



Report of the Directors





The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2006.

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 10 and 11 to the financial statements 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 5 to the financial statements.

Results and appropriations

The Group’s results for the year ended 31st December 2006 is set out on page 35 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 31st October 2006. The directors have proposed a final dividend of HK5 cents per ordinary share for the year, totalling HK\$37,500,000 to shareholders on the register of members on 25th May 2007.

Financial summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 97 of the annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movement in the property, plant and equipment and investment properties of the Company and the Group are set out in notes 6 and 7 to the financial statements respectively.

Share capital

Details of movement in the share capital of the Group during the year are set out in note 15 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 16 to the financial statements.

Distributable reserves

As at 31st December 2006, 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\$144,581,000 of which HK\$37,500,000 has been proposed as final dividend for the year.

Major customers and suppliers

During the year, 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 revenue and purchases for the year respectively.



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Directors

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

Executive directors:

Mr. Huang Liezhang (resigned on 29th May 2006)
Mr. Che Chiqiang (resigned on 29th May 2006)
Mr. Hua Honglin (appointed on 6th April 2006)
Mr. Yang Rixiang
Mr. Li Zhijie
Mr. Huang Shuping (appointed on 1st November 2006)

Independent non-executive directors:

Mr. Chan Kay Cheung
Mr. Choi Kim-Lui
Ms. Yau Lai Man

In accordance with the Articles of Association of the Company, Mr. Chan Kay Cheung and Ms. Yau Lai Man will retire by rotation and, being eligible, they 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 management's biographies

Executive Directors

Mr. Huang Liezhang, aged 40, had been the chairman of the Company since August 2005 and has resigned on 29th May 2006. Mr. Huang is responsible for the strategic planning and policy making of the Group. He joined Chu Kong Shipping Enterprises (Holdings) Company Limited ("CKSE") since July 2005 as the managing director. Mr. Huang studied at Jimei University from September 1985 to July 1988. He studied Business Administration in the Asia International Open University (Macau) from September 2002 to August 2004 and obtained a Master degree. He is also a professional economist in the People's Republic of China (the "PRC"). Mr. Huang has engaged in the shipping industry since 1988. He acted as the deputy managing director and general manager of Guangdong Pearl River Tanker Transportation Co., Ltd. from June 1999 to July 2005. He has over 18 years of experience in shipping management and business administration.

Mr. Hua Honglin, aged 39, has been the executive director the Company since 6th April 2006, and chairman of the Company since 29th May 2006, responsible for strategic planning, decision making on important matters and management of senior executives of the Group. He graduated as bachelor of accounting from Shanghai Maritime University (formerly Shanghai Maritime College) in 1991 and as MBA from Zhongshan University in 2002, and is now on-job doctor of corporate governance of Zhongshan University. He is a certified senior economist and accountant in the PRC. Mr. Hua once worked for Guangdong Province Navigation Holdings Co., Ltd., CKSE and its subsidiaries, with over 16 years of experience in shipping and corporate governance.



Mr. Che Chiqiang, aged 44, has been the managing director of the Company since September 2000 and resigned on 29th May 2006. Mr. Che 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 45, 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”), a wholly owned subsidiary of the Company, the chairman of Guangdong Hong Kong & Macau Freight Transport Trust Company and the chairman of Shenzhen Zhu Chuan International Freight Forwarding Co., Ltd. He has over 26 years of experience in river trade transportation, inter-modal transportation and cargo forwarding business.

Mr. Yang Rixiang, aged 43, was a deputy general manager of the Company since October 2002, and has been an executive director of the Company since 13th June 2003. He began to serve as managing director of the Company since 29th May 2006, responsible for managing the main businesses of the Group and organising executive directors to formulate corporate development strategies. 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 17 years of experience in corporate management.

Mr. Huang Shuping, aged 42, has been executive director of the Company since 1st November 2006. He graduated from Nanjing College of Navigation Engineering, majoring in port sea routes. He also acquired a diploma as master of economics from Guangdong Academy of Social Sciences. Mr. Huang also holds qualification certificates of marine works engineer and economist. He has over 22 years of experience in transportation before joining the Company.

Independent Non-executive Directors

Mr. Chan Kay Cheung, aged 60. He 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. Mr. Chan is a fellow member of the Hong Kong Institute of Bankers, advisory committee member on the Quality Migrant Admission Scheme of the Hong Kong Immigration Department and international senior economic consultant of The People’s Government of Shaanxi Province. He is also the Vice Chairman of The Bank of East Asia (China) Limited, an independent non-executive director of China Electronics Corporation Holdings Company Limited and Four Seas Food Investment Holdings Limited.

Mr. Choi Kim-Lui, aged 59, 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 University of Hong Kong 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 2003.



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Ms. Yau Lai Man, aged 43, 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 16 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 49, 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. Mr. Xie has resigned in August 2006.

Mr. Lu Xin, aged 40, has been the financial controller of the Company since September 2005 and is responsible for the Group’s financial management and control. He graduated from Shanghai Maritime University in 1989 with a bachelor degree of economics and obtained a postgraduate degree of accounting from the Zhongshan University in 2002. He joined CKSE in 1989 and acted as the financial manager of the Company during the period from 1996 to 1999. Mr. Lu is also a qualified accountant in the PRC. He has over 17 years of experience in accounting and financial management.

