

Management Discussion and Analysis

Review of Operations

During the year ended 31st December 2004, the Group recorded a consolidated turnover of HK\$614,022,000, an increase of 24.5% as compared with last year. Profit attributable to shareholders was HK\$83,670,000, representing an increase of 22.9% as compared with last year.

In 2004, Hong Kong economy has experienced a considerable improvement attributed to the substantial recovery of the global economy as well as the steady economic growth in Mainland China, the economic deflation which has dampening Hong Kong for some time was mitigated. In addition,

foreign trade remained its strong growth, whereas the confidence of the enterprises towards the future was strengthened. These factors contributed to a better operating environment for the transportation business as a whole, including the river trade transportation market between Guangdong and Hong Kong. Amidst a favourable external environment, the Group actively prepared itself by the way of cautious planning to capitalise the opportunities arisen from both the economic recovery in 2004 and the implementation of the Closer Economic Partnership Arrangement between Hong Kong and Mainland China ("CEPA"), resulting in a better growth of the core businesses of the





Group, namely the river trade transportation business and investment business, in particular, the substantial growth of container business further increased the Group's market share in the industry, thus enhancing its leading position in the industry of river trade transportation in the Pearl River Delta (the "PRD") region.

River trade transportation business

With its strong and sound business background, healthy and sufficient financial resources, extensive trade transportation network, solid experience in the industry and prestigious brand name, the Group manages to maintain its competitive edge in the river trade transportation industry and is one of the major suppliers of river trade transportation services with high reputation.

As mentioned above, leveraging on the benefits brought about by the continuing improvement of the external operating environment and the Group's



internal efforts in strengthening its market expansion, the growth momentum of river trade transportation business of the Group continued for the whole year. Major performance indexes of business operations are as follows:

Indicators	2004	2003	Change
Container transportation volume (TEU)	453,774	337,825	34.3%
Import and export of shipping agency business (voyages)	21,479	20,740	3.6%
Container handling volume (TEU)	248,522	201,466	23.4%
Volume of container hauling and trucking on land (TEU)	144,662	99,665	45.1%
Volume of break bulk cargoes handled (tons)	375,947	447,089	-15.9%

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As shown in the table above, all container related businesses recorded larger increments. In 2004, the overall container river trade transportation volume of Hong Kong increased by 10.0% , while the Group achieved a growth of 34.3%, far beyond the growth of the industry and further enhanced the Group's market share in the industry. Meanwhile, the increase in container transportation volume also generated substantial growth for the related wharf container handling, and hauling and trucking on land businesses. However, the Group's break bulk cargoes business was constrained by the intensified competition from other means of transportation and the macro-economic adjustment measures of Mainland China, which led to a decrease of 15.9% in the volume of break bulk cargoes handled.

The Group completed its acquisition of additional equity interests in Chu Kong Cargo Terminals (Gaoming) Co., Ltd. ("Gaoming Terminals"),

formerly known as "Foshan Gaoming Ming Chu Transportation Co., Ltd.", increasing its shareholdings in Gaoming Terminals from originally 50% to 99%, upon which Gaoming Terminals became a subsidiary of the Group. In 2004, Gaoming Terminals recorded a relatively significant growth, of which throughput volume of port and container import and export volume increased by 49% and 55% respectively.

Investment business

Following the implementation of CEPA, the Group strategically commenced its acquisitions of certain river wharfs in the PRD region and additional equity interests in those wharfs. Aside from the acquisition of additional equity interests in Gaoming Terminals, the Group also completed its acquisition of additional equity interests in Chu Kong Cargo Terminals (Kangzhou) Co., Ltd., formerly known as "Deqing Kangzhou Container Transportation Co., Ltd.", increasing its shareholdings from originally 52% to 60.83%; completed its acquisition of 75% shareholdings of Chu Kong (Guangdong) International Freight Forwarding Co., Ltd.; and newly jointly-invested and established Chu Kong Logistics (Singapore) Pte. Ltd., in which the Group held 60% shareholdings. During the year, the overall performance of the Group's investment business continued to be steady and made significant contributions to the Group's profit.

The Group newly jointly-invested and established Chu Kong Cargo Terminals (Beicun) Co., Ltd.



“Beicun Terminals”) in January 2005. The Group will invest HK\$15,094,000 and hold 50% equity interests in Beicun Terminals.

