Operation Review

In 2001, the Group's principal business continued to be river trade transportation between Hong Kong and the ports in the Pearl River Delta region and related operations. Besides, the Group was also engaged in infrastructure investments including highways and cargo terminals in Mainland China and cooperation projects on river trade transportation.

In an environment of substantial slowdown of the global economy and slackening growth of export trade in Mainland China, the Group's businesses were inevitably affected, particularly the intensifying competition in river trade transportation which caused a significant decrease in gross profit, and that the Group had to bear the loss in new investment projects during incubation. The results of the Group for 2001 was unsatisfactory, with a turnover and net profit attributable to shareholders of HK$403,474,000 and HK$55,211,000 respectively, which dropped 9.5% and 40.4% respectively as compared with last year.

River Trade Transportation

With its strong company background, healthy and sufficient financial resources, extensive trade transportation network, solid experience in the industry and prestigious brandname, the Group has maintained a competitive edge in the river trade transportation industry and was one of the leading suppliers of river transportation services with high reputation.

Awarded with ISO 9001: 2000 Quality Control Certificate

As there is little entry barrier for river trade transportation resulting in an increased number of operators in the industry which is already in a stage of disorderly competitions, the price war within the industry has been aggravating under the sluggish economic environment. Facing such a rigorous operating environment, though the Group admits that price competition is unavoidable, the management believes that the best way for survival rests not on the vicious cycle of price wars, but on the improvement in the quality of services and provision of differentiated service which would attract new customers while retaining the old ones. To this end and for strengthening and regulating internal management and service upgrading, the Company and four of its subsidiaries began to apply for ISO 9001: 2000 quality management certificate in August 2001 and was awarded such accreditation in February 2002. The management, which covers all the core businesses of the Group, marked a new platform of service management of the Group and further enhanced the Group's competitiveness.

Shipping Agency, River Trade Cargo Direct Shipment and Transhipment

In 2001, the Group recorded a container handling volume of 235,535 TEUs, which grew by 6.7% as compared with last year. The increase was mainly due to a 10% to 20% reduction of freight rate of some of the shipping routes to attract more customers. However, the increase of shipment volume was more than offset by the reduction of freight rate, and thus revenue fell rather than increased. The volume of break bulk cargoes from self-owned vessels dropped to 184,189 tonnes, a dramatic reduction of 50% over last year, which was mainly attributable to a decrease in market demand for barges and tugboats.

The volume of shipment by vessels under shipping agency amounted to 2,886,792 tonnes in 2001, representing an increase of 2.8% over last year, which was mainly due to the improved quality of both operation and services. The number of arrivals and departures of vessels under agency shrank 9.3% to 24,490 from last year. However, revenue from shipping agency basically remained the same as that of last year due to an increase in tonnage of the vessels under agency.

Shipping agency, river trade cargo direct shipment and transhipment accounted for 81.8% and 43.6% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2001 as compared with 78.1% and 47.6% respectively in 2000.

Wharf Cargo Handling, Cargo Consolidation and Godown Storage

The Group handled 160,716 TEUs of wharf cargoes during 2001, a decrease of 13.5% as compared with last year. The satisfactory growth in general and break bulk cargo handling volume, which amounted to 535,696 tonnes, led to a 6.1% increase over last year. However, due to lower handling rates, revenue dropped by 17.1% as compared with last year. The Group recorded cargo storage of 35,798 CBM, a slight decrease of 1.6% as compared with last year and bulk cargo of 126,328 CBM, a drop of 18.4% as compared with last year.

Wharf cargo handling, cargo consolidation and godown storage accounted for 17.9% and 58.8% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2001 as compared with 21.4% and 50.3% respectively in 2000.

Container Hauling and Trucking

In 2001, the Group recorded a container hauling and trucking volume of 93,000 TEUs within the territory of Hong Kong, representing a slight fall of 4.1% as compared with last year. The business accounted for 0.3% and 0.6% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2001 as compared with 0.5% and 0.9% respectively in 2000.

