

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st July 2002.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group continue to be the provision of freight forwarding services.

An analysis of the Group's performance for the year by geographical and business segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 29. The directors have declared an interim dividend of HK3.0 cents per ordinary share, totalling HK\$7,197,000, which was paid on 24th May 2002.

The directors recommend the payment of a final dividend of HK10.0 cents per ordinary share, totalling HK\$24,120,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 9 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 17 to the accounts.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restriction against such rights under law in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SHORT-TERM BANK LOAN, BANK OVERDRAFTS AND OTHER BORROWINGS

At 31st July 2002, short-term bank loan, bank overdrafts and other borrowings of the Group are repayable over the following periods:

	Short-term bank loan and bank overdrafts	Other borrowings
	HK\$'000	HK\$'000
On demand or not exceeding one year	13,258	4,213
More than one year but not exceeding two years	—	4,083
More than two years but not exceeding five years	—	12,150
More than five years	—	5,356
More than one year but with no fixed repayment date	—	1,552
	<u>13,258</u>	<u>27,354</u>

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FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31st July 2002.

	1998	1999	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Profit attributable to shareholders	<u>38,502</u>	<u>34,663</u>	<u>65,948</u>	<u>70,158</u>	<u>55,827</u>
Assets and liabilities					
Total assets	383,272	453,100	513,897	490,273	594,822
Total liabilities	<u>(139,514)</u>	<u>(202,679)</u>	<u>(225,336)</u>	<u>(182,143)</u>	<u>(259,072)</u>
Shareholders' funds	<u>243,758</u>	<u>250,421</u>	<u>288,561</u>	<u>308,130</u>	<u>335,750</u>

MAJOR CUSTOMERS AND SUPPLIERS

Purchases attributable to the Group's major suppliers are as follows:

	2002	2001
	%	%
Purchases		
— the largest supplier	24	19
— the five largest suppliers combined	37	36

Aggregate sales attributable to the Group's five largest customers is less than 30% of the Group's total sales during the current and previous year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

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PROVIDENT FUND ARRANGEMENTS

The Group operates a defined contribution pension scheme for its Hong Kong employees. The scheme is administered by independent trustees. In relation to each employee, the employee and the Group contribute 5% and 5%-10% respectively of employees' basic salaries to the scheme. Contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions are used by the Group to reduce the existing level of contributions.

With the implementation of the Hong Kong Mandatory Provident Fund ("MPF") Schemes Ordinance on 1st December 2000, the Group established a new MPF Scheme. Except for employees who commenced employment after 1st December 1999, all the existing employees were given an option to select between the existing defined contribution pension scheme and the MPF Scheme. The employees who commenced employment after 1st December 1999 are required to join the MPF Scheme. For the MPF Scheme, both the Group's and employees' contributions are fixed at 5% of the employees' relevant income as defined in the Hong Kong MPF Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Defined contribution pension schemes for staff of the Group in other countries follow the local statutory requirements of the respective countries.

During the year, the Group's provident fund contributions were as follows:

	2002	2001
	HK\$'000	HK\$'000
Contributions charged to profit and loss account for the year under the defined contribution pension scheme and MPF Scheme in Hong Kong	3,179	2,916
Forfeited contributions used by the Group to reduce the existing level of contributions under the defined contribution pension scheme	(192)	(274)
Contributions charged to profit and loss account for the year pursuant to overseas statutory requirements	<u>2,287</u>	<u>1,705</u>
	<u>5,274</u>	<u>4,347</u>

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At the balance sheet date, there are no forfeited contributions which are available to reduce the Group's future contributions.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors:

Mr Anthony Siu Wing LAU

Mr William Hugh Purton BIRD

Mr David Chung Hung WAI

Independent non-executive directors:

Mr David Hon To YU (appointed on 11th February 2002)

Mr Christopher John David CLARKE

Mr Goshi KIRIMOTO (resigned on 14th May 2002)

Mr Christopher Harvey HALL (appointed on 12th September 2001 and resigned on 27th December 2001)

Mr William Hugh Purton BIRD retires by rotation in accordance with Section 87(2) of the Company's Bye-laws and, being eligible, offers himself for re-election.

