Management Discussion and Analysis

Review of Operations

In 2002, the Group's core business continued to be river trade transportation between Hong Kong and the ports in the Pearl River Delta ("PRD") region and other relevant businesses. In addition, the Group invested in infrastructure such as highways and wharfs in Mainland China as well as cooperation projects in relation to river trade transportation. Meanwhile, the Group also proactively modernized its information management system and developed its own modern logistics service system.

The audited consolidated turnover of the Group in 2002 amounted to HK$450,620,000, up by 11.7% as compared with last year, while audited net profit attributable to shareholders was HK$63,631,000, representing a 15.2% increase.

This year, as a result of the sustained global economic downturn, the Hong Kong economy, which relied greatly on external economic development, remained in the doldrums. The core business of the Group – river trade transportation – was inevitably affected. At the same time, competition was still intense and freight rate continued to suffer from downward pressure. Although the profits of the core business of the Group was lower than last year, its performance has, with measures of changing the original relatively concentrated service pattern and tightening the control on operating costs and

administrative expenses, stabilised when compared with the second half of last year. Benefitted from the steady growth of the PRC economy, as well as close monitoring of its jointly-controlled entities, the overall performance of the Group's investment projects improved over last year, and profits attributable to jointly-controlled entities totalled HK$39,365,000, representing an increase of HK$18,650,000.

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.

Faced with a difficult external business environment and keen competition in the river trade market, the Group tightened control on internal management, accelerated the construction of information network, upgraded the quality of service, optimized the deployment of human, material and capital resources, and actively explored new markets and developed new profit sources. Measures taken by the Group included the promotion of air cargo freight agency service, launching of scheduled break-bulk cargo transportation service, offering value-added logistics service to our clients as well as more effective control of operating costs.

Shipping Agency, River Cargo Direct Shipment and Transhipment

In 2002, the Group recorded a container transportation volume of 271,973 TEUs, which grew 15.5% as compared with last year. The increase was mainly due to improved service quality, more active market development, strengthening cooperation with large shipping companies, and offering of a wider range of products and services to satisfy the various requirements of customers. However, market competition forced prices lower when compared to last year, and as a result, gross profit margin decreased. The break bulk cargo from self-operated vessels recorded a volume of 133,989 tonnes, a dramatic reduction of 27.3% over last year, which was mainly due to the general decline of the industry and reduced capacity of its own vessels. The number of voyages in respect of the vessels under shipping agency amounted to 22,529, representing a drop of 8.0% as compared with last year. Nevertheless, the decrease in revenue from shipping agency narrowed due to an increase in tonnage of the vessels under agency. The airfreight forwarding business which was launched in the second half of last year progressed steadily this year, recording 1,548 tonnes of break bulk cargo and recorded more satisfactory profit contribution.

Shipping agency, river trade cargo direct shipment and transhipment accounted for 86.3% and 57.6% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2002 as compared with 81.8% and 43.6% respectively in 2001.

Wharf Cargo Handling, Cargo Consolidation and Godown Storage

The Group handled 170,199 TEUs of containers in its private wharf during 2002, an increase of 5.9% as compared with last year. The handling volume of break bulk cargo amounted to 424,586 tonnes, a 20.8% decrease when compared with last year. The downturn was due to severe competition in the industry, and also competition from LCL containers, container barge and land transportation etc, making it more difficult in retaining its client base. Cargo storage was 14,642 CBM, decreased by 59.1% over last year. This was mainly because of less business volume from some large customers and major shipping companies extended the free storage period for their customers. Cargo consolidation business increased significantly by 59.4% over last year to 201,304 CBM. The main reason is that the Group, in providing corresponding value-added services, has developed relationship with several major clients engaged in logistics business.

Wharf cargo handling, cargo consolidation and godown storage accounted for 13.4% and 56.6% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2002 as compared with 17.9% and 58.8% respectively in 2001.

Container Hauling and Trucking

In 2002, the Group recorded a container hauling and trucking volume of 97,966 TEUs within the territory of Hong Kong, representing an increase of 5.1% as compared with last year. The business accounted for 0.3% and 0.2% respectively of the revenue from principal businesses and the consolidated profit from operating activities of the Group in 2002 as compared with 0.3% and 0.6% respectively in 2001.

Investments

In 2002, the Group strengthened its management and control over the existing investment projects and seeked for new investments in wharf and highway infrastructure projects with good investment return. It also initiated to upgrade the information system and ventured in the development of modern logistics service system. All these were taken to further expand the scope of its investment business and achieve better synergy of its existing projects with an aim to creating more value for shareholders.

