



# Management Discussion and Analysis

## Review of Operations

For the year ended 31st December 2006, the Group recorded a consolidated revenue of HK\$780,590,000, an increase of 24.8% as compared with last year. Profit attributable to equity holders of the Company was HK\$121,148,000, representing an increase of 34.5% as compared with last year.

During the year, the Group overcome the difficulties of increased market competition and persistent high operating costs such as oil prices, and recorded a greater increase in cargo volume by enhancing the cooperation with large ship companies and strengthening the marketing efforts, with container transportation volume and wharf container handling volume recording an increase of 29.8% and 27.3% respectively. Price of the petroleum remained stubbornly high during the year, which had some effect to the operating costs of the Group. The oil cost increased by more than HK\$8,400,000 as compared with last year, and has resulted in a slight drop in the operating profit margin of the Group for the year. However, during the year, adversities arising from surging oil prices were partially offset by the growth in varying major business segments of the Group. In addition, our investments in jointly controlled entities generally remained as an impressive profit contributor, representing an increase of 41.4% as compared with last year, and was a key attribute for a significant growth in profit attributable to shareholders of the Company during the year.





## 1. River trade transportation business

Benefiting from a stable economic growth in areas covered by the industry and further improvement of the marketing network between Guangdong and Hong Kong, the Group recorded an increase in the results of various business segments during the year. Performance statistics of our major business operations are as follows:

Indicators	Year ended		
	31st December		
	2006	2005	Change
Container transportation volume (TEU)	<b>619,826</b>	477,436	29.8%
Import and export of shipping agencies business (voyages)	<b>21,237</b>	20,785	2.2%
Container handling volume (TEU)	<b>405,688</b>	318,667	27.3%
Volume of container hauling and trucking on land (TEU)	<b>137,664</b>	136,579	0.8%
Volume of break bulk cargoes handled (tons)	<b>543,626</b>	451,413	20.4%

## 2. Investment business

The traffic volume of Guangzhou-Foshan Expressway Ltd. continued to grow steadily, recorded an 10.2% increase in 2006 as compared with last year. As a result, the toll income increased by 9.0% and the profit attributable to the Group increased by 19.5%.

Sanshui Sangang Containers Wharf Co., Ltd. ("Sanshui Sangang") reported a significant growth of 137% in its container handling volume through active steps in structuring cargo sources and widening new customer profile in the first half of the year. Accordingly, profit attributable to the Group from Sanshui Sangang increased by 87%. Foshan New Port Ltd. ("Foshan New Port") has been actively sourcing more type of goods for handling and new customers, trading volume for the year grew by 24.1% accordingly. The Group's share of profit in Foshan New Port increased substantially by 78%. Foshan Nankong Terminal Co., Ltd. ("Foshan Nankong") has been actively identifying new resources in the second half of the year and successfully applied for a public warehouse project, trading volume for the year grew by 51.0% accordingly. Profit attributable to the Group

by Foshan Nankong increased by 21.7%. The expansion work of Chu Kong Cargo Terminals (Beicun) Co., Ltd. was completed in October 2006 and the container handling business has commenced full operation.

Chu Kong Air-Sea Union Transportation Co., Ltd. ("Air-Sea Terminals"), of which 51% equity interest held by the Group, reported a significant increase in results by transforming the operating concept, exploring into new business segments and cooperating with major international logistics companies such as DHL. In 2006, Air-Sea Terminals posted a 35.2% and 84.3% growth in its bulk handling volume and container handling volume respectively. Together with effective cost controls, profit attributable to the Group from Air-Sea Terminals increased by HK\$1,412,000 as compared with last year.

During the year, Guangdong Zhu Chuan Navigation Co., Ltd. commenced the building of four container vessels, each with a capacity of 1,600 tons, with an estimated total cost of RMB20,000,000, which could significantly enhance the operating efficiency and overall competitiveness.



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The other joint ventures held by the Group performed well during the year with no abnormality.

On 16th January 2006, the Group entered into Development Agreement on Da Wang Chu Kong Port and Logistics Industry Sites with Management Committee of Guangdong Province Zhaoqing High Technology Industry Development Zone, pursuant to which the Group purchased a piece of land with an area of 400mu at a consideration of RMB29,000,000. During the year, the Group made a capital investment of HK\$29,000,000 to form two wholly owned subsidiaries, namely Zhaoqing Chu Kong Logistics (Da Wang) Co., Ltd. and Zhaoqing Chu Kong Cargo Terminals (Da Wang) Co., Ltd. which engage in the provision of wharf godown storage, transportation and other logistic services.