Mr David Hon To YU retires in accordance with Section 86(2) of the Company's Bye-laws and, being eligible, offers himself for re-election.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of directors and senior management are set out as follows:

Executive directors

Mr Anthony Siu Wing LAU

Aged 59, Mr Lau is a co-founder of the Group together with Mr William Hugh Purton BIRD and Mr David Chung Hung WAI and is the company's chairman and chief executive. He is responsible for the overall management of the Group as well as overseeing the Greater China operations. He was the chairman of the Hongkong Association of Freight Forwarding Agents Ltd (HAFFA) for the years 1997 to 2000, the chairman of the Airfreight Committee of Hong Kong Shippers' Council for the years 1998 to 2000. Mr Lau is an advisory board member of Hong Kong Civil Aviation Department and a council member of the Hong Kong Logistics Development Council. He is also a committee member of the China Trade Committee and the Trade Related Services Committee of the Hong Kong Trade Development Council. He holds a Master of Business Administration Degree from the University of East Asia, Macau (now known as the Macau University). He is a fellow member of the Institute of Directors UK, a full member of the Chartered Institute of Management UK, a fellow member of the Institute of Freight Forwarders UK, and a full member of the Chartered Institute of Logistics and Transport. He has many years of experience in the airline and freight forwarding businesses and was the regional managing director of a multinational freight forwarding company in Hong Kong for five years before founding BALtrans.

Mr William Hugh Purton BIRD

Aged 56, is a co-founder of the Group together with Mr Anthony Siu Wing LAU and Mr David Chung Hung WAI. Mr BIRD is the managing director of BALtrans Logistics Pte. Limited. Mr BIRD was based in Hong Kong between 1982 and 1989, and since then he has been stationed in Singapore and has been responsible for developing the Group activities in the South East Asian and Australian region. Mr BIRD has 35 years of experience in the freight forwarding business. He is also a member of the Institute of Freight Forwarders UK. He was the regional managing director of a multinational forwarding company based in Hong Kong for five years.

Mr David Chung Hung WAI

Aged 55, is a co-founder of the Group together with Mr Anthony Siu Wing LAU and Mr William Hugh Purton BIRD. Mr WAI is the president of BALtrans Logistics Inc. and BALtrans Ocean Inc. He is responsible for the management and development of the Group's interest in the US market. He has over 37 years of experience in shipping lines, airlines and freight forwarding businesses.

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Independent non-executive directors

Mr Christopher John David CLARKE

Aged 52, is the senior partner in Asia of CMS Cameron McKenna, a leading international law firm. He has over 27 years of experience as a solicitor in England and Hong Kong with extensive experience in corporate and commercial law. He was appointed as an independent non-executive director of the Company in 1993.

Mr David Hon To YU

Aged 54, was appointed as a non-executive director of the Company in February 2002. He is a fellow of The Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He was a partner of an international accounting firm with extensive experience in corporate finance. Mr YU is a founder and director of Management Capital Limited, which specializes in direct investment and financial advisory activities and also on the boards of a number of listed companies and private companies in Hong Kong.

Senior management

Mr Kwok Kong KO

Aged 50, joined the Group in 1982. He is the accountant of the Group and a director of BALtrans Logistics Limited in Hong Kong. He has 28 years of experience in the freight forwarding business.

Mr John Kelly KING

Aged 50, joined the Group in 1982. He is a director of BALtrans Logistics Limited and is responsible for its air freight operations. He holds a Bachelor Degree in Social Science from the University of Toronto. He has 25 years of experience in the freight forwarding business.

Mr Raymond Wai Man LAW

Aged 47, joined the Group in 1983. He is a director of BALtrans Logistics Limited and is responsible for its sea freight operations. He holds a Bachelor Degree in Science from the University of Alberta, Canada. He has 19 years of experience in freight forwarding business.

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Mr Wan Tat KWAN

Aged 52, joined the Group in 1994. He has been the managing director of Supreme Airfreight Company Limited for many years in Hong Kong. He is responsible for the day to day management and the sales and marketing activities of the company. He has 10 years of experience in airlines cargo business and 15 years of experience in freight forwarding business.

Mr Ernie Chak Chiu SO

Aged 52, joined the Group in 1996 as the managing director of Fondair Express (HK) Limited in Hong Kong. He has 32 years of experience in the forwarding industry holding various executive positions.

Mr Edmund Soon Nam NG

Aged 47, joined the Group in 1985 and is a director of a Group's subsidiary in Singapore. He is responsible for the day to day management of the Singapore operations. He has 23 years of experience in the freight forwarding business.