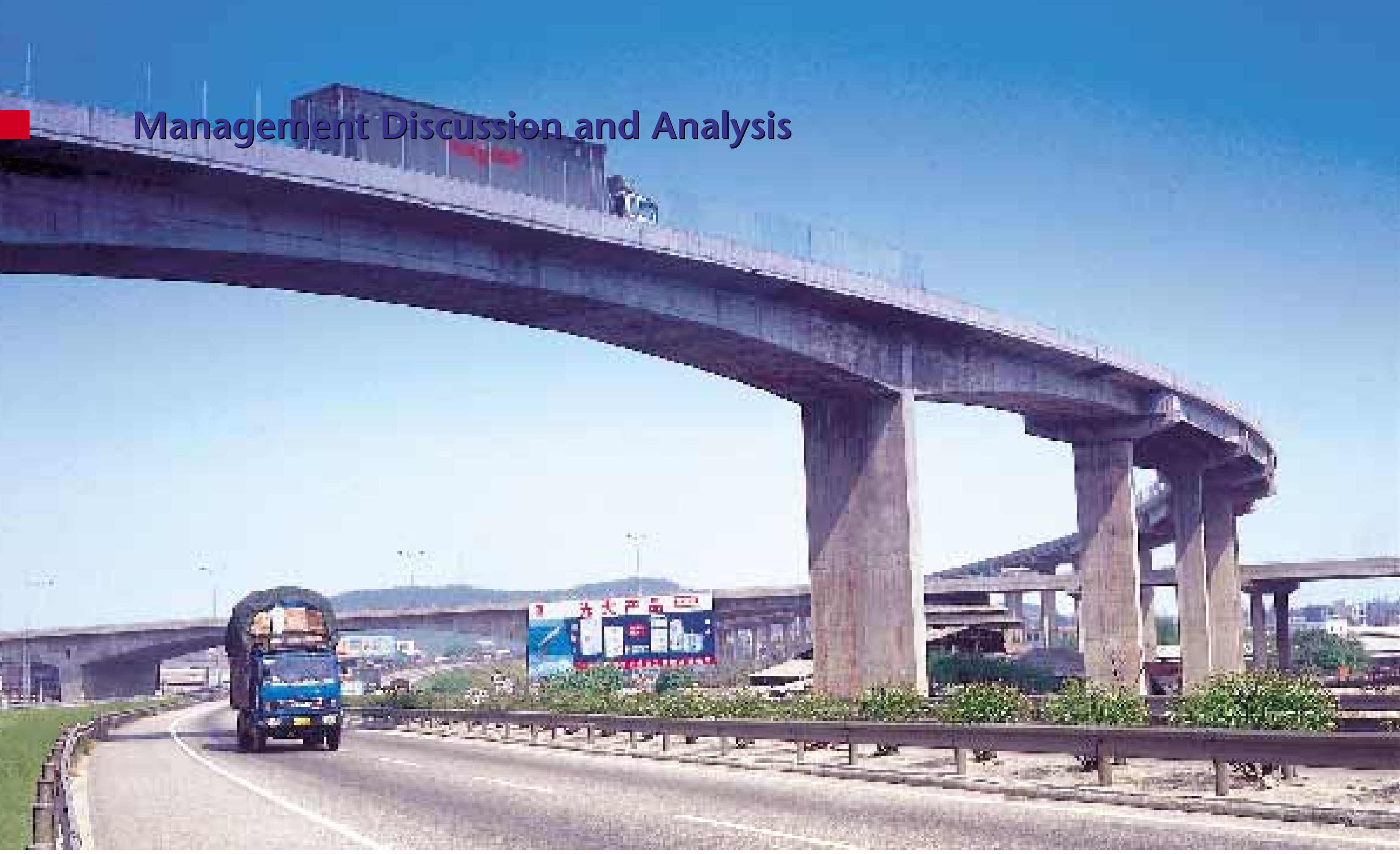
New Investment Projects

Chu Kong River Trade Terminal Co., Ltd. ("CKRTT"), a wholly-owned subsidiary of the Company, entered into an agreement on 26 November, 2002 with Qingyuan City Qingyuan Port Company Limited (清遠市清遠港務公司) to jointly invest in setting up a new company named Qingyuan Chu Kong Shipping Port Co., Ltd. (清遠市珠船港務有限公司) ("CKPC"). According to the agreement, CKRTT would contribute approximately HK$14,245,000 in cash, accounting for 55% of the total registered capital of CKPC. As at 24 February, 2003, government approval was obtained for the establishment of CKPC and the Group's share of contribution shall be payable in the coming future. The establishment of the new company will not only open new development opportunities to the Group, but also pave the way for the Group in taking more control of the ports in the PRD region.