On 18th January 2006, the Group entrusted Chu Kong Shipping Enterprises (Holdings) Company Limited, the immediate holding company, to acquire the shares of transportation business (other than passenger transportation and duty free businesses) of Heshan Port at a consideration of approximately RMB12,764,000, which included 1% equity interest of Heshan County Hekong Associated Forwarding Co., Ltd and 50% equity interest in each of Heshan Port Construction & Development General Company, Heshan Shipping Company, Heshan Port Declaration Company, Heshan Port Storage & Transportation Company and Heshan Port Loading Co., Ltd. At present, various legal procedures are still underway.

On 13th September 2006, the Group acquired the operating right of Gaoyao Port in Zhaoqing City, Guangdong Province for one year by way of tender, with an annual rental of RMB6,000,000, and established a wholly owned subsidiary to run the wharf. On 30th March 2007, the Group acquired certain assets and land use rights located at Gaoyao Port at a consideration of RMB12,890,000.



On 13th March 2007, the Company entered into a “letter of intent of project cooperation” with Guangzhou Nansha Assets Operation Co., Ltd., intending to invest and construct a river and sea co-transportation wharf in Nansha. The wharf is situated on the west side of Guangzhou Nan Sha International Logistics Center and on the east bank of the waterway of Long Xue Island.

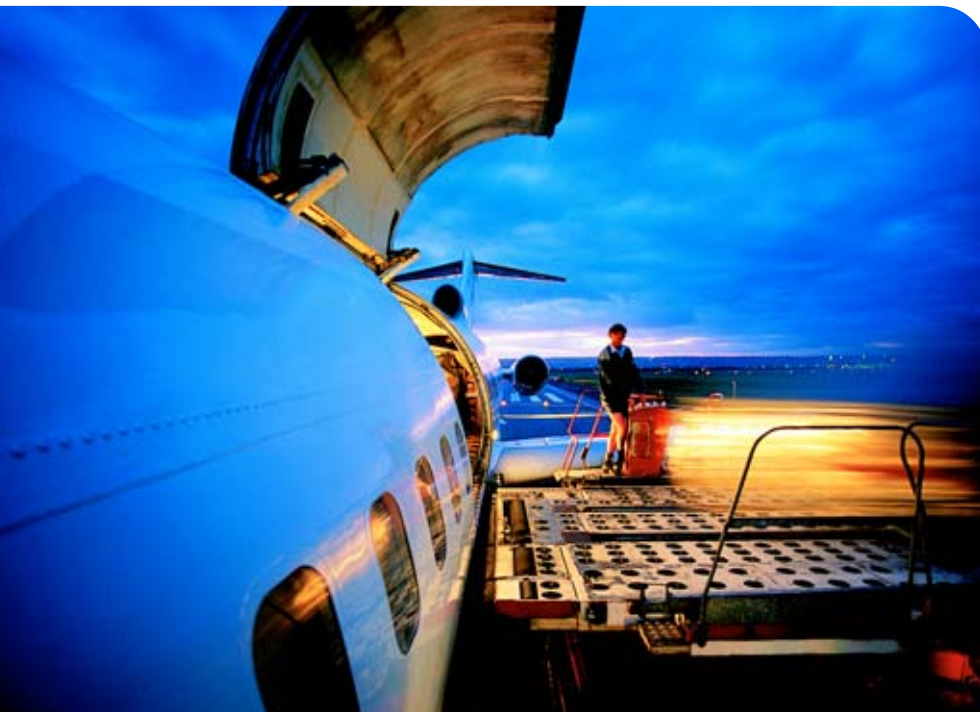
### Outlook

The Group maintained its growth in river transportation business and container business and enhanced its market share in the Pearl River Delta by stepping up internal control, enhancing the overall operation efficiency and human resources management, improving logistics information technologies and upgrading the marketing network and transportation network. Capitalising on the opportunities provided by CEPA policies and reduction in competition resulted from the retirement of state-owned operators, the Group purchased the river docks in the Pearl River Delta in a planned and strategic manner, thereby

improving the Group’s dock network in the Pearl River Delta, providing substantial support for the river transportation business of the Group, and enhancing the integrated profitability of the Group.

The Group will also endeavour to develop other new businesses related to its core business in order to support the proper development of the existing core business, and will meanwhile try to identify new sources of business growth and promote the business of “South China Shuttle”.

In light of the stable economic growth in Guangdong Province, in the People’s Republic of China (the “PRC”), the board of directors expects growth in river cargo transportation next year. As the external business environment is on an upward trend, together with the competitive advantages in the industry and the further consolidation of the internal resources of the Group, the board of directors of the Company is cautiously optimistic about the prospects of the Group in 2007.





