



Corporate Governance Report



The Company strives to improve the transparency of its corporate governance practices and maximise the return to its shareholders, and it keeps improving corporate governance by strengthening internal control and enhancing accountability and transparency.

Code on Corporate Governance Practice

The Stock Exchange of Hong Kong Limited requires that starting from 1st January 2005, listed companies must comply with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules. The Code consists of two parts:

Firstly, it is required to strictly observe the Code and explain any deviation therefrom; secondly, best practices are recommended, which listed companies are encouraged to follow.

Since 1st January 2005, the Company has been implementing Code on Corporate Governance Practices and following part of the recommended best practices as needed in its corporate governance. The Company will adopt more of the recommended best practices to further improve its governance.

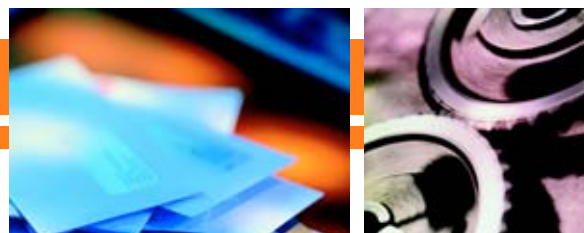
The board of directors

The board is responsible for establishing of the overall development strategy, operation and financial reporting of the Company, major acquisitions, substantial connected transactions, annual and interim results, proposed interim and final dividends, proposed appointment and re-election of directors, appointment of auditor, share issue and repurchase and other operation and financial matters relating to the Company.

Membership of board of directors: The board of the Company consists of four executive directors and three independent non-executive directors. The personal biographies of the directors are set out in the Report of the directors. The directors understand that they should fulfill their duties in the best interest of the Company and its shareholders.

Responsibilities of the chairman and managing director:

The chairman and managing director of the Company are not performed by the same individual so as to ensure the accountability and independence of the policy making process of the Company. The chairman of the Group is responsible for leading the board of directors, building the management of the Company, organising to formulate the



development strategies of the Company and coordinating investor relations. The managing director is responsible for managing the daily business operations of the Company, implementing the development strategies formulated by the board of directors, and developing modern logistics and information capabilities.

Directors of the Company: The Company forms its board of directors based on the characteristics and uniqueness of its operations to ensure that each director possesses the required experience and managerial expertise. In order to ensure the independence of the policy making process of the board and protect the interest of its shareholders, the Company appoints three qualified independent non-executive directors, which are professionals experienced in banking, finance or navigation. The Company undertakes to give them adequate access to the information of the Company and encourage them to discuss and provide independent opinions on matters of the Company.

All independent non-executive directors and executive directors of the Company are required to retire in rotation in accordance with the Articles of Association of the Company but, being eligible, can offer themselves for re-election. According to the Code, a service term of not over nine years is one of the key factors in determining the independence of an independent non-executive director. Mr. Chan Kay Cheung has served as such independent non-executive director for over nine years, but the Company believes that Mr. Chan can independently express opinions on matters of the Company.

Directors' responsibilities for financial statements:

During each financial period, the directors are responsible for the preparation of the financial statements that give a true and fair view of the state of affairs of the Group and of the results and cash flows during the relevant period. In preparing the financial statements for the year ended 31st December 2006, appropriate accounting policies are selected and applied consistently by the directors, made careful and reasonable judgements and estimates, and prepared the financial statements on an on-going basis. The directors are responsible for the filing of appropriate accounting records that reasonably and accurately disclose the financial position of the Company from time to time.

Board of directors meeting procedures: The board held regular meetings during the year to discuss the overall development strategy, operation and financial reporting of the Group. The time, agenda and related documents of the board meeting will be available to the directors at least 14 working days in advance to enable each director to fully understand the matters to be discussed and make an informed opinion. Each director has the right to seek independent professional advice in furtherance of his/her duties at the expense of the Company. No director has requested to seek professional advice as mentioned above during the year of 2006. In order to facilitate the exercise of power by the directors, the Company has already arranged suitable insurance in respect of the legal action threatened against the directors to indemnify them from the liabilities that may arise in the decision-making process of the Company.

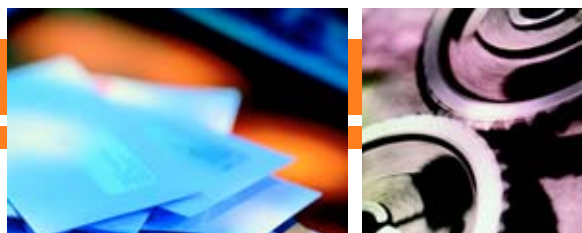
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During 2006, the attendance of the board members at the meetings of the board and its respective committees is as follows:

| | Board meeting | Audit Committee | Remuneration Committee |
|----------------------------------------------------------------------------|---------------|-----------------|------------------------|
| Mr. Huang Liezhang <i>(Chairman, resigned on 29th May 2006)</i> | 2/2 | N/A | N/A |
| Mr. Hua Honglin <i>(Chairman, appointed on 29th May 2006)</i> | 5/5 | N/A | N/A |
| Mr. Che Chiqiang <i>(Managing director, resigned on 29th May 2006)</i> | 2/2 | N/A | N/A |
| Mr. Yang Rixiang <i>(Managing director, appointed on 29th May 2006)</i> | 6/6 | N/A | 2/2 |
| Mr. Li Zhijie <i>(Executive director)</i> | 4/6 | N/A | N/A |
| Mr. Chan Kay Cheung <i>(Independent non-executive director)</i> | 6/6 | 3/3 | 2/2 |
| Mr. Choi Kim-Lui <i>(Independent non-executive director)</i> | 6/6 | 3/3 | 2/2 |
| Ms. Yau Lai Man <i>(Independent non-executive director)</i> | 6/6 | 3/3 | 2/2 |