Investments

In 2001, the Group strengthened its management and control over the existing investment projects while seeking for wharf and highway infrastructure projects with good investment returns remained one of the investment strategies of the Group, so as to further expand the scope of its investment business and achieve better synergy of the existing projects with an aim to create more value for shareholders.

Acquisition of New Investment Projects

On 25 September 2001, Chu Kong River Trade Terminal Co., Ltd. ("CKRTT"), a wholly-owned subsidiary of the Company, entered into five conditional sale and purchase agreements with Chu Kong Shipping Enterprises (Holdings) Company Limited ("CKSE"), the controlling shareholder of the Company, whereby CKRTT acquired respectively from CKSE 25% interests in Guangdong Sanbu Passenger and Freight Transportation Co. Ltd. (廣東省三埠港客貨運輸合營有限公司), 25% interests in Gaoming Ming Chu Transportation Co., Ltd.(高明市明珠貨運

聯營有限公司), 30% interests in Sanshui Sangang Containers Wharf Co., Ltd.(三水三港集裝箱碼頭有限公司), 25% interests in Nankong Warehouse & Consolidator Co. Ltd. (南港進出口倉儲集運公司) and 25% interests in Foshan New Port Ltd. (佛山新港碼頭有限公司) (the "Acquisition") at a total consideration of HK$52,280,000. All the five joint venture companies are engaged in wharf operation and vessel transportations. The Acquisition, which is in line with the investment policies of the Group and the plan of the Company in acquiring the assets of CKSE upon its listing, enabled the Group to further exploit the river trade transportation market in the Pearl River Delta region and provide comprehensive transportation services to customers, and thereby enjoy the potential synergy to be generated from the Acquisition. The Acquisition was approved at the extraordinary general meeting of the Company on 31 October 2001. The consideration of the Acquisition will be paid to CKSE upon fulfillment of all the conditions and funding will be from the proceeds of the new issue and internal resources of the Group. The recognition and profit contribution of the Acquisition will be reflected in the financial statements of the Group for 2002.

Performance of Existing Investment Projects

During 2001, the performance of Guangzhou-Foshan Expressway Ltd. ("Guangfo Expressway Ltd.") in which the Group holds 25% interests was mainly impacted by the development of highway network in the vicinity which caused traffic diversion, crossroads construction leading to change of entrance and exit and disastrous weather, resulting in a 3.5% decrease in traffic volume as compared with last year. And with the expiry of its tax preferential period, the income tax rate was subject to increase from 7.5% to 15% and led to an increase in tax payment of HK$12,114,000 as compared with last year. The Group's share of the profit of Guangfo Expressway Ltd dropped by approximately 17.7% as compared with last year.

In 2001, Dongguan Humen Great Trade Containers Port Co., Ltd. ("Human Company") in which the Group holds 30% interests, affected by the change in customs policies of Mainland China, recorded a significant decrease of 62% in break bulk cargo handling volume which offers higher gross profit as compared with last year. Due to market expansion through price cut, the handling volume of containers reached a record high, representing an increase of 5.2% as compared with last year. The turnover of Humen Company in 2001 dropped by 14.5% as compared with last year.

With its newly built cargo terminal and the new office building coming into operation, He Shan County Hekong Associated Forwarding Co., Ltd. ("He Shan Company") in which the Group holds 40% interests has significantly improved its operating environment and quality of services, and won support from customers. In 2001, the container handling volume of He Shan Company increased remarkably by 46.3% as compared with last year and revenue from principal businesses increased by 25.5% as compared with last year. The percentage of increase in revenue recorded was smaller than that of handling volume, which was attributable to a reduction in prices. The results and performance of He Shan Company improved significantly, resulting in an increase of approximately HK$2,700,000 in shareholders' interests as compared with last year.

