

Report of the Directors



The front row (From left to right): Ms. Yau Lai Man (Independent non-executive director), Mr. Liang Yongjiu (Chairman), Mr. Chan Kay Cheung (Independent non-executive director), Mr. Choi Kim-Lui (Independent non-executive director).

The back row (From left to right): Mr. Ng Kin Yuen (Company secretary), Mr. Che Chiqiang (Managing director), Mr. Li Zhijie (Executive director), Mr. Yang Rixiang (Executive director).

The directors present their report and the audited accounts of the Company and of its subsidiaries (the “Group”) for the year ended 31st December 2004.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and jointly controlled entities are set out in notes 13 and 14 to the accounts respectively. There were no significant changes in the principal activities of the Group during the year.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 2 to the accounts.



Results and appropriations

The Group's results for the year ended 31st December 2004 is set out on page 33 of the annual report.

An interim dividend of HK1 cent per ordinary share was declared during the year, totalling HK\$7,500,000, which was paid on 27th October 2004. The directors recommend the payment of a final dividend of HK2 cents per ordinary share for the year, totalling HK\$15,000,000, to shareholders on the register of members on 23rd May 2005.

Financial summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 87 and 88 of the annual report. This summary does not form part of the audited accounts.

Fixed assets

Details of movements in the fixed assets of the Company and of the Group are set out in note 12 to the accounts.

Share capital

Details of movements in the Company's share capital during the year are set out in note 20 to the accounts.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 21 to the accounts.

Distributable reserves

As at 31st December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$132,898,000 of which HK\$15,000,000 has been proposed as final dividend for the year.

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.



Report of the Directors

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Mr. Liang Yongjiu

Mr. Che Chiqiang

Mr. Li Zhijie

Mr. Yang Rixiang

Independent non-executive directors:

Mr. Benjamin Pui-Tong Wong (resigned on 31st December 2004)

Mr. Chan Kay Cheung

Mr. Choi Kim-Lui (appointed on 8th September 2004)

Ms. Yau Lai Man (appointed on 1st January 2005)

In accordance with the bye-laws of the Company, Mr. Che Chiqiang, Mr. Choi Kim-Lui and Ms. Yau Lai Man 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. Liang Yongjiu**, aged 53, has been the chairman of the Company since June 2003 and is responsible for the strategic planning and policy making of the Group. He joined Chu Kong Shipping Enterprises (Holdings) Company Limited ("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 35 years of experience in marine transportation management and administration.



Directors' and senior managers' biographies *(continued)*

Executive Directors *(continued)*

- * **Mr. Che Chiqiang**, aged 42, 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 the United Kingdom with a master degree in international trade law. He is also a qualified lawyer in the PRC.
- * **Mr. Li Zhijie**, aged 43, 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 Transshipment & Logistics Company Limited ("CKTL"), 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. He has 24 years of experience in river trade transportation, inter-model transportation and cargo forwarding business.
- * **Mr. Yang Rixiang**, aged 41, has been a deputy general manager of the Company since October 2002, and has been an executive director of the Company since June 2003, and is responsible for management of the Group's jointly controlled entities and the river trade related investment appraisal work. He joined CKSE after his studies of postgraduate from Guangdong University of Foreign Studies in 1989. He holds a bachelor degree of economics. He worked at various subsidiaries of CKSE, holding the positions as manager and general manager subsequently. Mr. Yang is a qualified economist in the PRC and has over 15 years of experience in corporate management.

Independent Non-executive Directors

- * **Mr. Benjamin Pui-Tong Wong**, aged 70, is a director of John Swire & Sons (H.K.) Ltd. and a number of other companies in the Swire Group. He has served for 47 years in the shipping and marine related industries. He is also a member of the Committee of the Port & Maritime Board of Hong Kong. He resigned on 31st December 2004.
- * **Mr. Chan Kay Cheung**, aged 58, 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 Seas Food Investment Holdings Limited and China Electronics Corporation Holdings Company Limited.



Report of the Directors

Directors' and senior managers' biographies *(continued)*

Independent Non-executive Directors *(continued)*

- ✳ **Mr. Choi Kim-Lui**, 57, was appointed as the independent non-executive director of the Company on 8th September 2004. Mr. Choi graduated as a bachelor of social science at the Hong Kong University in 1972 and worked as a social worker in his early career years. In 1983, he joined as the executive director for the newly established Transward Limited and New Moonraker Motor Boat Company Limited to develop motor boat, tug boat, lighter and midstream operation services. Since then, he has actively participated in the trade associations of motor boats and lighters and has served as a member in the Marine Department's Port Operation Committee, Provisional Local Vessels Advisory Committee, Immigration Department's Users' Committee, Vocational Training Council's Maritime Services Training Board and Logistics Council's S-Logistics Project Group. He was appointed by the government of Hong Kong Special Administrative Region as a Non-Official Justice of Peace in 2002.
- ✳ **Ms. Yau Lai Man**, aged 41, was appointed as an independent non-executive director on 1st January 2005. Ms. Yau graduated from The University of Warwick in the United Kingdom with a master degree in business administration. She is a Certified Public Accountant (Practicing) in Hong Kong and is a fellow of The Association of Chartered Certified Accountants in the United Kingdom. She has over 15 years auditing and commercial experiences. Ms. Yau presently is the financial controller of Essex Bio-Technology Limited listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Senior Management

