

# Management Discussion and Analysis

## Review of Operations

In 2003, the river trade transportation business carried out between the ports of Hong Kong and Pearl River Delta and related businesses remained the core business of the Group. In addition, the Group was engaged in investment business infrastructure such as roads and wharfs in Mainland China, as well as cooperation projects in relation to river trade transportation. The Group proactively modernised its information management system, sought logistics bases for the long term development of the Group and developed its own modern logistics system.

During 2003, the Group recorded a consolidated turnover of HK\$493,100,000, an increase of 9.4%

as compared with last year, while profit attributable to shareholders was HK\$68,069,000, representing an increase of 6.8% as compared with last year.

### 1. 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 business and one of the major suppliers of river trade transportation services with high reputation.





During the year, the overall operating environment in Hong Kong remained suppressed. This, together with the outbreak of SARS in Hong Kong in March 2003, heavily struck the Hong Kong economy. All industries were badly affected by the struggling economy, and the river trade transportation business, being the core business of the Group, was inevitably disturbed. Although the Group adopted measures to increase its efforts in promoting sales and reduce freight rate, to

the effect that container handling volume increased, profits from the Group's core business decreased due to factors such as the reduced gross profit margin, the one-off expenditure incurred in the old office improvement and the one-off payment of long service payments in relation to the rationalisation of manpower. At the same time, the trend of the decline in freight rate was under control by the end of 2003 and signs of a rebound were evident. It is expected that the situation will be improved in 2004.



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Performance information of major business operations:

| <b>Names of indicators</b>                                | <b>2003</b>    | 2002    | Changes |
|---|----------------|---------|---------|
| Container transportation volume (TEU)                     | <b>337,825</b> | 271,973 | 24.21%  |
| Import and export of shipping agencies business (voyages) | <b>20,740</b>  | 22,529  | -7.94%  |
| Container handling volume (TEU)                           | <b>201,466</b> | 170,199 | 18.37%  |
| Cargo storage (CBM)                                       | <b>38,492</b>  | 14,643  | 162.87% |
| Volume of break bulk cargoes handled (tons)               | <b>447,089</b> | 424,586 | 5.30%   |



## 2. Investment business

In May 2003, the Group purchased nine floors of Chu Kong Shipping Tower, with a total area of approximately 31,210 square feet, at a total consideration of approximately HK\$49,627,000 (including related professional fees of approximately HK\$2,060,000). The property is mainly for own use and most companies under the Group relocated their operations to Chu Kong Shipping Tower in January 2004. Therefore, the acquisition of the property will facilitate the communications within the Group as well as enhance the overall image of the Group, thereby benefiting the Group's long term development. It will also reduce the overall expenditure of the Group in the long run.

During the year, the Group completed the acquisition of additional equity interests in Foshan New Port Limited ("Foshan New Port"), Guangdong Sanbu Passenger and Freight Transportation Co., Ltd. ("Sanbu Passenger and Freight"), Foshan Gaoming Ming Chu Transportation Company Limited ("Gaoming Transportation") and He Shan County Hekong Associated Forwarding Company Limited ("He Shan Forwarding"). The Group's proportionate interests in Foshan New Port, Sanbu Passenger and Freight, Gaoming Transportation and He Shan Forwarding increased from 25% to

37.5%, from 25% to 40%, from 25% to 50% and from 40% to 49% respectively.

The Group will consider to further increase the proportionate shareholding interests in related jointly controlled wharf operators only when shareholders' long term interests are guaranteed. During the year, the Group also completed the capital injection into Qingyuan Chu Kong Shipping Port Company Limited ("Qingyuan Chu Kong"), and increase its shareholding in Qingyuan Chu Kong. At present, the Group holds 90% interest in Qingyuan Chu Kong, which officially commenced its operations in April 2003 and developed its business as scheduled.



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Due to factors such as the outbreak of SARS and major road repairs and maintenance, traffic volume recorded by Guangfo Expressway decreased by 12.4% as compared with last year. Nevertheless, benefiting from the adjustments in toll in July 2002, toll income of Guangfo Expressway in 2003 still increased by 1.7% when compared with last year. During the year, the Group's share of profits of Guangfo Expressway increased by 11.7% compared with last year. It is expected that profits will grow substantially after the completion of major repairs and maintenance.

