

Report of the Directors



The front row (From left to right): Mr. Chan Kay Cheung (Non-executive Director), Mr. Yang Liansheng (Chairman), Mr. Benjamin Pui-Tong Wong (Non-executive Director).

The back row (From left to right): Mr. Ng Kin Yuen (Company Secretary), Mr. Liang Yongjiu (Vice Chairman), Mr. Li Zhijie (Executive Director), Mr. Che Chiqiang (Managing Director).

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and jointly-controlled entities are set out in notes 16 and 17, respectively, to the financial statements. There were no significant changes in the principal activities of the Group during the year.

Segment Information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at 31 December 2001 are set out on pages 30 to 65 of the annual report.

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Results and Dividends *(continued)*

An interim dividend of HK1 cent per ordinary share was paid during the year. The directors recommend the payment of a final dividend of HK3 cents per ordinary share in respect of the year to shareholders on the register of members on 22 April 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet.

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 May 1997, after deduction of related issuance expenses, were used to fund future investments and as working capital of the Group.

Financial Summary

A summary of the financial information of the Group for the last five financial years is set out on pages 66 to 67 of the annual report. This summary does not form part of the audited financial statements.

Fixed Assets

Details of movements in the fixed assets of the Company and of the Group are set out in note 15 to the financial statements.

Share Capital and Share Options

Details of the Company's share capital and share options are set out in note 23 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group are set out in note 24 to the financial statements.

Distributable Reserves

As at 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$181,350,000.

Major Customers and Suppliers

In the year under review, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases for the year, respectively.

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year were as follows:

Executive Directors:

Mr. Yang Liansheng
Mr. Liang Yongjiu
Mr. Che Chiqiang
Mr. Li Zhijie (appointed on 19 March 2001)

Independent Non-executive Directors:

Mr. Benjamin Pui-Tong Wong
Mr. Chan Kay Cheung

In accordance with the bye-laws of the Company, Messrs. Chan Kay Cheung and Li Zhijie will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' and Senior Managers' Biographies

Executive Directors

Mr. Yang Liansheng, aged 55, Chairman, is responsible for the strategic planning and policy making of the Group. He has been the chairman and a legal representative of Guangdong Province Navigation Holdings Company Limited ("GPNHCL") since August 1997, and the chairman of Chu Kong Shipping Enterprises (Holdings) Company Limited ("CKSE") since September 1997. He was the deputy director of the Office of the Marine Safety Command Headquarters of the Guangdong Provincial Government from 1988 to 1991 and the division chief of the Communication Division of the Economic Committee of the Guangdong Provincial Government from 1991 to 1997. He graduated from the Dalian Maritime Naval Ships Institute in the People's Republic of China (the "PRC") in 1967. He has over 24 years of experience in the communications industry.

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Directors' and Senior Managers' Biographies *(continued)*

Executive Directors *(continued)*

Mr. Liang Yongjiu, aged 50, has been the Vice-chairman of the Company since September 2000 and is responsible for the strategic planning and policy making of the Group. He joined CKSE in 1999 and is currently the managing director of CKSE. Mr. Liang started his career in the shipping industry in 1969. He was the deputy general manager of Guangdong Province Navigation Material Supply Company from 1984 to 1995, and the managing director of Guangdong Lighter Co. from 1995 to 1999. He has over 32 years of experience in marine transportation management and administration.

Mr. Che Chiqiang, aged 39, has been the Managing Director of the Company since September 2000 and is responsible for the strategic planning and policy making, as well as the overall business operation and capital investment, of the Group. He joined CKSE in 1999 after graduating from Southampton University in Britain with a master's degree in international trade law. He is also a qualified lawyer in the PRC.

Mr. Li Zhijie, aged 40, has been an Executive Director of the Company since March 2001, and is also a director and deputy general manager of CKSE. He graduated from the Shanghai Maritime University in 1987, majoring in water transportation. He joined CKSE in 1992, and had been appointed as a director and deputy general manager of Chu Kong Transhipment & Transportation Company Limited ("CKTT"), one of the Company's wholly-owned subsidiaries, the legal representative of Guangdong Hong Kong & Macau Freight Transport Trust Company, and the chairman of Shenzhen Zhu Chuan International Freight Forwarding Co., Ltd. since that year. He has 21 years of experience in river trade transportation, inter-model transportation and cargo forwarding business.

