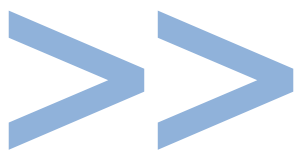




Management and Discussion Analysis

Third-party logistics continued to be a high growth area. There is good potential for further growth in the years ahead.



Business Review

Hong Kong

Hong Kong remained the Group's major revenue source, contributing to about 62.7 percent of the Group's total turnover for the year ended 31st July 2001 (2000: 63.2 percent). As a result of the US economic downturn, the Hong Kong market experienced an overall decline in turnover. Our subsidiaries in this market were impacted in much the same way.

The decline in business volume was attributable mainly to a drop in tonnage in the Group's airfreight business due to the US slowdown. However, profit margin improved as a result of a better mixture of traffic.

The Group's sea freight business in Hong Kong remained stable, registering a 6.7 percent growth in business volume.

In line with our earlier predictions, third-party logistics continued to be a high growth area. Turnover grew by an encouraging 23 percent in the year under review. In absolute terms, the contribution of this segment was still relatively small but we are confident that there is good potential for further growth in the years ahead.

In Hong Kong, our exhibition forwarding business performed well during the year whereas household removal and fine art packing also registered steady growth.

Mainland China

Our various offices in the Mainland have been making progress in terms of development and continued to provide important operational support to the Group's sales offices overseas, thereby raising their productivity, efficiency and profitability. Such support was provided mainly out of Shanghai and was focused largely on airfreight.

Other Asian Markets

Performance was mixed in other Asian markets. In Singapore, our acquisition of business from several other smaller local forwarders enabled us to achieve a growth in turnover of 40 percent. In Indonesia, our joint venture company, PT NEWJAS BALtrans Indonesia, continued to perform well by achieving a healthy growth in business of 20 percent. However, Malaysia and Thailand came under the impact of the US slowdown more severely by registering double-digit turnover decline.

Services

Airfreight

Airfreight remained the Group's most important business segment, contributing to nearly 75 percent of the Group's total turnover during the year under review.

Compared with the previous year, there was a decline in business volume of 19 percent. However, we were able to achieve a higher gross profit margin due to a better mixture of traffic.

Sea Freight

Sea freight contributed to almost 17 percent of the Group's total turnover. While we achieved a growth in business volume of about 7 percent, profit shot up by a strong 73 percent over the previous year. This outstanding growth in sea freight profit was the result of marketing success, product diversification and tailoring our services to individual customers' needs.

Third-party Logistics

Although third-party logistics contributed to just about 3 percent of the Group's total turnover, we detected an increasingly obvious trend of outsourcing such service especially by multi-national corporations in North America.

Exhibition Forwarding and Household Removal

Exhibition forwarding and household removal contributed to about 6 percent of the Group's total turnover. During the year, there was a healthy growth in business volume of 13 percent.

Liquidity, Financial Resources and Funding

As at 31st July 2001, the Group possessed cash and cash equivalents of HK\$186.88 million (2000: HK\$150.66 million). Spendings on fixed assets remained at more or less the same level as last year. For the year to 31st July 2001, HK\$4,101,000 (2000: HK\$4,276,000) were paid for the purchase of fixed assets whereas HK\$13.5 million (2000: HK\$1,315,000) were received for the disposal of fixed assets. In the year under review, HK\$20,878,000 (2000: HK\$896,000) and HK\$1,250,000 (2000: HK\$6,050,000) were invested in subsidiaries and associated companies respectively.

The Group's funding requirements have been financed mainly by internal resources. Only a small amount of overdraft facilities were or would be utilised. 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. As at 31st July 2001, bank overdrafts of the Group is HK\$6,908,000 (2000: HK\$11,257,000).

The Group signed a Sale & Purchase Agreement to acquire the whole floor of New Mandarin Plaza, Tower A, 8/F for a consideration of HK\$40 million and the execution of the Agreement was completed on 14th September 2001. The Group has also arranged with a banker for 70% of the mortgage of the premises.

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.

Over 90 per cent 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 long-term liabilities/total shareholders' funds) for the period was 0.003 (2000: 0.045).

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 totaling HK\$2.55 million (2000: HK\$2.5 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 period.

In August 2000, we set up a subsidiary, Muragawa Logistics Limited in Hong Kong to focus on the wholesale of air cargo spaces.

In December 2000, we acquired additional 20% interests in Fondair Express (HK) Limited, thus increasing our interests from 67.4% to 87.4%. The consideration was HK\$19,276,000.

In February 2001, the Group invested 10% interests in a freight forwarding company in Budapest, Hungary called FBI Air Legi Szallitmanyozo Kft for a consideration of US\$25,000. A further acquisition of another 10% interests would be made in January 2003 for a consideration of US\$25,000. This will serve as a steppingstone for the Group to enter into the Eastern Europe freight market.

In July 2001, the Group invested 50% interests in a Hong Kong logistics provider, G & U Logistics (China) Limited, for a consideration of HK\$1.0 million. G & U is a logistics specialist in the chemical industry.

After the Balance Sheet Date, the Group acquired Corporate Century Limited, BVI which holds 70% interests in a freight forwarding company incorporated in Canada for a consideration of CAD6.44 million of which upfront payment has been made and the balance would be paid in the subsequent four years. This acquisition, we believe, will ensure stronger growth in business between Hong Kong and Canada in the long term.

Contingent Liabilities

The Group has provided guarantees to banks in respect of banking facilities granted to associated companies amounting to HK\$7.5 million (2000: HK\$8.0 million) of which HK\$3.5 million (2000: HK\$6.0 million) has been utilised.

Staff and Employment

As at 31st July 2001, the Group employed a total workforce of 487 (2000: 473). Total staff remuneration was HK\$106,499,000, including pension expenses of HK\$4,347,000 (2000: HK\$88,450,000, including pension expenses of HK\$3,173,000). 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.