During the year, Deqing Kangzhou Container Transportation Company Ltd. in which the Group holds 52% interests recorded a growth of 12% in the break bulk cargo transportation business while changes in other businesses were not substantial; and the operating results has improved compared with last year.

Chu Kong Air-Sea Union Transportation Company Limited ("Air-Sea Union") in which the Group holds 51% interests commenced operation on 28 March 2001. Air-Sea Union is engaged in the operation of Marine Cargo Terminal of the Hong Kong International Airport. As air freight transportation has been affected by the sluggish economy, Air-Sea Union, which was in a stage of incubation, found it more difficult to expand its business than it was expected. The handling volume has been unsatisfactory. The Group's share of the loss of Air-Sea Union for the year was approximately HK$6,080,000.

During the year, Shenzhen Yantian Port Zhujiang Container Transportation Company Limited ("Yantian Container Transportation Company") in which the Group holds 40% interests recorded a growth of 56% in hauling and trucking volume as compared with last year but a fall of 20% to 30% in the hauling and trucking rates for large liner companies. The operating results of Yantian Container Transportation Company for the year has no material change as compared with last year.

During the year, Shenzhen Zhu Chuan International Freight Forwarding Co., Ltd. ("Shenzhen Forwarding Company") in which the Group holds 49% interests underwent a reorganization to strengthen the cargo forwarding function. Shenzhen Forwarding Company recorded a substantial growth in handling volume as compared with last year and continuous improvement in operating results.

During the year, Guangdong Zhu Chuan Navigation Co., Ltd. in which the Group holds 49% interests continued to maintain the policy of conservative operation and provided vessels for the operation to the Group on a gradual basis, and a slight profit was recorded.

Future Prospects

It is expected that the disorderly competitive environment in the river trade transportation market will not change materially in the short term. The dawn for an increase in price is still far behind though there is limited room for a further significant decrease in market price. With such depressed economic climate, most of the companies in the industry are faced with difficulties. Only enterprises with strong background and competitive advantage can survive and the trend of "keep the strong ones at the expense of the weaker ones" within the industry will accelerate. As one of the well-established market leaders in the river trade transportation between Guangdong and Hong Kong, while maintaining the existing competitive advantage, the Group has to adhere to its commitment for quality management to improve customized services continuously based on the service standards of ISO 9001: 2000, provide customer-oriented services; strengthen adjustment of structure, consolidate the existing resources for cargo forwarding, reinforce the capability in market sales to expand market share by formulating various sales policies to cater for different customers; speed up the construction and application of e-network by utilizing information technology to streamline work process and enhance work efficiency; further strengthen cost management and control, reform and optimize cost budgets in order to reduce cost and expenses and increase gross profit.

With the gradual recovery of the global economy and business opportunities brought about by Mainland China's accession to the WTO, as well as the utmost support for the development of logistics industry and re-export trade by the HKSAR government, the Group is optimistic towards the long-term development of the river trade transportation industry. The Group will take positive initiative to explore new businesses related to river trade transportation such as the development of air cargo freight agency and the operation of logistics related businesses. At the same time, the Group will also explore vigorously profitable investment opportunities, introduce ambitiously strategic shareholders who can mutually complement advantages in business and carry forward the diversification of investment.

By maintaining and enhancing our competitive advantage, assessing market situations and developing strategies, while keeping abreast of market trend, we believe that we will be able to secure our leading position in the industry.