Performance of Existing Investment Projects

The performance of Guangzhou-Foshan Expressway Ltd. ("Guangfo Expressway Ltd.") in which the Group holds 25% interest benefitted from the economic growth in the mainland and steady increase in the number of vehicles, and resulted in 1.96% increase in traffic volume in 2002 as compared with last year. At the same time, as stipulated in the relevant government documents, the toll charged on different types of vehicle and the charging factor were adjusted from July 2002, enabling the company to maintain healthy income growth. Although tax expenses increased when compared to last year as a result of adjusted income tax rate, the profit of Guangfo Expressway Ltd still recorded strong growth. Its profit attributable to the Group was HK$34,033,000, representing an increase of 25.1% over last year.

Management Discussion and Analysis



This year, the growth in overall business volume of Dongguan Humen Great Trade Containers Port Co., Ltd. ("Humen Company"), in which the Group holds 30% interest, was not significant. But the business on certain cargo operation which were charged with higher rates increased, the overall turnover increased as a result. In addition, Humen Company actively controlled costs and expenses this year and achieved certain progress which attributed to the growth in its overall profit. This year the profit of Humen Company attributable to the Group was HK$4,243,000.

Performance of the five jointly-controlled wharfs in the PRC recently acquired by the Group were steady this year. The five wharfs contributed HK$5,190,000 of profit attributable to the Group. The amortization of goodwill arising from the acquisition was deducted from the attributable profit.

Chu Kong Air-Sea Union Transportation Company Limited ("Air-Sea Union") in which the Group holds 51% interest strengthened its market development through various kinds of market promotion activities and won the trust of customers through better quality service. As a result Air-Sea Union's cargo handling volume increased significantly this year. At the same time both shareholders increased their support. The loss of Air-Sea Union attributable to the Group decreased HK$3,533,000 over last year.

Shenzhen Yantian Port Zhujiang Container Transportation Company Limited ("Yantian Company") in which the Group holds 40% interest recorded a 23% increase in container hauling and trucking volume this year. The better performance was a result of the company's efforts in strengthening of management and operational control, optimizing resources and customer portfolio as well as expanding its market share. At the same time, due to effective cost control, loss of Yantian Company attributable to the Group decreased significantly. The company is expected to generate profit in 2003.

The Group holds 40% interest in He Shan County Hekong Associated Forwarding Co., Ltd., 52% interest in Deqing Kangzhou Container Transportation Company Ltd., 49% interest in Shenzhen Zhu Chuan International Freight Forwarding Co., Ltd., and 49% interest in Guangdong Zhu Chuan Navigation Co., Ltd.. The businesses of these jointly-controlled entities were conducted as usual without significant changes.

Outlook

Although it is generally expected that the global economy will improve in 2003, but there are still many uncertainties which might hamper the economic recovery. In Hong Kong, the economy is adversely affected by the weakening consumer spending and the persisting deflation and therefore, the overall business environment will remain difficult. In addition, the river trade cargo transportation markets between Guangdong and Hong Kong is still competitive. Moreover the Directors do not expect that the Group's core business in Hong Kong will improve sharply in the short run. Nonetheless, the current investment projects of the Group still benefit from the steady economic development in the PRC and will achieve better results. Accordingly, the Group will adopt a series of measures to improve its competitive advantage in the industry, including:

1. further strengthening internal management and cost control, restructuring and renovation of assets, and strictly adhering to the ISO 9001 management standard to improve current service quality and using multi-business models to provide more value-added services to its customers;

2. putting more efforts in market development, making advancements on the basis of its existing market share and optimizing the deployment of resources, and achieving further integration of existing businesses for more effective use of resources;

3. speeding up its computer network construction and utilization, improving work efficiency and the standard of customer service, fostering the flow of information between the Company and its clients and among business units, strengthening the supervision of jointly-controlled entities in the PRC and particularly striving to increase its shareholding in some jointly-controlled river wharfs in the PRD region to achieve synergy in business operation;

4. seeking more actively for investment opportunities, continuously improving the transportation network of the Group, increasing logistics infrastructure investment, actively and steadily engaging in capital operation, and securing more premium assets;

5. further researching and developing modern logistics management mode and operation mode, leveraging on the advantages of the Group in the PRD region such as its solid foundation, brand reputation, strong capital backing and established client base to seek for the market niche in developing modern logistics; and

6. while assuring to render the best services to our customers, we shall persist in the management rationale of people-orientation, strengthen the training of working skills for existing personnels, widely recruit talents from the society, and upgrade the quality of business so that they can adjust to the continuous development of business requirement.