Mr Cid SMITH

Aged 60, joined the Group in 1992 and is a director of the Group's subsidiary in Malaysia, with the responsibility for the day to day operations of the Malaysian operations. He is a fellow member of the British International Forwarders Association (BIFA) with 39 years of freight forwarding experience.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries 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.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

In 1992, a share option scheme was approved at a special meeting of the Company under which the directors may, at their discretion, invite full time employees including executive directors of the Group to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

On 13th March 1997, nine senior management of the Group were offered options to subscribe a total of 3,900,000 shares at a fixed price of HK\$0.8336 per share. Half of the allocation may be exercised after 30th June 1998 and the remainder after 31st December 2000. The options are valid until 12th March 2003.

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Details of the share options outstanding as at 31st July 2002 which have been granted to employees of the Group are as follows:

Date of grant	Subscription price per share HK\$	Exercise period	Options outstanding at 1st August 2001	Options exercised during the year	Options outstanding at 31st July 2002
13th March 1997	0.8336	1st July 1998 to 12th March 2003	550,000	(500,000)	50,000
13th March 1997	0.8336	1st January 2001 to 12th March 2003	1,700,000	(1,650,000)	50,000
			<u>2,250,000</u>	<u>(2,150,000)</u>	<u>100,000</u>

2,150,000 share options were exercised during the year, the weighted average closing price per share was HK\$1.669.

As at the date of this report, a total of 100,000 share options were outstanding. The total number of share available for issue under the share option scheme is 100,000 which represents approximately 0.04% of the issued ordinary share capital of the Company as at the date of this report.

On 28th December 2001, the Company has adopted a new share option scheme (the "New Option Scheme"), pursuant to which the Company may grant options without initial payment to (i) any director, employee or consultant of the Group or a company in which the Group holds an equity interest or a subsidiary of such company ("Affiliate"); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate; or (iv) any customer, supplier or adviser whose service to the Group or business with the Group contributes or is expected to contribute to the business or operation of the Group as may be determined by the Directors from time to time to subscribe for shares of the Company. The subscription price of the shares under the New Option Scheme will be the highest of (i) the nominal value of the Shares; (ii) the

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closing price per Share as stated in the Stock Exchange's daily quotation sheet on the Date of Grant; and (iii) the average closing price per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Date of Grant of (where applicable) such price as from time to time adjusted pursuant to the Scheme. The maximum number of shares in respect of which options may be granted under the New Option Scheme shall not exceed 10% of the share capital of the Company in issue.

No share option had been granted under such scheme since its adoption.

Apart from the above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Company's directors, chief executives and their spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND THEIR ASSOCIATES

At 31st July 2002, the directors, chief executives and their associates had the following interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

Name of directors	Nature of holding	Number of ordinary shares of the Company beneficially held
Mr Anthony Siu Wing LAU (<i>note</i>)	Family interest	72,386,000
Mr William Hugh Purton BIRD	Personal interest	57,591,200
Mr David Chung Hung WAI	Personal interest	32,942,000
Mr Christopher John David CLARKE	Personal interest	78,000

Note: 72,386,000 shares are beneficially owned by Asian Rim Co. Ltd., which is wholly owned by brother and brother-in-law of Mr Anthony Siu Wing LAU as the trustee of a discretionary trust of which Mr Anthony Siu Wing LAU is the beneficiary.

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Save as disclosed above and other than certain non-beneficial ordinary shares in subsidiaries held in trust for the Group by Mr Anthony Siu Wing LAU and Mr William Hugh Purton BIRD, none of the directors, chief executives and their associates has any beneficial or non-beneficial interests in the share capital of the Company or its associated corporations as at the balance sheet date required to be disclosed pursuant to the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 31st July 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

DIRECTORS' SERVICE AND MANAGEMENT CONTRACTS

At 31st July 2002, a subsidiary of the Company had entered into an agreement with Transportation Consultancy Limited, in which Mr Anthony Siu Wing LAU, Mr William Hugh Purton BIRD and Mr David Chung Hung WAI are interested as beneficial owners, for the provision of management services to the Group. The contract will expire on 31st December 2002.

Apart from the above, none of the directors who are proposed for re-election of at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation and no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited ("Listing Rules") except that independent non-executive directors are not appointed for a specified term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, non-executive directors of the Company will retire by rotation and their appointments will be reviewed when they are due for re-election. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

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AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr Christopher Harvey HALL and Mr Christopher John David CLAKE. Mr Christopher Harvey HALL resigned on 27th December 2001 and Mr David Hon To YU was appointed as a member of Audit Committee on 11th February 2002. Two meetings were held for the review of interim and annual financial statements for the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Anthony Siu Wing LAU

Chairman

Hong Kong, 14th November 2002