.4% and 3.1% respectively as compared with HK$431 million and HK$61.62 million of last year.

Shipping agency, river trade cargo direct shipment and transhipment

In 2000, the Group recorded a container handling capacity of 220,000 TEUs and a transportation volume of 2.8 million tons (representing 14% of the volume of river trade transportation market), which grew 6.7% and 5.6% respectively as compared with last year. The increase was mainly due to a 5% to 15% reduction of freight rate of some of the shipping routes to attract more customers. The number of voyages in respect of the vessels under the agency amounted to 27,000, representing 22.6% of the number of river trade vessels and a drop of 9.6% as compared with last year. The drop was mainly attributable to an increase in the loading capacity of rivers trade vessels in some of feeder routes, from previously below 24 TEUs to presently 40 TEUs, thereby reducing the sailing frequency of such routes.

In 2000, shipping agency, river trade cargo direct shipment and transhipment represented 78.1% of the consolidated turnover and 53.6% of the consolidated operating profit of the Group's core businesses, as compared with 75.8% and 57.5% respectively last year.

Wharf cargo handling, cargo consolidation and godown storage

In 2000, the Group handled 186,000 TEUs approximately, a slight increase of 0.69%; cargo storage of nearly 40,000 cube meters, a decrease of 7.5%; general and break bulk cargoes of nearly 500,000 tons and bulk cargo of 155,000 cube meters, a decrease of 8.4% and a slight increase of 1.8% respectively, as compared with last year.

In 2000, wharf cargo handling, cargo consolidation and godown storage accounted for approximately 21.4% and 45.7% of the consolidated turnover and consolidated operating profit respectively of the Group's core businesses, as compared with 23.1% and 46.8% last year.

Container hauling and trucking

Within Hong Kong in 2000, the Group recorded a container hauling and trucking capacity of 97,000 TEUs, representing 0.5% of the consolidated turnover and 0.9% of the consolidated operating profit of the Group's core businesses in 2000, as compared with 1.0% and 1.8% respectively last year.

Difficulties cropping out in the Group's core businesses in 2000 and solutions

The year 2000 saw both opportunities and challenges for the Group's core businesses. Following the gradual recovery and continual turnaround of the regional economies, especially with the quick growth of the PRC export, the river trade transportation operations of the Group were benefited accordingly. The Group's management adopted a "large-scale operation at lower cost" and "high-flexibility" marketing strategy, which leads to a 3.4% turnover growth of its core business as compared with last year. However, the sudden and persistent rise in global oil price, as well as the reduction in freight rate due to intensifying competition within the industry resulted in a 6.8% increase in operating cost (with an average increase of 67% in oil price), and as a consequence, the gross profit from such operations still decreased by 5.1%. In face of intensifying market competition, the Group's management adopted in 2000 effective management and cost control policies, reducing administrative expenses by over HK$4.2 million (a decrease of 5.1%) and in return, increased the consolidated operating profit of the Group's core businesses by 3.1% over last year.

OVERVIEW OF THE GROUP'S INVESTMENT PROJECTS AND THEIR IMPLEMENTATION

Investment projects of the Group

The Group has invested in and managed Guangzhou-Foshan Expressway Ltd. ("Guangfo Expressway Ltd."), Dongguan Humen Great Trade Container Port Co., Ltd. ("Humen Company"), He Shan County Hekong Associated Forwarding Co., Ltd. ("He Shan Company"), Deqing Kangzhou Container Transportation Company Ltd. ("Deqing Company"), Shenzhen Zhu Chuan International Freight Forwarding Co., Ltd. ("Shenzhen Forwarding Company"), Shenzhen Yantian Port Zhujiang Container Transportation Company Limited ("Yantian Container Transportation Company"), Guandong Zhu Chuan Navigation Co., Ltd. ("Zhu Chuan Navigation Company") and Chu Kong Air-Sea Union Transportation Company Limited ("Air-Sea Union"), in which the Group holds 25%, 30%, 40%, 52%, 49%, 40%, 49% and 51% equity interests respectively. The respective share of profit or loss is determined by the proportional shareholding of the joint venture partners in the registered capital of the relevant joint ventures.