Major road repairs work conducted by Guangzhou-Foshan Expressway Ltd.

“Guangfo Expressway”) has been completed in September 2004, recording a 15.3% increase in the traffic volume during 2004 as compared with last year, ensuring revenue and profit for Guangfo Expressway during the year. The trading position of Shenzhen Yantian Port Zhujiang Logistics Co., Ltd. (“Yantian Logistics”) remained stable and sound with remarkable operating results, continuing the

growth momentum experienced in the second half of 2003. Other jointly controlled entities held by the Group recorded sound business developments during the year without significant changes.

Future Outlook

As Hong Kong has been steadily developed into a regional logistics centre and the solid growth of economy in the region covered by the industry, the Group is optimistic about the prospect of river trade transportation industry between Guangdong and Hong Kong. The Group has been accumulating extensive experiences in river trade transportation industry for 43 years, it has built up leading edge in



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business network and long-term good reputation in the industry. Its possession of hardware resources, extensive sales and operating network in the PRD region and the gradual acquisition of shareholdings in river wharfs in Mainland China will be continued to bolster the steady development of the Group's businesses.

In addition, in order to better serve the needs of the normal operation and long term development of the existing businesses, the Group is actively putting efforts in the consolidation of its internal resources, including taking initiatives to expand the

construction and application of electronic communication to cater for the development of modern logistics; enhancing efficiency and improving customer services, and facilitating information exchanges within production departments and between the companies and their clients. The Group has successfully obtained certificate of ISO9001 in 2001 and is continuously upgrading its existing quality of service pursuant to its management standards and requirements. The Group adheres to its management philosophy of "people-oriented" and offers intensive skill training to its existing staff, recruits competent expertise and



has established an effective working team, to equip itself for the ongoing needs of businesses on the growth. While the internal management and cost control will be further strengthened, the Group will also progressively replace part of its fixed assets to promote efficiency of operation in segments and maximise the potential of respective departments, whilst the potential safety issues of the operation will be minimised. Capitalising on its own competitive edge, the Group will continue to make related investments in Mainland China and Hong Kong, and will endeavour to explore international opportunities for the development of its overseas businesses in order to broaden the Group's international exposure. The Board remains confident about the future development of the Group.

Financial Review

Review of financial results

During the year, profitability of the Group's core business posted remarkable increase as the overall business volume rose significantly and the price



became stable. Benefited from the positive development of economy in Mainland China, the Group's investment projects performed steadily. The Group recorded profit attributable to shareholders of HK\$83,670,000 in 2004, representing an increase of HK\$15,601,000, or 22.9%, as compared with last year, details of which are as follows:

	2004	2003	Changes
	HK\$'000	HK\$'000	HK\$'000
Net operating profit*	40,792	19,251	21,541
Share of profit after taxation of jointly controlled entities	42,878	48,818	(5,940)
Profit attributable to shareholders	83,670	68,069	15,601

* Net operating profit represents operating profit after finance costs, taxation and minority interests.



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For the year 2004, the Group recorded net operating profit of HK\$40,792,000, an increase of HK\$21,541,000, or 111.9% over last year. The significant increase in net operating profit was mainly due to:

- (1) gross profit of the core business increased by HK\$33,125,000, or 41.0% as compared with last year. The increase was mainly attributable to the overall growth of the river trade transportation business of the Group, particularly the substantial growth of the container business. Meanwhile, the price level of the core business has become stable since late last year, contributing to the improvement of gross profit margin of the core business. Despite the relatively higher increase in labor cost for the year, it was partly offset by the significant increase in gross profit;
- (2) the transformation of Gaoming Terminals to a subsidiary during the year from a former jointly controlled entity, contributing a profit of HK\$6,758,000 to the core business;
- (3) expenses related to the payment of termination benefits arising from the rationalisation of manpower and the write-off of old office improvement in 2003.