- ✳ **Mr. Xie Xiaohong**, aged 47, 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 CKTL. 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 24 years of management experience in shipping and wharf operations.
- ✳ **Mr. He Weijian**, aged 32, has been the financial controller of the Company since March 2003 and is responsible for the Group's financial management and control. He joined CKSE after his graduation from Shanghai Maritime University in the PRC in 1996 with a bachelor degree of economics, majoring in accounting. He is a qualified accountant and economist in the PRC. Mr. He has worked in the Company since 1998. He has over 9 years of experience in accounting and financial management.



Directors' and senior managers' biographies *(continued)*

Senior Management *(continued)*

- ✳ **Mr. Cheng Jie**, aged 35, has been the managing director of CKTL since July 2002, and is responsible for the corporate administration and policy making of CKTL. He joined CKSE in 1992. Mr. Cheng graduated from Shanghai Maritime University in the PRC in 1992 with a bachelor degree in international trade law. He was formerly a general manager of Waithai Trading Co., Ltd. in Thailand which was an associated company of CKSE. Mr. Cheng has over 12 years of experience in river trade transport and logistics.
- ✳ **Mr. He Weiping**, aged 52, 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 degree of engineering. 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 43, 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 23 years of experience in shipping, wharf operations and container truck transportation.

Directors' interests in the shares of the Company

Share options were granted to certain directors of the Company pursuant to the share option schemes of the Company. Details of the directors' interests in share options granted to the directors by the Company are set out under the section headed “Share Options” below.

Save as disclosed above, as at 31st December 2004, none of the directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests of short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified the Company and the Stock Exchange.



Report of the Directors

Share options

The Company operates share option schemes 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 schemes include any full-time employees (including executive directors) in the service of the Group.

On 10th May 2002, the share option scheme adopted on 7th May 1997 (the "1997 Scheme") ceased to operate. The share options granted previously under the 1997 Scheme will remain in force and effective.

On 14th May 2002, the Company adopted a new share option scheme (the "2002 Scheme") which, unless otherwise cancelled or amended, will remain in force for 10 years from the date of adoption. No share options have been granted under the 2002 Scheme since adoption.

The maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the Company's shares in issue at any time. At 31st December 2004, the number of shares issuable under share options granted under the 1997 Scheme was 45,000,000 (2003: 45,000,000) ordinary shares, which represented approximately 6.0% (2003: 6.0%) of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to an executive director or a chief executive are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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 at any time within 10 years commencing on the date when the option is granted.

The exercise price of the share options is determined by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of the offer of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options *(continued)*

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Details of the share options outstanding under the 1997 Scheme are as follows:

	Number of share option outstanding at 1st January and 31st December 2004	Exercise price	Grant date	Exercise period
Directors				
Mr. Liang Yongjiu	11,000,000	0.55	29th May 2000	29th May 2000 to 28th May 2010
Mr. Che Chiqiang	10,000,000	0.52	16th October 2000	16th October 2000 to 15th October 2010
	21,000,000			
Senior management	8,000,000	0.55	29th May 2000	29th May 2000 to 28th May 2010
Other employees	16,000,000	0.55	29th May 2000	29th May 2000 to 28th May 2010
	45,000,000			

During the year, no share options has been granted, exercised or lapsed.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 45,000,000 (2003: 45,000,000) additional ordinary shares of the Company and additional share capital of HK\$4,500,000 (2003: HK\$4,500,000) and share premium of HK\$19,950,000 (2003: HK\$19,950,000) (before issue expenses).

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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, subsidiaries and fellow 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.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries and its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial shareholders' interests and short positions in the share and underlying shares of the Company

So far as was known to any director of the Company, as at 31st December 2004, the interests of shareholders in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Ordinary shares of HK\$0.10 each in the Company

	Number of shares
(i) CKSE	562,500,000
(ii) Guangdong Province Navigation Holdings Company Limited ("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, as at 31st December 2004, the Company have not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register to be kept under Section 336 of the SFO.

Directors' interests in competing businesses

During the year, Mr. Li Zhijie, director of the Company was also director 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
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%
Pan Kong Cargo Transportation Co., Ltd.	25%

As the board of directors of the Company is independent from the boards of the above-mentioned companies 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 companies, CKSE and GPNHCL, and the subsidiaries, fellow subsidiaries and jointly controlled entities of CKSE and GPNHCL, are set out in note 26(a) to the accounts.