Overview of the implementation of the Group's investment projects in 2000

The Group's consolidated profit before tax derived from investment projects for 2000 was about HK$39.59 million, 7.3% lower than HK$42.72 million last year.

After completion of the road expansion project of Guangfo Expressway Ltd. and accession road works between Guangfo Expressway and the highway network in the vicinity, the average traffic volume of Guangfo Expressway Ltd. reached 80,169 vehicles per day in 2000, which represented an increase of 1.01% over last year. As a result of the said project, depreciation and amortization of Guangfo Expressway Ltd. increased by RMB17.17 million or 60.2% over last year. On the other hand, an increase of 30% (from RMB0.45/ standard vehicle kilometer to RMB0.60/standard vehicle kilometer) in the toll rate was approved by the government in March 2000. The Group's share of after-tax profit of Guangfo Expressway Ltd. was HK$33.06 million, which represented a slight increase of 1.29%, or HK$420,000, over last year.

As a number of newly-built cargo handling terminals and direct-freight lorry inspection check points were put into operation during the period, the price of oil used by cargo handling machinery was continuously on the rise, and some import and export goods changed their destination, the cargo throughput and volume of containers handled by Humen Company respectively decreased by 27% and 3.24% over last year. Its after-tax profit attributable to the Group was HK$4.70 million, considerably lower than the previous year.

A new cargo terminal with a maximum cargo handling capacity of 3,000 tons of He Shan Company commenced operation in May 2000. As a result, the volume of containers handled this year increased by 6%. Its after-tax profit attributable to the Group was an increase of HK$850,000 over last year.

Deqing Company vigorously completed the supporting facilities of the cargo terminal during the year and enhanced the cargo forwarding capability and internal management control. The volume of containers handled and turnover both increased as compared with last year.

Shenzhen Forwarding Company and Yantian Container Transportation Company, which commenced operation in April 2000, became more familiar with the market condition and strenghtened their internal integration. The volume of their business increased steadily. In an effort to adapt quickly to the persistent and rapid growth of the cargo handling throughput in Shenzhen's ports, the Group is actively adjusting its strategy and consolidating the existing cargo collecting network in the PRD, so as to maximize synergistic effects and support the rapid growth of Shenzhen Forwarding Company and Yantian Container Transportation Company in the Shenzhen market.

Zhu Chuan Navigation Company, continued to provide the Group with vessels needed for its operations. With its strategy of capital preservation and provision of transport support to the Group, Zhu Chuan Navigation Company is considered to be operating normally.

On 11 December 2000, the Group acquired the entire equity interest of Air-Sea Union from the holding company, Chu Kong Shipping Enterprises (Holdings) Company Limited ("CKSE"). Air-Sea Union's equity interest is held as to 51% and 49% respectively by the Group and Hong Kong Air Cargo Industry Services Limited ("HACIS"), as a strategic shareholder. Air-Sea Union will commence its operation towards the end of March 2001.

USE OF PROCEEDS FROM THE NEW ISSUE

During the year, the Company invested approximately HK$18.50 million as the Group's contribution in the registered capital of Zhu Chuan Navigation Company; approximately HK$15.10 million as registered capital contribution in Yantian Container Transportation Company; and approximately HK$1.26 million as registered capital contribution and part of the loans from shareholders in Air-Sea Union.

As at 31 December 2000, the unutilised proceeds from the New Issue of approximately HK$70 million was placed as deposit in various banks in Hong Kong.

The Company has committed further capital contribution of approximately HK$14.55 million as the balance of the loans from shareholders in Air-Sea Union.

Apart from the above proposed application of the proceeds, the balance of the proceeds will be used as future investment fund and working capital of the Group.

OUTLOOK

The year 2001 will also see both challenges and opportunities. With Mainland China's accession to the WTO and the tightening of the control of production structure in Mainland China in an effort to adapt to the needs of globalisation, the volume of import and export is bound to grow continually. According to the Marine Department of Hong Kong, the total container throughput in Hong Kong for the year 2000 was 18,000,000 TEUs, increased by 11.7% over the previous year, of which 4,300,000 TEUs was transported by river, which represented an increase of 12% over the previous year. In terms of air transportation, according to the statistics of the Hong Kong Civil Aviation Department, the cargo volume handled by the Hong Kong International Airport increased from over 1,500,000 tons in 1995 to over 2,200,000 tons in 2000. In view of the promising outlook of both river and airfreight transport, the Hong Kong Special Administrative Region government's full support to the development of the local shipping industry and logistics business, as well as the business opportunities brought about by Mainland China's accession to the WTO, the Group will take positive initiative to address its inadequacies, fully capitalise on its know-how in the industry and understanding and experience of river transportation in the PRD, increase its investment in cargo terminals of the PRD, introduce new and advanced technology into business operation, so as to secure a greater market share and maintain its competitive advantage in the river transportation industry in the region of Guangdong and Hong Kong.

