

Management discussion and analysis

Business Review

In view of its strategic geographical location, the Hong Kong market remained the single most important contributor to the Group's total revenue, accounting for up to 63.2 percent during the year to 31st July 2000. The Group has been able to benefit from Hong Kong's logistics hub position to ship goods manufactured in the Pearl River Delta to destinations all over the world.

Most of our subsidiaries in Hong Kong performed well during the year. The performance of our associated companies was also outstanding with turnover growing by a significant percentage.

Our various offices in Mainland China have also been on the right track of development by achieving good business growth during the year.

In other Asian markets, the Group's growth was driven by the general economic upturn. In terms of turnover, BALtrans' offices in Singapore, Malaysia, and Thailand were able to grow substantially during the period. PT NEWJAS BALtrans Indonesia, our joint venture company with New Japan Air Service Co. Ltd. set up in Indonesia in August 1999, has also been performing well and contributing to the Group's profits.

Owing to a strong US economy and growing trade volume between the Far East and the US, most of our offices in the US managed to register good performance. The star performers were Chicago, San Francisco and New York, which achieved turnover growth of 30 percent, 16 percent and 14 percent respectively. The Group's associated company in Canada also saw growth and contributed to the Group's profits.

The Group's air freight operation sustained strong performance during the year. Spurred by strong demand in the United States and Asia, the Group's air freight operation achieved a high growth rate during the year. On the other hand, the competition for sea freight orders remained intense. Despite that, the Group's sea freight operation managed to maintain its business volume at the same level as the previous year.

We firmly believe that third-party logistics is an area that promises significant potential for growth. The Group has therefore been keen to increase its third party logistics activities. Although at present contribution from our third-party logistics services is still relatively minor, we are confident that it will grow in the foreseeable future.

The Group's household and exhibition forwarding business registered only a relatively low growth rate during the year mainly because the number of trade shows and exhibitions in the Mainland China had still not been growing significantly.

The Group's new services will be focused mainly on the traffic between the US and the Middle East as well as the Indian Sub-continent.

Liquidity, Financial Resources and Funding

Basically the Group's working capital requirement has been financed by its internal resources. As at 31st July 2000, the Group possessed cash and cash equivalent of HK\$150.66 million (1999: HK\$93.94 million). The Group's cash requirements were primarily for the procurement and enhancement of computer-related and warehousing equipment. Spending on fixed assets remained at more or less the same level as the previous year. In the year to 31st July 2000, HK\$4,276,000 (1999: HK\$5,785,000) were paid for the purchases of fixed assets. Net cash for investment was used mainly in investment activities related to the Group's subsidiaries and associated companies. In the year under review, HK\$896,000 (1999: HK\$9,376,000) and HK\$6,050,000 (1999: HK\$4,800,000) were invested in subsidiaries and associated companies respectively. The Group has entered into agreement with a third party to whom the Group will sell part of its properties at a consideration of HK\$13.30 million. The transaction is scheduled for completion in early 2001.

The Group's funding requirements have also been mainly financed by internal resources. Only a small amount of overdraft facilities were or would be utilized. The Group's banking facilities are used mainly for the purpose of securing bank guarantees required by suppliers.

The Group's borrowings were mainly in Hong Kong Dollars. Overdraft facilities were granted to the Group at the normal market interest rate.

Since the Group usually conducts its business transactions in Hong Kong Dollars and US Dollars, there is seldom the need to make use of financial instruments for hedging purposes.

As a matter of principle, the Group would allow adequate working capital in overseas subsidiaries and transfer excessive funds back to the head office. Some of our overseas subsidiaries would use overdraft facilities in foreign currencies but the amounts involved would usually be too small to necessitate hedging.

It should be noted that during the period under review there was no significant deviation from the policies above.

Over 90 percent of the Group's cash is in either Hong Kong Dollars or US Dollars. The exposure to exchange fluctuation is minimal. The gearing ratio (total liabilities/total shareholders' funds) for the year was 0.94 (1999: 0.93).

Charges on Group Assets

The whole first floor of Sunshine Kowloon Bay Cargo Centre was charged to a Bank in exchange for general banking facilities for the Group. The Group has placed fixed deposits totalling HK\$2.5 million (1999: HK\$1.1 million) as securities for banking facilities extended to the Group's subsidiaries.

Core Investments and Acquisitions

The BALtrans agency network, Fondair agency network and Supreme agency network constituted the core investments of the Group during the year. To us, the future prospects of these investments are promising, given the sustainable prosperity of the US Economy.

In August 1999, the Group acquired 10.25 percent of the shares from the minority shareholders of Supreme Airfrt Investment Co. Ltd., thus making it a wholly owned subsidiary of the Group.

Again in August 1999, we set up jointly with New Japan Air Service Co. Ltd., an associated company in Indonesia, PT NEWJAS BALtrans Indonesia. The Group owns 40 percent of the shareholding of this joint venture.

In November 1999, we set up a wholly owned subsidiary in Singapore - BALtrans International Logistics Pte Limited for developing the third-party logistics business.

In December 1999, we acquired a further 25 percent interest in Korchina Freight Limited in Hong Kong from a shareholder, thus increasing our shareholding to 50 percent.

Subsequent to year end, the Group has entered into a Sale and Purchase Agreement (Agreement) to acquire 20 percent equity interests in Fondair Express (HK) Limited from Mr C.C. So and Mr C.F. So at the aggregate consideration of HK\$19,276,384, subject to adjustment, which has been arrived at after arm's length negotiations between the parties to the Agreement. This acquisition is subject to approval of the independent shareholders at a special general meeting. A circular has been issued to Shareholders to inform them of this transaction. Apart from this acquisition, there is no material investment plan or capital commitment.

On 16th February 2000, the Group received a proposal by an investor to acquire part of the Group's freight forwarding business. Initial discussion took place but no conclusion was reached.

Contingent Liabilities

As at 31st July 2000, the Group had contingent liabilities in respect of counter indemnities for bank guarantees totalling approximately HK\$16.1 million (1999: HK\$12.1 million) given to third parties. In addition, the Group has provided guarantees to banks in respect of banking facilities granted to associated companies and third parties amounting to HK\$8.0 million (1999: HK\$2.8 million) and HK\$ Nil (1999: HK\$4.6 million) respectively. As at 31st July 2000, the banking facilities guaranteed by the Group to the associated companies and third party had been utilised to the extent of HK\$6.0 million (1999: HK\$1.7 million) and HK\$ Nil (1999: HK\$ 0.7 million) respectively.

Staff and Employment

As at 31st July 2000, the Group employed a workforce of 473 (1999: 468). Total staff remuneration was HK\$88,450,000, including pension expenses of HK\$3,173,000 (1999: HK\$81,640,000, including pension expenses of HK\$3,749,000). No share option was granted to staff during the year.

The Group's remuneration policies, including both salaries and bonuses, are in line with the local practices where the Group and its subsidiaries operate.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are related directly or indirectly to the Group's businesses.