The Directors believe that with its rich experience and connection networks accumulated in the relevant businesses, the Group can fortify its leading position in the industry by adopting effective measures, focusing on improvement and keeping abreast with the times. We are very confident in the development outlook of the Group.

Financial Review

Review of Financial Results

During the year, while profitability of the Group's core business declined due to severe competition in the industry, its investments in Mainland China made substantial contribution and benefitted from the strong growth in the PRC economy. As a result, the Group recorded a net profit from ordinary activities attributable to shareholders of HK$63,631,000 in 2002, representing an increase of HK$8,420,000, or 15.2%, as compared with last year, details of which are as follows:

	2002 **(HK$'000)**	2001 *(HK$'000)*	Amount changed *(HK$'000)*
Net profit from operating activities	**24,266**	34,496	(10,230)
Share of net profits of jointly-controlled entities	**39,365**	20,715	18,650
Net profit from ordinary activities attributable to shareholders	**63,631**	55,211	8,420

In 2002, the Group's net profit from operating activities decreased by HK$10,230,000, or 29.7%, to HK$24,266,000 as compared with last year. The decrease in net profit from operating activities were principally due to:

(1) a decrease of HK$9,883,000, or 10.3% in the gross profit from principal operation 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 outpaced the positive measures taken in cost control;

(2) a reduction of HK$12,586,000 for the year in respect of other revenue as compared with last year, which was due to a significant decrease in bank interest income as a result of consecutive reduction in bank interest rate without any sign of reversion in 2002;

In 2002, the Group's share of net profits of jointly-controlled entities was HK$39,365,000, which represented an increase of HK$18,650,000 as compared with last year. The substantial increase in share of net profits of jointly-controlled entities were principally due to:

(1) the effect of a 1.96% increase in traffic volume as compared with last year and adjustment in the toll standard on Guangfo Expressway Ltd., which contributed to an increase of HK$6,836,000 in the Group's share of net profit of the company;

(2) an increase in 2002 in the Group's share of net profit of Humen Company of HK$3,544,000 as a result of rising business volume in cargoes charged with higher rates as well as more effective cost control;

(3) relatively stable performance of the five newly acquired jointly-controlled wharfs in the PRC during the year, contributing HK$5,190,000 of profit attributable to the Group after deduction of the amortization of goodwill arising from the acquisition in the period; and

(4) the Group's share of loss of Air-Sea Union reduced by HK$3,533,000 in 2002, which was attributable to a change in the business model of the company, more focused market expansion and strong support from shareholders.

Dividend

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:

	Dividends 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	0.04	30,000	55,211	54.34%
2002 (proposed)	0.05	37,500	63,631	58.93%

* *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 2002, total shareholders' fund of the Group increased by HK$33,631,000 over last year mainly derived from retained profit during the year. The Group was also granted a credit facility of HK$19,300,000 by banks with which the Group was on friendly terms.

As at 31 December 2002, cash and cash equivalents held by the Group was HK$376,155,000 (2001: HK$401,206,000) or 35.2% of the total assets (2001: 38.9%), reflecting that the Group remained strong in liquidity.

As at 31 December 2002, the current ratio was 3.5 (2001: 3.6) and the debt ratio was 13.8% (2001: 13.9%). 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 2002, since bank facilities and other financing instruments of the Group had not been utilized, its gearing ratio was 0% (2001: 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 2002, cash and cash equivalents held by the Group, of which 78% was Hong Kong dollars, was deposited with several banks of good reputation in the following denomination:

	Amount *(HK$'000)*	**Percentage** *(%)*
HKD	293,098	78
USD	26,522	7
RMB	56,535	15
	376,155	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 trade 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 2002, net receivables amounted to HK$41,362,000, which was 8.8% less than that of last year, 80.0% 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 operations and investments 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 2002, save as the pledged bank deposits of HK$630,000 provided by the Group for the bank guarantee of HK$576,000 incurred in respect of deposits for leased properties, there was no other pledge of assets (see note 27 to the financial statements).

As at 31 December 2002, the Group did not have any significant contingent liabilities (see note 28 to the financial statements).

Capital Commitments

Details of capital commitments of the Group and the Company are set out in note 25 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 Group used all the remaining proceeds of approximately HK$48,820,000 from the new issue to satisfy a major portion of the consideration amounting to HK$52,280,000 for the acquisition of five jointly-controlled entities. As such, all of the net proceeds from the new issue upon the Company's listing in 1997 of approximately HK$205,000,000 have been utilized.

Employees

As at 31 December 2002, the Group hired approximately 304 employees (2001: 308 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$62,341,000 (2001: HK$71,589,000).

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.