Sub-committees of the board: In order to assist the directors to perform their responsibilities, the board of directors has set up an audit committee and a remuneration committee, both are chaired by an independent non-executive director with written terms of reference which were discussed and approved by the board of the directors. The duties of the two committees are as follows:

Audit Committee: The Audit Committee was established in 2001 to review the Company's financial reporting, internal control, appointment of auditor and corporate governance issues and make recommendations to the board. The Audit Committee consists entirely of independent non-executive directors, who are experienced in finance, internal audit or banking, and are therefore capable of providing expert opinions on the financial operations of the Company.



The committee comprises:

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

The Audit Committee held three meetings in 2006 with an attendance rate of 100% to review the following matters with the Company's senior management and independent auditor:

- Independent audit results of the Company;
- Accounting policies adopted by the Company and related financial statements;
- Draft annual report and interim report, which guarantee the completeness and accuracy of the financial statements of the Company;
- Internal risk control and internal audit of the Company; and
- Connected party transactions of the Company.

To further enhance the independence of the external independent auditor, part of the above meetings were only attended by the independent non-executive directors and independent auditor.

Remuneration Committee: The Remuneration Committee was established in 2005 and is chaired by an independent

non-executive director. The Remuneration Committee met twice in 2006 and the attendance rate is 100%. Currently, the Remuneration Committee comprises three independent executive directors and one executive director. The members of the Remuneration Committee are as follows:

Mr. Chan Kay Cheung – Chairman
 Mr. Choi Kim-Lui
 Ms. Yau Lai Man
 Mr. Yang Rixiang (executive director)

Functions of the Remuneration Committee include:

- To determination and review of remuneration packages; and
- To work out incentive schemes such as option and other proposals to the board.

Executive Directors' Remuneration: The remuneration of the executive directors of the Company mainly includes basic salary, bonus and directors' emoluments. The Company considers various factors in determining the remuneration such as market conditions, comparable companies and time spent on the affairs of the Company.

Remuneration of independent non-executive directors: The Company pays emoluments to independent non-executive directors. The Remuneration Committee will present a proposal to the board, and the board will make decisions based on market conditions.

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Directors' and Employees' Securities Transactions

The Company has adopted the requirements of the Model Code as set out in Appendix 10 of the Listing Rules regarding the securities transactions of the directors of the Company. The Company has received written confirmations from all directors that they have complied with the requirements of the Model Code for the year ended 31st December 2006.

The Company has also formulated written guidelines regarding the securities transactions of the employees of the Company that may expose to price-sensitive information. The requirements of the written guidelines are no less exacting than those set out in the Model Code. The Company recorded no non-compliance events during 2006.

Internal Control

The board of directors is responsible for the effective internal control system of the Company and reviewing the functions of the control system through the Audit Committee. The Company formulates procedure for internal risk monitoring. The Board authorised the senior management to implement the said internal control system

and held meetings regularly to review the effectiveness of the relevant financial, operational and compliance controls as well as risk management procedures and to make further improvement. The Audit Committee reports to the board about the internal control system regularly.

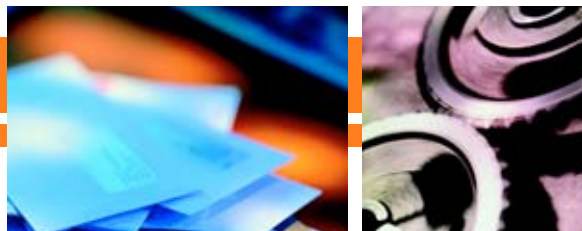
In the year, the Company did the following work relating to internal monitoring:

- Identifying risks and listing 42 possible major risks by reviewing the operational framework of the Company as a whole;
- Assessing risks and listing 21 risks to which the management should give top priority; and
- Implementing risk management, establishing risk management procedure, and making corrections and improvements by controlling and monitoring risks identified.

Auditor's remuneration

For the year ended 31st December 2006, the Company paid the auditor the following fees for audit and non-audit services:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|------------------------------|------------------|------------------|
| Audit services | 1,543 | 1,147 |
| Audit-related services | 232 | 263 |
| Taxation services and others | 336 | 96 |
| | 2,111 | 1,506 |



Relations with shareholders

The Company guarantees the shareholders' right to know, and communicate actively with shareholders. The Company will report by circular to shareholders any information that the shareholders need to know in accordance with the articles of association of the Company and the Listing Rules, and will at the same time make announcement in the Chinese and English newspapers. The Company's Website, www.cksd.com, is an important channel of the Company for information disclosure.

Annual general meetings are important occasions for direct dialogues between directors, senior executives and shareholders, and the Company attaches great importance to annual general meetings. All directors (including independent non-executive directors) and senior executives will try to attend the meetings, listen to shareholders' proposals in person, and answer questions raised by shareholders concerning the development strategies and operations of the Company. The Company welcomes shareholders to attend annual general meetings in person and express their opinions to the directors and the management.

Investor Relations and Communications

The Company regards investor relations of utmost importance. The Company discloses relevant information timely under the guidelines of the Listing Rules. The Company keeps institutional investors and analysts informed of the updates of the Company and gives responsive feedback to small and medium investors. The Company discloses its operational data on its website on a monthly basis to provide reference for the investors.

There are no amendments to the Articles of Association in 2006.