During the year, Yantian Logistics underwent corporate restructuring, and introduced a new strategic shareholder into

Yantian Logistics while reconstructed its business development strategies and rationalised its resources portfolio, achieving promising results. Although Yantian Logistics had been affected by SARS to a certain extent, Yantian Logistics continued to record substantial profits in 2003. During the year, the Group's share of profits of Yantian Logistics increased by HK\$1,511,000 as compared with last year. It is expected that Yantian Logistics will continue to achieve substantial profit growth in 2004.

In 2003, by adopting effective measures such as strengthening internal management to enhance service quality, improving communications with its customers and shipping companies and stepping up promotion activities to explore new customers, the business operation of Foshan New Port recorded steady growth in the year, and its cargo throughput grows at a rate of 31.1%. During the year, the Group's share of profits of Foshan New Port increased by HK\$1,200,000 as compared with last year.

During the year, the business operations of other joint venture companies in which the Group holds shareholdings were conducted as usual without significant changes.



## Outlook

During 2003, despite the sluggish economy and intense market competition and the impact of SARS on the Group's core business, the trend of the decline in profit was under control and signs of a rebound were evident as mentioned above. Therefore, the Board is cautiously optimistic about the operating performance of the Group's core business in 2004. On the other hand, we will see the new momentum in Hong Kong's economic recovery gaining from the recently executed "Closer Economic Partnership Arrangement". We also believe that the arrangement will generate new business opportunities for the Group's business as well. Facing such challenges and opportunities, the Group will adhere to its development strategies to expand the business of the Group, which include

strengthening its existing business, improving third party logistics services, enhancing its market expansion efforts, widening the cargo transportation agency network, expediting the informatisation process, upgrading production facilities, strengthening the development and construction of logistics bases and the training of professionals for the business, establishing an effective promotion system and proactively seeking for new projects with reasonable yield. Capitalising on its own competitive edge, the Group will continue to make related investments in the PRC and Hong Kong, and will endeavour to explore international opportunities for the development of its overseas business. The Board remains confident about the future development of the Group.



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## Financial Review

### Review of financial results

During the year, while profitability of the Group's core business declined due to a drop in the freight rate as a result of severe competition in the industry, its investment projects in Mainland China made substantial contribution and benefited from the strong growth in the PRC economy. As a result, the Group recorded a profit attributable to shareholders of HK\$68,069,000, representing an increase of HK\$4,352,000, or 6.8%, as compared with last year, details of which are as follows:

|  | <b>2003</b><br><b>(HK\$'000)</b> | 2002<br>(HK\$'000) | Amount<br>changed<br>(HK\$'000) |
|--|----------------------------------|--------------------|---------------------------------|
| Operating profit                               | <b>19,251</b>                    | 24,352             | (5,101)                         |
| Share of profit of jointly controlled entities | <b>48,818</b>                    | 39,365             | 9,453                           |
| Profit attributable to shareholders            | <b>68,069</b>                    | 63,717             | 4,352                           |

During 2003, the Group's operating profit decreased by HK\$5,101,000, or 20.9% to HK\$19,251,000, as compared with last year. The decrease in operating profit was principally due to:

- (1) During the year, the gross profit of the core business decreased by HK\$5,503,000 (or 6.4%) when compared with last year. The decrease was attributable to the reduction in freight rate due to the impact of SARS and the intense competition within the industry, the one-off expenditure incurred in the old office improvement and the one-off payment of long service payments in relation to the rationalisation of manpower.
- (2) During the year, other income decreased by HK\$3,334,000 when compared with last year, mainly resulting from the cut in the bank's interest rate and the reduction in the amount of bank deposits, which led to a significant drop in the interest income.



