

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The global slowdown in trade following the events of September 11 in 2001, increasing competition and rising fuel surcharges all contributed to a challenging year for BALtrans Holdings Limited. As a result, the Group recorded a small increase in turnover of 1.6 percent and yet a reduction in profit of 20.4 percent. In the face of this however, the Group has taken advantage of the situation and continued with its acquisition strategy, especially in China, Singapore and North America, and believes that these strategic acquisitions will support its performance as the global economy and industry begin to turn around.

Hong Kong

The Group's Hong Kong operations remained the largest contributor to its overall business, accounting for 62 percent of total turnover. The Hong Kong freight forwarding market was adversely affected by the September 11 terrorist attacks in New York in 2001, which resulted in significant reductions in both container throughput and in the volumes of air cargo loaded and unloaded during the year.

The Group's Hong Kong freight forwarding business suffered from an unfavourable market environment and general slowdown in the industry as reflected in the interim report, however the second half period helped raise the volume and achieved a small increase in turnover for the year. However, gross profit decreased as in the second half many airlines reduced their flights following the attacks on September 11 resulting in shortage of capacity pushing up costs.

The exhibition forwarding business was affected by a cyclical drop unrelated to the September 11 crisis, which resulted in a decrease of 25 percent in terms of turnover, and 11 percent in terms of profit.

The household removal business in Hong Kong achieved significant growth, which resulted in 10 percent increase in turnover and 37 percent increase in profit. However, the contribution of this business to overall results was not significant.

Mainland China

In March 2002, the Group contracted to acquire a significant interest in SITC Sky Logistics Co. Ltd., which has been renamed BALtrans Logistics (Qingdao) Ltd., an active player in the Qingdao airfreight market with branches in Dalian, Tianjin and Beijing. Qingdao is one of the major airports in Eastern China and also one of China's major seaports, and the acquisition further strengthens the Group's presence in the Chinese Mainland. The Group looks forward to BALtrans Logistics (Qingdao) Ltd. contributing to profit once the acquisition is completed.

MANAGEMENT DISCUSSION AND ANALYSIS

As part of its strategy to expand the network in China, BALtrans Holdings Limited is also in the process of acquiring a significant interest in a freight forwarder in Xiamen with branches in Fuzhou and Putian in Fujian province. The Group expects the acquisition to be finalized in early 2003. With this investment, the Group will be able to offer complete coverage of the coastal line of China, including all the major manufacturing bases.

The Shanghai office remained active and vital in providing operational support to the Group's sales offices overseas.

Singapore

During the year under review, the Group successfully acquired the businesses of several small competitors in Singapore, thereby achieving significant growth in turnover from HK\$89 million to HK\$130 million. Profit also increased dramatically by 460 percent compared to the same period last year, validating the Group's strategy of expansion through acquisition.

Other Asian Markets

In Malaysia, the Group's subsidiaries achieved a growth of 13.7 percent in turnover from HK\$30.4 million to HK\$34.5 million. More than that, the growth in profit margin was better than the growth in sales.

Thailand suffered badly from the decline in international trade that followed the September 11 crisis. As a result, the Group's associated company recorded a decrease in turnover of 19 percent .

In Indonesia, the Group's joint venture company with i-Logistics Japan achieved high growth in both turnover and profit because of its secured and stable sources of business. Turnover increased by 27 percent and profit by 61 percent.

The Group also established a subsidiary in Colombo, Sri Lanka in June 2002 as a pioneer into the Indian sub-continent.

MANAGEMENT DISCUSSION AND ANALYSIS

North America

The Group's subsidiaries were adversely affected by the recession in the United States during the year. Turnover decreased by 23.7 percent to HK\$273 million. Both import and export businesses experienced a significant drop as a result of the economic recession impacting the United States and its global trading partners.

In Canada, the Group's newly acquired subsidiary, BALtrans Logistics (Canada) Ltd. performed well, achieving reasonable turnover for the Group. The Canadian subsidiary office provides a balance to and expands the US operations thus broadening and strengthening the North American side of the supply chain management of our clients.

SERVICES

Airfreight

The airfreight business, the Group's major revenue source, accounted for 74.9 percent of the Group's total turnover for the year compared to 74.2 percent the previous year. Turnover registered a small increase but profit margin decreased due to keen competition resulting from fewer flights and a reduction of space following the attacks on September 11 and increasing fuel surcharges.