During 2004, the Group reported a share of profit after taxation of jointly controlled entities of HK\$42,878,000, decreased by HK\$5,940,000 as compared with last year. The decrease was mainly due to the combined effect of the following:

- (1) the transformation of Gaoming Terminals to a subsidiary during the year from a former jointly controlled entity, resulting in a decrease in net profit of HK\$5,447,000;
- (2) a loss recorded by Guangdong Sanbu Passenger and Freight Transportation Co., Ltd. (“Sanbu Transportation”) during the year as a result of the significant downturn of the passenger transportation business. In 2004, the Group’s share of net profit of Sanbu Transportation decreased by HK\$3,096,000 as compared with last year;
- (3) a stable growth in profit recorded by Guangfo Expressway and Yantian Logistics during the year. The Group’s share of net profit of Guangfo Expressway and Yantian Logistics in 2004 increased HK\$1,533,000 and HK\$1,166,000 respectively as compared with last year.



Dividend

The Group has maintained a relatively stable dividend policy. The percentage of the profit attributable to shareholders to the amount of dividends paid (“Dividend coverage”) decreased in 2004, mainly for the consideration of capital requirement for the Group’s long-term development. The Group’s Dividend coverage in the past five years were as follows:

	Dividends per share	Total dividends	Profit attributable to shareholders	Dividend coverage
	HK\$	HK\$'000	HK\$'000	
2000	0.05	37,500	92,639	40.48%
2001	0.04	30,000	55,211	54.34%
2002	0.05	37,500	63,717	58.85%
2003	0.05	37,500	68,069	55.09%
2004 (proposed)	0.03	22,500	83,670	26.89%



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Liquidity and Financial Resources

As at 31st December 2004, total shareholders' funds of the Group increased by HK\$67,400,000 over last year, which were mainly derived from retained profit during the year. The Group obtained a credit facility of HK\$25,541,000 from its bankers, of which HK\$16,441,000 was utilised.

As at 31st December 2004, cash and cash equivalents held by the Group was HK\$261,515,000 (2003: HK\$304,758,000) or 21.2% of the total assets (2003: 27.3%).

As at 31st December 2004, the current ratio of the Group, represented by current assets to current liabilities, was 1.9 (2003: 2.6) and the debt ratio, represented by total liabilities to total assets, was 17.0% (2003: 14.5%). The Group's financial position remained healthy.

Given its sufficient cashflow and available banking facilities, coupled with the overall sound and stable financial position and its 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


The capital structure of the Group was constantly monitored by the Company. The use of all capital instruments, including banking facilities, by each subsidiary was under the central co-ordination and arrangement of the Company.

As at 31st December 2004, cash and cash equivalents held by the Group, of which 46% were Hong Kong dollars, were deposited with several banks of good reputation in the following denominations:

	Amount HK\$'000	Percentage %
HKD	120,124	46
USD	28,678	11
RMB	112,713	43
	261,515	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.



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 trade receivables. As at 31st December 2004, net trade receivables of the Group amounted to HK\$90,604,000, an increase of 3.6% over last year, which was mainly due to the significant increase in business volume, 92.4% of which was due and receivable within 3 months. The exposure to bad debts was controlled at a comfortable level.

Currently, the ordinary operations and investments of the Group are concentrated in Guangdong and Hong Kong, with operating revenue and expenditure mainly denominated in HKD, as well as in RMB and USD. RMB revenue from Mainland China may be used for payment of expenses of the Group denominated in RMB incurred in Mainland China. HKD or USD revenue received in Mainland China may be remitted to the Group's accounts in Hong Kong through proper procedures as planned. So long as the pegged rate system in Hong Kong is maintained, it is expected that the Group will not be subject to any significant exposure associated with fluctuation in exchange rates.

As at 31st December 2004, the Group pledged its fixed assets of approximately HK\$63,336,000 to secure bank loans. Except for a bank loan of RMB15,000,000, which bore interest at a fixed rate and will be fall due on 11th July 2005, the Group has no other borrowings as at 31st December 2004.

As at 31st December 2004, the counter-guarantees to banks in respect of bank guarantees provided to third parties by the Group amounted to HK\$2,290,000 (2003: HK\$1,450,000).

Capital Commitments

Details of capital commitments of the Group and the Company are set out in note 24 to the accounts.

The Group has sufficient financial resources, which include cash on hand and cash equivalents, cash from operating activities and available banking facilities, for the payment of capital commitments.

Employees

As at 31st December 2004, the Group has approximately 321 employees in Hong Kong, not including employees in jointly controlled entities. The remuneration of employees was determined on the basis of employees' job responsibility and individual performance. Other benefits available to eligible employees included share options, housing allowances and bonuses. The Group's remuneration policy ensures our competitiveness in the market.