# Management Discussion and Analysis

## Financial Review

### Review of financial results

The Group recorded profit attributable to the equity holders of the Company of HK\$121,148,000 in 2006, representing an increase of HK\$31,076,000, or 34.5%, as compared with last year, details of which are as follows:

	2006 HK\$'000	2005 HK\$'000	Changes HK\$'000
Net operating profit*	48,008	38,344	9,664
Share of profit after taxation of jointly controlled entities	73,140	51,728	21,412
Profit attributable to the equity holders	121,148	90,072	31,076

\* Net operating profit represents operating profit after net finance income, tax expense and minority interests.

For the year ended 31st December 2006, the Group recorded net operating profit of HK\$48,008,000, representing a growth of HK\$9,664,000 or 25.2% over last year, mainly due to:

- (1) Despite the increase of HK\$8,400,000 in oil cost of the main businesses, with the growth in various businesses of the Group in the year, the gross profit in 2006 is HK\$115,970,000 increased by HK\$12,237,000 or 11.8% over the previous year.

- (2) Other gains-net increased by HK\$5,112,000, or 154% to HK\$8,421,000 as compared with last year. The increase was mainly because the Group was benefited from the appreciation of RMB to HKD during the year.

During 2006, the Group reported a share of profit after taxation of jointly controlled entities of HK\$73,140,000, an increase of HK\$21,412,000, or 41.4% as compared with last year. The increase was mainly due to the following:

- (1) Guangfo Expressway recorded a higher traffic flow. The Group's share of profit reached HK\$52,434,000, an increase of 19.5% compared with last year; and
- (2) Profit of Foshan New Port Limited attributable to the Group was HK\$7,160,000, increased by 78.5% over the previous year. Profit of Foshan NanKong Terminal Co., Ltd. attributable to the Group was HK\$5,686,000, increased by 21.7% over the previous year. Profit of Sanshui Sangang Container Terminal Co., Ltd. attributable to the Group was HK\$3,271,000, increased by 87% over the previous year. Profit of Chu Kong Air-Sea Union Transportation Co., Ltd. attributable to the Group was HK\$1,678,000, up by 531.3% over the previous year.





## Dividend

The Group has maintained a relatively stable dividend policy. With reference to the current bank balance and cash on hand, the percentage of the profit attributable to the equity holders of the Company to the amount of dividends paid ("Dividend coverage") increased in 2006. The Group's Dividend coverage in the past five years were as follows:

	Dividends per share HK\$	Total dividends HK\$'000	Profit attributable to equity holders of the Company HK\$'000	Dividend coverage
2002	0.05	37,500	63,717	58.85%
2003	0.05	37,500	68,069	55.09%
2004	0.03	22,500	83,117	27.07%
2005	0.05	37,500	90,072	41.63%
2006 (proposed)	0.06	45,000	121,148	37.14%

## Liquidity and Financial Resources

The Group keeps close track of its circulating capital and financial resources in an effort to maintain a solid financial position. As at 31st December 2006, the Group secured a total credit limit of HK\$10,390,000 granted by bona fide banks of which HK\$8,400,000 remained unutilised.

As at 31st December 2006, the current ratio of the Group, represented by current assets to current liabilities, was 2.5 (2005: 2.62) and the debt ratio, represented by total liabilities to total assets, was 15.4% (2005: 14.5%).

As at 31st December 2006, the Group's bank balances and cash amount to HK\$348,991,000 (2005: HK\$320,891,000), which represents 24.3% (2005: 24.7%) of the total assets.

After considering its bank balances and cash, cash flow from operating activities, as well as the credit facilities available to the Group, it is believed that the Group has sufficient capital to fund its future operations and for business expansion and development.



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## 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 2006, bank balances and cash held by the Group, of which 42.6% were denominated in Hong Kong dollar, 10.3% in United States dollar and 47.1% in Renminbi, were deposited with several banks of good reputation in the following denominations:

	Amount HK\$'000	Percentage %
Hong Kong dollar	148,634	42.6
United States dollar	35,813	10.3
Renminbi	164,544	47.1
	348,991	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 the core business of the Group, emphasis of routine financial control is placed on the management of working capital, particularly the timely receipts of trade receivables. As at 31st December 2006, net trade receivables of the Group amounted to HK\$125,129,000, an increase of 8.6% as compared with last year, 93.8% of which was aged 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 Province 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 with USD is maintained, it is expected that the Group will not be subject to any significant exposure associated with fluctuation in exchange rate of USD. However, the recent fluctuation of exchange rate of RMB may affect the results of the Group to a certain extent.

As at 31st December 2006, the counter guarantees to banks in respect of bank guarantees provided to third parties by the Group amounted to HK\$1,990,000 (2005: HK\$1,990,000).

## Capital Commitments

Details of capital commitments of the Group and the Company are set out in note 30 to the financial statements.

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

## Employees

As at 31st December 2006, the Group employed 330 employees in Hong Kong and remunerated its employees according to the duty of their positions and market condition. Other staff benefits for eligible employees include share options, housing allowances, retirement benefits and bonuses.