Seafreight

Seafreight accounted for approximately 17 percent of turnover. In the year under review, the seafreight business performed well despite the impact of the September 11 crisis on global trade. Both turnover and profit margin for the seafreight business registered a small growth. This positive performance was mainly attributable to the acquisition of the subsidiary in Canada and to organic growth.

Third-party Logistics

Third-party logistics encompasses supply chain management services for multinationals and at the present stage only accounted for a very small percentage of Group turnover. Progress in developing this area of the business is still slow, but the Group has continued to promote outsourcing of logistics activities to customers. The outlook for this sector is promising in the medium to long-term.

MANAGEMENT DISCUSSION AND ANALYSIS

Exhibition Forwarding and Household Removal

The exhibition forwarding and household removal business accounted for 5.8 percent of the Group's turnover. Exhibition forwarding is concentrated mainly in Mainland China, and has been relatively unscathed by the fallout from the September 11 crisis. The decrease in turnover was mainly due to the cyclical nature of the business, and the Group expects both turnover and profitability to pick up next year.

The household removal business recorded slight growth although within this the fine art packing business, which is not material to the Group's overall turnover, recorded a reduction in turnover.

OUTLOOK

Looking ahead, the Group expects that the world economy will remain sluggish, if not in decline, and that this will have an impact on the volumes of global trade and the performance of Group businesses. On a more positive note however, the Group has a solid regional and global network and is well positioned to weather the downturn. The Group's acquisition strategy is expected to benefit from the global economic slowdown, and it intends to make more strategic acquisitions in the future so as to benefit when the global economy recovers.

Liquidity, Financial Resources and Funding

As at 31st July 2002, the Group possessed cash and cash equivalents of HK\$110.37 million (2001: HK\$186.88 million). Spending on fixed assets remained more or less the same as last year, except that the Group acquired the whole floor of New Mandarin Plaza, Tower A, 8th floor at a consideration of HK\$40 million.

For the year to 31st July 2002, HK\$52,470,000 (2001: HK\$4,101,000) was spent on the purchase of fixed assets. HK\$1,190,000 (2001: HK\$13,531,000) was received for the disposal of fixed assets.

In the year under review, HK\$22,515,000 (2001: HK\$20,878,000) and HK\$2,882,000 (2001: HK\$1,250,000) were invested in subsidiaries and joint ventures/associated companies in Hong Kong, Canada and Singapore as described above.

The Group's funding requirements have been financed mainly by internal resources. Only a small amount of overdraft facilities were utilized by some of the Group's subsidiaries as working capital. The Group's banking facilities are used mainly for the purpose of securing bank guarantees required by suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 any need to make use of financial instruments for hedging purposes. Group policy demands that overseas subsidiaries only keep adequate working capital and must transfer any excess funds back to head office. Some overseas subsidiaries may use overdraft facilities in foreign currencies but the amounts involved are usually too small to necessitate hedging. There was no significant deviation from the policies above during the year under review.

Over 90 percent of the Group's cash is in either Hong Kong Dollars or US Dollars, so exposure to exchange rate fluctuations is minimal. The Group maintains very low gearing with a gearing ratio (long-term liabilities/shareholders' funds) for the year of 0.097 (2001: 0.002).

Charges on Group Assets

The whole first floor of Sunshine Kowloon Bay Cargo Centre and the whole floor of New Mandarin Plaza, Tower A, 8th floor were charged to a bank in exchange for general banking facilities for the Group. The Group has placed fixed deposits totaling HK\$2.27 million (2001: HK\$2.55 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.

In November 2001, the Group acquired Corporate Century Company Ltd., BVI, which holds a 70 percent interest in BALtrans Logistics (Canada) Ltd., at a consideration of C\$6.44 million (HK\$31.67 million) of which an upfront payment of HK\$19.00 million has been made with the balance to be paid in the subsequent four years.

In March 2002, the Group contracted to acquire a significant interest in SITC Sky Logistics Co. Ltd., Qingdao at a consideration of HK\$10.76 million of which an upfront payment of HK\$8.8 million has been made with the balance to be paid in the subsequent four years.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

Details of the contingent liabilities of the Group are set out in note 24 to the accounts.

Staff and Employment

As at 31st July 2002, the Group employed a workforce of 572 (2001: 487). Total staff remuneration was HK\$109,950,000, including pension expenses of HK\$5,274,000 (2001: HK\$106,499,000 including pension expenses of HK\$4,347,000). No share options were 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.