During 2003, the Group's share of profit of the jointly controlled entities was HK\$48,818,000, representing an increase of HK\$9,453,000 when compared with last year. The substantial increase in the share of profit of the jointly controlled entities was mainly due to:

- (1) Guangfo Expressway benefited from an adjustment in toll. Therefore, the Group's share of profit of Guangfo Expressway increased by HK\$3,973,000 from last year;
- (2) Yantian Logistics underwent corporate restructuring, reconstructed its business development strategies and rationalised its resources portfolio, achieving promising results. Therefore, the Group's share of the profit of Yantian Logistics increased by HK\$1,511,000 from last year;
- (3) By enhancing the service quality, improving communications and operating flexibly, Foshan New Port recorded substantial growth in its business. Therefore, the Group's share of profit of Foshan New Port increased by HK\$1,200,000 from last year;
- (4) The non-operating cost of Sanbu Passenger and Freight decreased substantially. Therefore, the Group's share of profit of Sanbu Passenger and Freight increased by HK\$1,128,000 as compared with last year.





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## Dividend

The Group's dividend policy is to provide stable ordinary share dividends which will be declared in line with the net profit of the Group. The amount of dividends paid by the Group in the previous years as a percentage of the profit attributable to shareholders ("Dividend Coverage") for each of the years are as follows:

|                 | <b>Dividends<br/>per share<br/>(HK\$)</b> | <b>Total<br/>dividends<br/>(HK\$'000)</b> | <b>Profit<br/>attributable to<br/>shareholders<br/>(HK\$'000)</b> | <b>Dividend<br/>coverage</b> |
|-----------------|---|---|---|------------------------------|
| 1997            | 0.04                                      | 30,000                                    | 162,975*  | 18.41%                       |
| 1998            | 0.04                                      | 30,000                                    | 82,325  | 36.44%                       |
| 1999            | 0.05                                      | 37,500                                    | 95,112  | 39.43%                       |
| 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 (proposed) | 0.05                                      | 37,500                                    | 68,069  | 55.09%                       |

\* Profit attributable to shareholders in 1997 included special income of HK\$68,653,000, being the interest income generated from the proceeds of the initial public offering of the Company.

## Liquidity and Financial Resources

As at 31st December 2003, total shareholders' funds of the Group increased by HK\$31,464,000 over last year mainly derived from retained profit during the year. The Group was also granted a credit facility of HK\$20,390,000 by banks on friendly terms.

As at 31st December 2003, cash and cash equivalents held by the Group was HK\$304,758,000 (2002: HK\$376,785,000) or 27.3% of the total assets (2002: 35.3%), reflecting that the Group remained strong in liquidity.

As at 31st December 2003, the current ratio was 2.6 (2002: 3.5) and the debt ratio was 14.5% (2002: 13.9%). The Group's financial position continued to be healthy.

Given sufficient liquid capital and unutilised banking facilities, and the overall sound and stable financial position and 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 controlled and monitored by the Company. The use of all capital instruments, including banking facilities, by each subsidiary was uniformly organised and arranged by the Company.

As at 31st December 2003, cash and cash equivalents held by the Group, of which 62% were Hong Kong dollars, were deposited with several banks of good reputation in the following denomination:

|     | Amount<br>(HK\$'000) | Percentage<br>(%) |
|-----|----------------------|-------------------|
| HKD | 189,766              | 62                |
| USD | 33,389               | 11                |
| RMB | 81,603               | 27                |
|     | 304,758              | 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. There was no material change in its financial condition during the year.

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 receivables. As at 31st December 2003, net receivables amounted to HK\$41,398,000, which was largely the same as last year, 77.4% of which was due and receivable in less than 3 months. The risk of exposure to bad debts was controlled at a comfortable level.

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

As at 31st December 2003, the Group did not have any significant contingent liabilities.

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### **Capital Commitments**

Details of capital commitments of the Group and the Company are set out in note 23 to the accounts.

The Group has sufficient financial resources, which include cash on hand and cash equivalents, cash arising from operation and banking facilities, for the payment of expenses in respect of capital commitments.

### **Employees**

As at 31st December 2003, the Group hired approximately 300 employees (2002: 304 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 market conditions. Other benefits available to eligible employees included share options, housing allowances and bonuses. The Group's remuneration policy ensures our competitiveness in the market.