FINANCIAL REVIEW

Review of Results

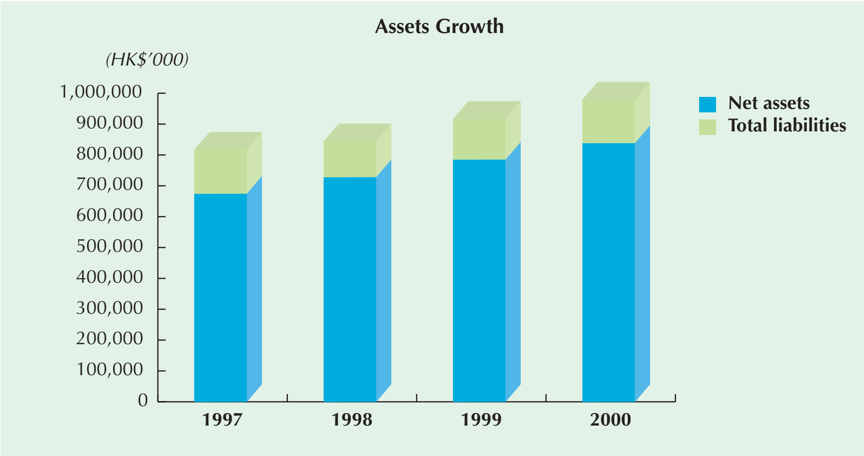
Notwithstanding the fierce competition and the negative impact on operating costs by the rise of oil price this year, the Group, with its stable operation, continual expansion and effective cost control, was able to maintain a level of profit comparable to last year, and bring our shareholders promising return. For the financial year ended 31 December 2000, the net profit from ordinary activities attributable to shareholders was HK$92,639,000, slightly lower than that of 1999 by 2.6%. A breakdown of its results is as follows:

	2000		**1999**		**Change**
		Proportion		*Proportion*	
	(HK$'000)	*(%)*	*(HK$'000)*	*(%)*	*(HK$'000)*
Net profit from operating activities of the Company and its subsidiaries	56,969	61	56,447	59	522
Share of net profit of jointly-controlled entities	35,670	39	38,665	41	(2,995)
Net profit from ordinary activities attributable to shareholders	92,639	100	95,112	100	(2,473)

Net profit from operating activities for 2000 was HK$56,969,000, basically the same as last year. As a result of a 67% rise in oil price and the decrease in freight rate of certain routes, gross profit from operating activities was HK$116.86 million, representing a decrease of 5.1% from last year. This decrease was, however, offset by more effective control of administrative expenses (down 5.1%) and an increase in interest income.

The Group's share of profit of jointly-controlled entities dropped by nearly HK$3.00 million over last year, mainly contributed by the following: (1) its share of profit of Humen Company decreased by approximately HK$2.10 million or around 30%; and (2) Yantian Container Transportation Company and Shenzhen Forwarding Company commenced operation in April this year, and therefore recorded slight losses during their start-up period.

Assets Growth



Since its incorporation on 7 May 1997, the total assets value and net assets value of the Group grew steadily year by year. As at 31 December 2000, the net assets value per share of the Group was HK$1.12 (1999: HK$1.05).

Acquisition of A New Jointly-controlled Entity

On 11 December 2000, the Group acquired 2 shares in Air-Sea Union from CKSE, the Company's immediate holding company, at a consideration of HK$2. In the same series of transaction, the Group entered into an unconditional agreement with HACIS whereby the Company and HACIS subscribe for shares in Air-Sea Union such that the Company and HACIS own as to 51% and 49% of the issued share capital of Air-Sea Union, respectively.