Independent Non-Executive Directors

Mr. Benjamin Pui-Tong Wong, aged 67, is a director of John Swire & Sons (H.K.) Ltd., and a number of other companies in the Swire Group. He has served for 44 years in the shipping and marine related industries. He is also a member of the committee of the Port & Maritime Board of Hong Kong.

Mr. Chan Kay Cheung, aged 55, is an executive director and deputy chief executive of The Bank of East Asia, Limited. He joined the Bank in 1965, and possesses extensive knowledge and experience in the banking industry. He is a fellow member of the Hong Kong Institute of Bankers and a member of the MPF Industry Schemes Committee. He is also a director of Four Sea eFood Holdings Limited and Winsan (China) Investment Group Company Limited.

Directors' and Senior Managers' Biographies *(continued)*

Senior Management

Mr. Xie Xiaohong, aged 44, has been a Deputy General Manager of the Company since 2000, and is responsible for the daily operations and marketing of the Group's shipping business. He joined CKSE in 1999, and was also formerly a director and deputy general manager of CKTT. Mr. Xie graduated from the Guangdong Province Navigation School in the PRC in 1980, majoring in water transportation management, and has been engaged in shipping and port operation and management since his graduation. He was the deputy chief of the Zhaoqing Port Authorities in Guangdong Province in 1985, and the Vice-chairman of Zhaoqing Port & Navigation Holding Company Limited in 1995. Mr. Xie has over 21 years of management experience in shipping and wharf operations.

Mr. Yang Wei, aged 35, has been a Deputy General Manager of the Company since 2001, and is responsible for the investment and development planning of the Group. He joined the Company in 2000. Mr. Yang graduated from the Changsha Communications University in the PRC in 1989 with a bachelor's degree majoring in transportation management. He is a qualified economist in the PRC and has hold a master of business administration degree from the South China University of Technology since 2001. He has over 13 years of experience in shipping enterprise administration, business development planning and investment analysis.

Mr. Qiang Wei, aged 31, has been a Financial Controller of the Company since 2000 and is responsible for the Group's financial management and control. He joined CKSE after his graduation from the Shanghai Maritime University in the PRC in 1993 with a bachelor of economics degree. He has worked at various subsidiaries of CKSE in the PRC, Thailand and Hong Kong, and was formerly a deputy manager of the financial department of CKSE in 1999. Mr. Qiang is a qualified accountant in the PRC and also a member of the Chinese Institution of Certified Public Accountants. He has over 9 years of experience in accounting and financial management.

Mr. Lu Youbang, aged 35, has been the managing director of CKTT since 1999, and is responsible for the corporate administration and policy making of CKTT. He joined CKSE after graduating from the Shanghai Maritime University in the PRC with a master's degree in economics in 1993. He is also a qualified economist in the PRC and a member of the China Maritime Law Association. Mr. Lu has over 9 years of experience in shipping agencies, multi-model transportation of containers, wharf operations and river trade transportation.

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Directors' and Senior Managers' Biographies *(continued)*

Senior Management *(continued)*

Mr. He Weiping, aged 49, has been the managing director of Chu Kong Agency Company Limited ("CKA"), one of the Company's wholly-owned subsidiaries, since 1999, and is responsible for the corporate administration and policy making of CKA. Mr. He started his career in the shipping industry in 1971. From 1981 to 1986, he studied at the Dalian Maritime University and received a bachelor of engineering degree. He subsequently worked as the manager of Guangdong, Hong Kong and Macau Shipping Company. Mr. He is a member of the Hong Kong Local Shipping Consulting Committee.

Mr. Huang Dabang, aged 40, has been the managing director of Chu Kong Godown Wharf & Transportation Company Limited ("CKGWT"), one of the Company's wholly-owned subsidiaries, since 1999, and is responsible for the corporate administration and policy making of CKGWT. He joined CKSE in 1999. He graduated from the Guangdong Province Navigation School in the PRC. He is also a qualified economist in the PRC. Mr. Huang has over 20 years of experience in shipping, wharf operations and container truck transportation in the PRC.

