

Directors

Report of the Directors



The front row (From left to right): Mr. Chan Kay Cheung (Independent non-executive director), Mr. Liang Yongjiu (Chairman), Mr. Benjamin Pui-Tong Wong (Independent non-executive director).

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

The directors present their report and the audited accounts of the Group for the year ended 31st December 2003.

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 respectively to the accounts. 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.

Report of the Directors

Results and appropriations

The Group's results for the year ended 31st December 2003 is set out on page 31 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 22nd October 2003. The directors recommend the payment of a final dividend of HK4 cents per ordinary share for the year, totalling HK\$30,000,000, to shareholders on the register of members on 3rd May 2004.

Financial summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 77 and 78 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 19 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 20 to the accounts.

Distributable reserves

As at 31st December 2003, 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\$152,071,000 of which HK\$30,000,000 has been proposed as a 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.



Directors

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

Executive directors:

Mr. Yang Liansheng (resigned on 13th June 2003)

Mr. Liang Yongjiu

Mr. Che Chiqiang

Mr. Li Zhijie

Mr. Yang Rixiang (appointed on 13th June 2003)

Independent non-executive directors:

Mr. Benjamin Pui-Tong Wong

Mr. Chan Kay Cheung

In accordance with the bye-laws of the Company, Messrs. Li Zhijie and Chan Kay Cheung 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 management's biographies

Executive directors

- **Mr. Yang Liansheng**, aged 57, chairman, resigned on 13th June 2003. He has been the chairman and the legal representative of Guangdong Province Navigation Holdings Company Limited ("GPNHCL") since August 1997, and the chairman of Chu Kong Shipping Enterprises (Holdings) Company Limited ("CKSE") since September 1997. He was the deputy director of the Office of the Marine Safety Command Headquarters of the Guangdong Provincial Government from 1988 to 1991 and the division chief of the Communication Division of the Economic Committee of the Guangdong Provincial Government from 1991 to 1997. He graduated from the Dalian Maritime Naval Ships Institute in the People's Republic of China (the "PRC") in 1967. He has over 26 years of experience in the communications industry.

Directors' and senior management's biographies *(Continued)*

Executive directors (Continued)

- **Mr. Liang Yongjiu**, aged 52, had been the vice-chairman of the Company since September 2000, and has been the chairman of the Company since 13th June 2003 and is responsible for the strategic planning and policy making of the Group. He joined 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 34 years of experience in marine transportation management and administration.
- **Mr. Che Chiqiang**, aged 41, 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's degree in international trade law. He is also a qualified lawyer in the PRC.
- **Mr. Li Zhijie**, aged 42, 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 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. since that year. He has over 23 years of experience in river trade transportation, inter-modal transportation and cargo forwarding business.
- **Mr. Yang Rixiang**, aged 40, has been a deputy general manager of the Company since October 2002, and has been an executive director of the Company since 13th 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 graduation from Guangdong University of Foreign Studies in 1989 with a bachelor of economics degree. 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 14 years of experience in corporate management.

Directors' and senior management's biographies *(Continued)*

Independent non-executive directors

- **Mr. Benjamin Pui-Tong Wong**, aged 69, is a director of John Swire & Sons (H.K.) Ltd. and a number of other companies in the Swire Group. He has served for 46 years in the shipping and marine related industries. He was a committee member of Hong Kong Port Development Board. He was also a committee member of Shipping and Port Development Committee, which belongs to Hong Kong Port & Maritime Board. He is an independent non-executive director of Standard Bank Asia Limited.
- **Mr. Chan Kay Cheung**, aged 57, 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 eFood Holdings Limited and Winsan (China) Investment Group Company Limited.

Senior management

- **Mr. Xie Xiaohong**, aged 46, 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 23 years of management experience in shipping and wharf operations.
- **Mr. He Weijian**, aged 31, 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 of economics degree, 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 8 years of experience in accounting and financial management.
- **Mr. Cheng Jie**, aged 34, 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 is an associated company of CKSE. Mr. Cheng has over 11 years of experience in river trade transport and logistics.

Directors' and senior management's biographies *(Continued)*

Senior management (Continued)

- **Mr. He Weiping**, aged 51, 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 of engineering degree. 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 42, 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 22 years of experience in shipping, wharf operations and container truck transportation in the PRC.

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 2003, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or 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 to the Company and the Stock Exchange.



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 "Old Scheme") ceased to operate. The share options granted previously under this Old Scheme will remain in force and effective.

On 14th May 2002, the Company adopted a new share option scheme (the "New 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 New 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 2003, the number of shares issuable under share options granted under the Old Scheme was 45,000,000 (2002: 59,000,000) ordinary shares, which represented approximately 6.0% (2002: 7.9%) of the Company's shares in issue as at that date. The maximum number of shares issuable under share option scheme 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.

Report of the Directors

Share options (Continued)

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 shareholders' meeting.

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

	Number of share options outstanding			Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	At 1st January 2003	Cancelled during the year	At 31st December 2003				
Directors							
Mr. Yang Liansheng	7,000,000	(7,000,000)	-	1.55	11th December 1997	11th December 1997	10th December 2007
	7,000,000	(7,000,000)	-	0.55	29th May 2000	29th May 2000	28th May 2010
Mr. Liang Yongjiu	11,000,000	-	11,000,000	0.55	29th May 2000	29th May 2000	28th May 2010
Mr. Che Chiqiang	10,000,000	-	10,000,000	0.52	16th October 2000	16th October 2000	15th October 2010
	35,000,000	(14,000,000)	21,000,000				
Senior management	8,000,000	-	8,000,000	0.55	29th May 2000	29th May 2000	28th May 2010
Other employees	16,000,000	-	16,000,000	0.55	29th May 2000	29th May 2000	28th May 2010
	59,000,000	(14,000,000)	45,000,000				

Note:

Following the resignation of Mr. Yang Liansheng as director of the Company, 14,000,000 share options granted to him under the Old Scheme were cancelled during the year.

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 (2002: 59,000,000) additional ordinary shares of the Company and additional share capital of HK\$4,500,000 (2002: HK\$5,900,000) and share premium of HK\$19,950,000 (2002: HK\$33,250,000) (before issue expenses).



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 and subsidiaries a party to any arrangement to enable the Company’s directors, their respective spouses 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’ in the shares of the Company

So far as was known to any director of the Company, as at 31st December 2003, 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)	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 2003, 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 the 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
Huadu Port Goods Transportation United Co., Ltd.	25%
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 company, CKSE, and the subsidiaries, fellow subsidiaries and jointly controlled entities of CKSE, are included in the related party transactions as set out in note 25(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.

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 exercised during the year.

Purchase, redemption or sale of the Company's listed securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.



Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 26 to the accounts.

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 Rules Governing the Listing of Securities on the Stock Exchange, 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.

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

Auditors

The accounts for the two years ended 31st December 2001 and 2002 were audited by Ernst & Young who retired and did not offer themselves for re-appointment. PricewaterhouseCoopers were nominated as the new auditors in place of the retiring auditors of the Company. The accounts for the year ended 31st December 2003 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

14th April 2004