The principal activity of Air-Sea Union comprised of operation and management of the Marine Cargo Terminal at the Hong Kong International Airport. As at 31 December 2000, Air-Sea Union has not yet commenced its business because the construction of the infrastructure is still in progress. It is expected that the construction work will be completed in March 2001 and it will start its business by the end of March 2001.

Liquidity and Financial Resources

As at 31 December 2000, shareholders' fund of the Group increased by HK$53.30 million over last year mainly derived from retained profit during the period. The Group was also granted a credit facility of approximately HK$20 million by banks with which the Group was on friendly terms, but the facility was not utilised during the year.

As the Group had no borrowings, the basis for calculating the gearing ratio was "total liabilities (current liabilities and non-current liabilities) over shareholders' equity." As at the end of 2000, the Group's gearing ratio was at a comparatively low level of 16.8% (1999: 16.8%) reflecting that the operations of the Group mainly relied on shareholders' equity, subject to less operational risk.

As at 31 December 2000, cash and cash equivalents held by the Group was approximately HK$426.25 million (1999: HK$390.62 million) or 43.5% of the total assets (1999: 42.6%), reflecting that the Group has stronger liquidity. As at 31 December 2000, the current ratio was 3.7, slightly better than the figure of 3.6 last year. The Group's financial position continued to be healthy.

Given sufficient liquid capital and unutilised bank facility, and the overall sound and stable financial position, it is believed that the Group is well-poised to seize good investment opportunities in the course of its business expansion.

Capital Structure

As at 31 December 2000, as the Group did not make use of the bank facility, the capital structure was relatively simple, entirely in the form of shareholders' equity of HK$838.70 million in aggregate.

The capital structure of the Group was at all times controlled and monitored by its headquarter. The use of all capital instruments, including bank facility, by every subsidiary was uniformly arranged and handled by the headquarter of the Group.

As at 31 December 2000, the cash and cash equivalents held by the Group was deposited with several banks of good reputation in the following denomination:

	Amount *(HK$'000)*		Percentage *(%)*
HK$	335,414		79
RMB	67,186	(RMB72,949)	16
US$	23,647	(US$3,051)	5
	426,247		100

Financial Management and Control

The Group consistently adopted its prudent financial policy. Capital management, financing and investment activities were all undertaken and monitored by the central management of the Group. There was no material change in its financial condition during the year.

Given the characteristics of river transportation, which is the core business of the Group, emphasis of routine financial control is placed on the control and management of trade receivables, so as to ensure a steady level of cash flow. As at 31 December 2000, the net trade receivables were HK$46.38 million, which was 3.8% less than that of last year, 86% of which was due and receivable in less than 3 months (1999: 84%). A reasonable level of trade receivables would lessen the risk of provisions for bad debts (see note 15 to the financial statements).

The routine business operation and investment of the Group are concentrated in Guangdong and Hong Kong, with revenue and expenditure mainly denominated in HKD and USD, RMB receipts from the PRD are, after payments required to be settled in RMB, remitted to Hong Kong at the prevailing foreign exchange rates quoted by the PRC authorities. For these reasons, under foreseeable circumstances, the Group will not be subject to any significant exposure associated with fluctuation in exchange rates.

As at 31 December 2000, there was no record of considerable contingent liabilities (see note 24 to the financial statements) or pledge of assets.

Capital Commitments

Details of capital commitments of the Group and the Company are set out in note 23 to the financial statements.

The Group is committed to contribute to Air-Sea Union in 2001 a sum of HK$14.55 million, being the balance of interest-free shareholders' loan. This contribution will be financed by the balance of the proceeds from the new issue.

Employees

As at 31 December 2000, the Group hired approximately 302 employees in Hong Kong area, not including employees in jointly-controlled entities (1999: 308 employees), and the expenditure for those employees during the year (not including the directors' remuneration) was approximatley HK$69.44 million (1999: HK$67.78 million).

The remuneration of employees was decided and calculated by the Group on the basis of employees' responsibility and performance, while maintained competitive in the market.

Under the terms of share option scheme (the "Scheme") approved by shareholders of the Company on 7 May 1997, the board of directors may, at their absolute discretion, grant options to full time employees and executive directors of the Company and its subsidiaries to subscribe for shares in the Company. Details of the Scheme are set out in note 20 to the financial statements.