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.

The auditors of the Company have performed procedures on certain continuing connected transactions as disclosed in note 26(a) and reported that:

- (i) the shipping agency, river trade cargo direct shipment and transshipment income of HK\$169,000 charged to a related entity had been approved by the board of directors of the Company and conducted on terms no less favourable than terms available to independent third parties.



Report of the Directors

Connected transactions *(continued)*

- (ii) the shipping agency, river trade cargo direct shipment and transshipment income of HK\$2,400,000 charged to a fellow subsidiary had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreement governing the transactions, and the aggregate monetary value of the transactions did not exceed HK\$2,400,000 for the year ended 31st December 2004.
- (iii) the shipping agency, river trade cargo direct shipment and transshipment expenses of HK\$15,538,000 charged by a related entity had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions, and the aggregate monetary value of the transactions did not exceed 3% of the audited book value of the net tangible assets of the Group as disclosed in the audited consolidated accounts for the year ended 31 December 2003.
- (iv) the shipping agency, river trade cargo direct shipment and transshipment expenses of HK\$182,000, vessel rental expense of HK\$95,000 and office rental expense of HK\$1,000 charged by a related entity for the period from 30th November 2004 to 31st December 2004 had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions or conducted on terms no less favourable than terms available to independent third parties, and the aggregate monetary value of the transactions for the period from 30th November 2004 to 31st December 2004 did not exceed HK\$600,000.
- (v) the fuel charges of HK\$12,725,000 charged by a fellow subsidiary had been approved by the board of directors of the Company, conducted on terms no less favourable than terms available to independent third parties, and the aggregate monetary value of the transactions did not exceed HK\$13,100,000 for the year ended 31st December 2004.
- (vi) the vessel rental expenses of HK\$12,547,000 charged by a related entity had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions and the aggregate monetary value of the transactions did not exceed HK\$15,000,000 for the year ended 31st December 2004.
- (vii) the warehouse rental expenses of HK\$5,000,000 charged by the immediate holding company had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreement governing the transaction and the aggregate monetary value of the transaction did not exceed HK\$5,000,000 for the year ended 31st December 2004.



Connected transactions *(continued)*

- (viii) the office rental expenses of HK\$478,000 and HK\$42,000 charged by the immediate holding company and a fellow subsidiary respectively had been approved by the board of directors of the Company and entered into in accordance with the terms of the agreements governing the transactions.

- (ix) the crew hire charges of HK\$551,000 charged by a related entity had been approved by the board of directors of the Company, entered into in accordance with the terms of the agreements governing the transactions, and the aggregate monetary value of the transactions did not exceed HK\$10,000,000 and 3% of the unaudited book value of the consolidated net tangible assets of the Group as disclosed in the unaudited interim consolidated accounts for the six months ended 30th June 2004.

- (x) the staff hire charges of HK\$226,000 charged by a related entity had been approved by the board of directors of the Company and entered into in accordance with the terms of the agreement governing the transaction.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

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 shares during the year. The Company has not redeemed any of its listed shares during the year.

Report of the Directors

Disclosure under rule 13.22 of chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31st December 2004 required to be disclosed under Rule 13.22 of Charter 13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) is set out below:

	<i>HK\$'000</i>
Non-current assets	884,957
Current assets	93,242
Current liabilities	(274,884)
Non-current liabilities	(201,282)
Net assets	502,033
Share capital	237,652
Reserves	264,381
Capital and reserves	502,033

As at 31st December 2004, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$131,813,000.

Appointment of new independent non-executive directors and resignation of an independent non-executive director

The board of directors appointed Mr. Choi Kim-Lui as independent non-executive director, his duty began from 8th September 2004 and ended on the next Annual General Meeting. Mr. Choi Kim-Lui was also appointed as a member of the audit committee.

The board of director appointed Ms. Yau Lai Man as independent non-executive director and member of audit committee. Her duty began from 1st January 2005 and ended on the next Annual General Meeting.

Mr. Benjamin Pui-Tong Wong resigned for personal reason on 31st December 2004. The board of directors thanks for Mr. Wong for his valuable contribution to the Company.

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, throughout the year, 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.

Adoption of Model Code for securities transaction by directors

The Company has adopted a code of conduct prescribing standards and requirements no less than that required by the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The directors have complied with such code of conduct throughout the year.

Audit committee

The Company has an audit 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 audit committee comprises the three independent non-executive directors of the Company. The audit committee meets at least twice a year and has written terms of reference.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

ON BEHALF OF THE BOARD

Che Chiqiang

Managing Director

Hong Kong, 19th April 2005