Directors' Interests in Shares

None of the directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included full-time employees (including executive directors) of the Company or any subsidiary. The Scheme became effective on 7 May 1997 and will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. As at 31 December 2001, the number of shares issuable under share options granted under the Scheme was 75,000,000, which represented 10% of the Company's shares in issue as at that date. There is no limit on the maximum number of shares issuable under share options to each eligible participant in the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$10 in total by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.

Share Option Scheme *(continued)*

The exercise price of the share options is determinable by the directors at their discretion based on the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the offer date, and the nominal value of the Company's shares.

No share options were granted, exercised, cancelled or lapsed during the year.

The following share options were outstanding under the Scheme during the year:

Grantee	Number of Share Options Outstanding at Beginning and at End of Year	Date of Grant of Share Options	Exercise Period of Share Options	Exercise Price of Share Options <i>HK\$</i>
Name of Director				
Mr. Yang Liansheng	7,000,000	11 December 1997	11 December 1997 to 10 December 2007	1.55
	7,000,000	29 May 2000	29 May 2000 to 28 May 2010	0.55
Mr. Liang Yongjiu	11,000,000	29 May 2000	29 May 2000 to 28 May 2010	0.55
Mr. Che Chiqiang	10,000,000	16 October 2000	16 October 2000 to 15 October 2010	0.52
Other Employees	32,000,000	29 May 2000	29 May 2000 to 28 May 2010	0.55
	8,000,000	16 October 2000	16 October 2000 to 15 October 2010	0.52
	75,000,000			

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Directors' Rights to Acquire Shares or Debentures

Apart from the share option scheme noted above, at no time during the year was the Company or any of its holding companies and subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Further details of the Company's share option scheme are also set out in note 23 to the financial statements.

Directors' Interests in Contracts

No director had a material beneficial interest in any contract of significance in relation to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the year.

Substantial Shareholders

As at 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of Shares
(i) CKSE	562,500,000
(ii) GPNHCL	562,500,000

CKSE is wholly owned by GPNHCL. Accordingly, the interests disclosed by parties (i) and (ii) above are in respect of the same shareholding.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Directors' Interests in Competing Businesses

During the year, Mr. Liang Yongjiu and Mr. Li Zhijie, directors of the Company were also directors of several cargo terminal joint ventures in the Pearl River Delta Region in which CKSE has interests, which compete or are likely to compete, either directly or indirectly, with the Group's business. The percentage of interests held by CKSE of the said cargo terminals is listed out as follows:

Name of Joint Venture	Percentage of Interests Held by CKSE
Huadu Port Goods Transportation United Co., Ltd.	25%
Nankong Warehouse & Consolidator Co., Ltd.	25%
Dou Men-Hong Kong Cargo Shipping Integrated Co., Ltd.	25%
Shunde Container Terminal Co., Ltd.	16.5%
Zhongshan Port Goods Transportation United Co., Ltd.	25%
Gaoming Ming Chu Transportation Co., Ltd.	25%
Pan Kong Cargo Transportation Co., Ltd.	25%
Foshan New Port Ltd.	25%
Sanshui Sangang Containers Wharf Co., Ltd.	30%

As the board of directors of the Company is independent from the boards of the above-mentioned companies and Mr. Liang Yongjiu and Mr. Li Zhijie cannot control the board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such companies.

Connected Transactions

Details of connected transactions between the Group and its holding company, CKSE, and the subsidiaries, fellow subsidiaries, associates and jointly-controlled entities of CKSE, are set out in note 30 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that those transactions were conducted in the ordinary and usual course of the Group's business and are fair and reasonable so far as the Company's shareholders are concerned, or in accordance with the terms of the agreements governing the transactions.

Purchase, Redemption or Sale of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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Compliance with the Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by the annual report, except that independent non-executive directors of the Company are not appointed for specific terms as required by Paragraph 7 of the Code because they are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the provisions of the Company’s articles of association.

Audit Committee

The Company has an audit committee (the “Committee”) which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises the two independent non-executive directors of the Company. The Committee meets at least twice a year and has written terms of reference.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Che Chiqiang

Director

Hong Kong

27 March 2002