Financial Review

Review of Financial Results

In an unfavourable global economic environment characterized by severe competition in the industry, coupled with losses arising from the incubation of new investment projects, the Group recorded a net profit from ordinary activities attributable to shareholders of HK$55,211,000 in 2001, representing a substantial decrease of HK$37,428,000, or 40.4%, as compared with last year, details of which are as follows:

	2001		2000		Amount changed
	(HK$'000)	***(%)***	*(HK$'000)*	*(%)*	*(HK$'000)*
Net profit from operating activities	**34,498**	**62**	56,977	61	-22,479
Finance costs	**(2)**		(8)		6
Share of net profits of jointly-controlled entities	**20,715**	**38**	35,670	39	-14,955
Net profit from ordinary activities attributable to shareholders	**55,211**	**100**	92,639	100	-37,428

In 2001, the Group's net profit from operating activities was HK$34,498,000, which represented a drop of HK$22,479,000, or 39.4%, as compared with last year and accounted for 62% of the net profit from ordinary activities attributable to shareholders which was comparable with that of last year. The substantial decrease in net profit from operating activities were principally due to:

(1) a substantial decrease of HK$20,691,000, or 17.7% in the gross profit from principal operating activities as compared with last year. The intensification of competition in the river trade transportation market and the continuous decrease in the market sales price led to the overall decrease in the freight rates of containers by 10% to 20%. As for cost control, though a cost saving of approximately HK$2,200,000 was achieved, mainly in respect of the repair and maintenance of machinery, gross profit still recorded a decline since the decrease in operating cost was lower than that in revenue;

(2) a reduction of HK$4,651,000 for the year in respect of other revenue as compared with last year, which was due to a significant decrease of approximately HK$6,300,000 in bank interest income as a result of consecutive reductions in bank interest rate in 2001;

(3) a slight increase of HK$450,000 for the year in respect of administrative expenses as compared with last year. Some of the expenses was cut due to efficient internal cost control. However, an average increase of 3% in staff salaries of the Group and contributions to the MPF scheme in 2001 has resulted in an increase of approximately HK$2,000,000 in salaries and remunerations for the year.

In 2001, the Group's share of net profits of jointly-controlled entities was HK$20,715,000, which represented a drop of HK$14,955,000, or 41.9% as compared with last year and accounted for 38% of the net profit from ordinary activities attributable to shareholders which was comparable with that of last year. The substantial decrease in share of net profits of jointly-controlled entities were principally due to:

(1) the decrease in 2001 in the Group's share of net profit of Guangfo Expressway Ltd. of approximately HK$5,860,000, or 17.7% as compared with last year, which was affected by a 3.5% decrease in traffic volume as compared with last year and an increase in tax payment;

(2) share of loss of Air-Sea Union of approximately HK$6,080,000 by the Group in 2001, which was attributable to the unsatisfactory handling volume of Air-Sea Union which commenced operation this year, as affected by the marco-economic downturn and difficulties encountered in market expansion that prejudiced its initial business;

(3) the decrease in 2001 in the Group's share of net profit of Humen Company of approximately HK$2,500,000 as a result of a substantial fall in the break bulk cargo business with higher gross profit margin, which was adversely affected by a change in policy that prejudiced the business of Humen Company.

Dividends

The Group's dividend policy is to provide stable ordinary shares dividends which will be declared in line with the net profit of the Group. The amount of dividends paid by the Group in the previous years as a percentage of the net profit from ordinary activities attributable to shareholders ("Dividend Coverage") for each of the years are as follow:

	Dividend per ordinary share *(HK$)*	Total dividends *(HK$'000)*	Net profit from ordinary activities attributable to shareholders *(HK$'000)*	Dividend coverage
1997	0.04	30,000	162,975*	18.41%
1998	0.04	30,000	82,325	36.44%
1999	0.05	37,500	95,112	39.43%
2000	0.05	37,500	92,639	40.48%
2001 (proposed)	0.04	30,000	55,211	54.34%

* *Net profit from ordinary activities attributable to shareholders in 1997 included special income of HK$68,653,000, being the interest income generated from the proceeds of the initial public offering of the Company*

Liquidity and Financial Resources

As at 31 December 2001, total shareholders' fund of the Group increased by HK$18,369,000 over last year mainly derived from retained profit during the year. The Group was also granted a credit facility of HK$17,500,000 by banks with which the Group was on friendly terms.