Mr. Chen Yu, aged 40, has been the managing director of CKTL since August 2005. He joined CKSE in 1991 and had worked for Waibert Stream Ship Co., Ltd and CKTL. Mr. Chen graduated from Shanghai Maritime University with a bachelor degree of international shipping. Mr. Chen has over 16 years of experience in river trade transport and marketing.

Mr. Hu Jun, aged 34, has been the managing director of Chu Kong Agency Company Limited (“CKA”), a subsidiary of the Company, since November 2005. Prior to joining CKSE in 1992, he had been worked for Waibert Steam Ship Co. Ltd., CKTL and Chu Kong (Guangdong) International Freight Forwarding Co., Ltd.. Mr. Hu graduated from University of South Australia with a Master degree in Business Administration. He is also a committee member of the local craft consulting committee in the Hong Kong Marine Department, officer of the Guangdong Shipowners Association, Hong Kong branch. He has over 15 years of experience in shipping management and marketing.

Mr. Yan Wenhai, aged 34, has been the managing director of Chu Kong Godown Wharf & Transportation Company Limited since March 2006. He had worked for Chu Kong (Guangdong) International Freight Forwarding Co., Ltd., Sanshui Sangang Containers Wharf Co., Ltd., Zhongshan Port Goods Transportation United Co., Ltd.. Mr. Yan obtained a master degree of engineering management in University of Technology, Sydney, and has over 14 years of experience of wharf operations and container truck transportation.



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 2006, no ordinary shares were issuable under share options granted under the 1997 scheme (2005: 18,000,000 ordinary shares, which represented approximately 2.4% 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 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 do not confer rights on the holders to dividends or to vote at shareholder's meeting.

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

	Number of share options outstanding			Exercise price HK\$	Grant date	Exercise period	Vested percentage	
	At 1st January 2006	Cancelled during the year	At 31st December 2006				2006	2005
Director								
Mr. Che Chiqiang	10,000,000	(10,000,000)	–	0.52	16th October 2000	16th October 2000 to 15th October 2010	N/A	100%
Senior management	8,000,000	(8,000,000)	–	0.55	29th May 2000	29th May 2000 to 28th May 2010	N/A	100%
	18,000,000	(18,000,000)	–					

During the year, Mr. Che Chiqiang, and Mr. Xie Xiaohong have resigned. Their options have been cancelled pursuant to the share option scheme. As at 31st December 2006, no share options are outstanding.

Directors' and executives' interests and/or short positions in the shares, underlying shares and debentures of the Company or any associated corporation

At 31st December 2006, the Company has not been notified of any interests and short positions of the directors and executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO.

Apart from the share option scheme, at no time during the year, the directors and executives (including their spouses and children under 18 years of age) had any interest in, or

had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors and executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its 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 shares of the Company

As at 31st December 2006, as recorded in the register required to be kept under Section 336 of the SFO, the following shareholders have 5% or more of the Company's share capital:

Ordinary shares of HK\$0.10 each in the Company

	Number of shares
(i) CKSE	562,500,000
(ii) Guangdong Province Navigation Holdings ("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 2006, the Company has 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 entity	Percentage of interests held by CKSE
Dou Men – Hong Kong Cargo Shipping Integrated Co., Ltd.	100%
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.

Sufficiency of public float

Based on the information that is available to and within the knowledge of the directors of the Company, it is confirmed that there is sufficient of public float of no less than 25% of the Company's issued shares as of the date of this report.



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Connected transactions

Details of connected party transactions with parent company, immediate holding company, fellow subsidiaries and related entities (which include an entity which is 49% and 51% owned by the Group and the parent company respectively, an entity which is 40% and 50% owned by the Group and the parent company respectively, an entity which is 75% and 25% owned by the Group and the parent company respectively, and an entity which is 25% and 15% owned by immediate holding company and parent company respectively) are included in the related party transactions as set out in notes 32(a) and 32(c) to the financial statements.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that these connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board of directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions (on a sample basis, if applicable) in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings on the selected samples basis (with the exception, if applicable) to the board of directors.

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 or sold any of the Company's shares during the year. The Company has not redeemed any of its listed shares during the year.

Subsequent events

Details of the subsequent events of the Group are set out in note 33 to the financial statements.





Compliance with the Code on Corporate Governance Practice

In the opinion of the directors, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the accounting period covered by this Annual Report, except that independent non-executive directors of the Company are not appointed for specific terms. They are subject to retirement by rotation at the Company's annual general meeting in accordance with the provisions of the Company's Articles of Association. Further information is set out in the Corporate Governance Report on pages 26 to 31 of this Annual Report.

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 during the accounting period covered by this Annual Report.

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

Remuneration Committee

The Company has established a remuneration committee in compliance with the Code to formulate the remuneration policy of the Company and determine the remunerations for the executive directors and senior management. The committee comprises three independent non-executive directors and one executive director of the Company. The committee meets at least twice a year and has written terms of reference.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

ON BEHALF OF THE BOARD

Yang Rixiang

Managing Director

Hong Kong

17th April 2007