As at 31 December 2001, cash and cash equivalents held by the Group was HK$401,206,000 (2000: HK$426,247,000) or 38.9% of the total assets (2000: 41.7%), reflecting that the Group remained strong in liquidity.

As at 31 December 2001, the current ratio was 3.6 (2000: 3.4) and the debt ratio was 13.9% (2000: 14.9%). The Group's financial position continued to be healthy.

Given sufficient liquid capital and unutilized bank facilities, and the overall sound and stable financial position and good standing in raising funds from the capital market, 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 2001, since bank facilities and other financing instruments of the Group had not been utilized, its gearing ratio was 0% (2000: 0%) calculated by total borrowings over total shareholders' equity, reflecting that the operations of the Group relied on shareholders' equity, and therefore subject to less operational risk.

The capital structure of the Group was controlled and monitored by its headquarter. The use of all capital instruments, including bank facilities, by each subsidiary was uniformly organized and arranged by the headquarter of the Group.

As at 31 December 2001, cash and cash equivalents held by the Group, of which 85% was Hong Kong dollars, was deposited with several banks of good reputation in the following denomination:

	Amount *(HK$'000)*	**Percentage** *(%)*
HKD	340,604	85
USD	26,904	7
RMB	33,698	8
	401,206	100

Financial Management and Control

The Group consistently adopted a prudent financial policy. Fund 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 management of working capital, particularly the timely receipt of external receivables. As at 31 December 2001, net receivables amounted to HK$45,377,000, which was 2.2% less than that of last year, 84.3% of which was due and receivable in less than 3 months. The risk of exposure to bad debts was controlled at a comfortable level.

Currently, the routine operation and investment business of the Group are concentrated in Guangdong and Hong Kong, with revenue and expenditure mainly denominated in HKD, as well as in RMB and USD. RMB receipts from Mainland China may be used for payment of expenses of the Group denominated in RMB incurred in Mainland China. HKD and USD revenue received in Mainland China may be remitted to the Group's account in Hong Kong. So long as the pegged rate system in Hong Kong is maintained, the Group will not be subject to any significant exposure associated with fluctuation in exchange rates.

As at 31 December 2001, save as the pledged bank deposits of HK$1,181,000 incurred in respect of a guarantee for payment to certain suppliers and the bank guarantee of HK$576,000 incurred in respect of deposits for leased properties, there was not any pledge of assets (see note 28 to the financial statements).

As at 31 December 2001, the Group had no material external contingent liabilities (see note 29 to the financial statements).

Capital Commitments

Details of capital commitments of the Group and the Company are set out in note 26 to the financial statements.

The Group has sufficient financial resources, which include cash on hand and cash equivalents, cash arising from operation and bank facilities, for the payment of expenses in respect of capital commitments.

Use of Proceeds from the New Issue

During the year, the Company contributed to Air-Sea Union a sum of approximately HK$21,180,000, being partial payment of contribution to the shareholders' loan. As at 31 December 2001, the unutilized proceeds from the new issue amounted to approximately HK$48,820,000 was placed with various banks in Hong Kong.

The Group has committed capital contribution in 2002 of HK$52,280,000, being the total amount payable for the acquisition of five joint venture companies. The unutilized proceeds from the new issue will be applied to settle a major portion payable for such acquisition.

Upon completion of the above proposed application of proceeds, all of the proceeds from the new issue would have been utilized.

Employees

As at 31 December 2001, the Group hired approximately 308 employees (2000: 302 employees) in Hong Kong, not including employees in jointly-controlled entities, and the expenditure for those employees during the year (not including directors' remuneration) was approximately HK$71,589,000 (2000: HK$69,443,000).

The remuneration of employees was determined on the basis of employees' job responsibility and market conditions. Other benefits available to eligible employees included share options, housing allowances and bonuses. The Group's remuneration policy ensures our competitiveness in the market.