

The directors submit their report together with the audited accounts for the year ended 31st July 2003.

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 30. The directors have declared an interim dividend of HK3.0 cents per share, totalling HK\$9,045,000, which was paid on 26th May 2003.

The Board of Directors has recommended a final dividend of HK10.0 cents per share. This, together with the interim dividend of HK3.0 cents, would give a total dividend of HK13.0 cents per share for the year under review. Subject to the approval of shareholders at the Annual General Meeting, the final dividends will be paid to the shareholders as registered at the close of business on 23rd December 2003.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

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 2003, 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	59,384	4,864
More than one year but not exceeding two years	—	4,593
More than two years but not exceeding five years	—	12,153
More than five years	—	1,397
More than one year but with no fixed repayment date	—	1,912
	<u>59,384</u>	<u>24,919</u>

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the five years ended 31st July 2003.

	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Profit attributable to shareholders	<u>34,663</u>	<u>65,948</u>	<u>70,158</u>	<u>55,827</u>	<u>22,917</u>
Assets and liabilities					
Total assets	453,100	513,897	490,273	594,822	941,036
Total liabilities	<u>(202,679)</u>	<u>(225,336)</u>	<u>(182,143)</u>	<u>(259,072)</u>	<u>(453,962)</u>
Shareholders' funds	<u>250,421</u>	<u>288,561</u>	<u>308,130</u>	<u>335,750</u>	<u>487,074</u>

MAJOR CUSTOMERS AND SUPPLIERS

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

	2003	2002
	%	%
Purchases		
— the largest supplier	9	24
— the five largest suppliers combined	20	37

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.

PROVIDENT FUND ARRANGEMENTS

The Group operates defined contribution pension schemes for its employees in Hong Kong. The schemes are administered by independent trustees. In relation to each employee, the employee and the Group contribute 5% and 5% to 10% respectively of employees' basic salaries to the scheme. In respect of one 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.

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:

	2003	2002
	HK\$'000	HK\$'000
Contributions charged to profit and loss account for the year under the defined contribution pension schemes	3,634	3,179
Forfeited contributions used by the Group to reduce the existing level of contributions under the defined contribution pension scheme	(499)	(192)
Contributions charged to profit and loss account for the year pursuant to overseas statutory requirements	4,834	2,287
	<u>7,969</u>	<u>5,274</u>

REPORT OF THE DIRECTORS

PROVIDENT FUND ARRANGEMENTS (Continued)

At the balance sheet date, forfeited contributions totalling HK\$72,000 is available to reduce the Group's future contributions.

In Taiwan, a defined benefit pension scheme is operated for its employees. The pension scheme is a defined benefit pension scheme based on salary upon retirement. The assets of the pension scheme are held independently of the Group assets in separate trustee administered funds. The Group's defined benefit pension scheme is valued by Watson Wyatt Taiwan Branch, a qualified actuary, annually using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2003	2002
	%	%
Discount rate	3.25	—
Expected rate of return on plan assets	3.25	—
Expected rate of future salary increases	0.5	—

DIRECTORS

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

Executive directors:

Mr Anthony Siu Wing LAU
Mr David Chung Hung WAI

Non-executive directors:

Mr Peter James Holland RILEY (appointed on 30th January 2003)
Mr William Hugh Purton BIRD (re-designated on 25th November 2003)

Independent non-executive directors:

Mr Christopher John David CLARKE
Mr David Hon To YU

Mr David Chung Hung WAI retires by rotation in accordance with Section 87(2) of the Company's Bye-laws and, being eligible, offers himself for re-election.

Mr Peter James Holland RILEY retires in accordance with Section 86(2) of the Company's Bye-laws and, being eligible, offers himself for re-election.

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 60, 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, particularly 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 David Chung Hung WAI

Aged 56, 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 38 years of experience in shipping lines, airlines and freight forwarding businesses.

Non-executive directors**Mr Peter James Holland RILEY**

Aged 42, Mr RILEY is a non-executive director of the Group and joined the Group's board after the Group's successful acquisition of Jardine Logistics in January 2003. Mr RILEY has worked for the Jardine Matheson Group of companies since 1993. He became a director of Jardine Matheson Limited in January 2001 and has responsibility for the Jardine Pacific businesses. Prior to joining Jardines, Mr RILEY worked for Kleinwort Benson and Price Waterhouse in London. He is a member of the Institute of Chartered Accountants in England and Wales.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)***Non-executive directors** *(Continued)***Mr William Hugh Purton BIRD**

Aged 57, is a co-founder of the Group together with Mr Anthony Siu Wing LAU and Mr David Chung Hung WAI. Mr BIRD is also a Director of a number of other Group subsidiaries and associates. Mr BIRD was based in Hong Kong between 1982 and 1989, and since then he has been stationed in Singapore. Mr BIRD has 36 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.

Independent non-executive directors**Mr Christopher John David CLARKE**

Aged 53, is the senior commercial litigation partner in Asia of Dibb Lupton Alsop, a leading international law firm. He has over 28 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 55, 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 John Kelly KING**

Aged 51, 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 26 years of experience in the freight forwarding business.

Mr Kwok Kong KO

Aged 51, joined the Group in 1982. He is the accountant of the Group and a director of BALtrans Logistics Limited in Hong Kong. He has 29 years of experience in the freight forwarding business.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)**Senior management** (Continued)**Mr Wan Tat KWAN**

Aged 53, 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 16 years of experience in freight forwarding business.

Mr James Kong Chiok LAU

Aged 43, joined the Group in 2003. He is chairman of Jardine Logistics Taiwan as well as vice president of the Group responsible for the overall management of the Group's ocean business. He joined the Jardine Group in 1989 as a co-founder of Jardine Logistics Services (Taiwan) Ltd. Currently, he is also a director of Jardine-CCTA Logistics Services Ltd and a member of The Institute of Logistics and Transport, UK. He graduated from National Chiao-Tung University, Taiwan with a Bachelor Degree in Transportation and Engineering Management. He has over 20 years' extensive experience in total logistics and supply chain management.

Mr Raymond Wai Man LAW

Aged 48, 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 20 years of experience in freight forwarding business.

Mr Edmund Soon Nam NG

Aged 48, 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 24 years of experience in the freight forwarding business.

Mr Myles O'Brien

Aged 44, joined the Group in 1985. He is the Executive Vice President for U.S.A. and is responsible for the Group's business development in U.S.A. He holds a Master of Business Administration Degree from University of Bridgeport, the US. He has 19 years experience in the freight forwarding industry.

Mr Ernie Chak Chiu SO

Aged 53, joined the Group in 1996 as the managing director of Fond Express Logistics Limited in Hong Kong. He has 33 years of experience in the forwarding industry holding various executive positions.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)

Mr Eddie Beng Heng TAN

Aged 45, joined the Group in 1999. He is the Regional Managing Director for South East Asia and is responsible for the Group's business development. He holds a Master of Business Administration Degree in Finance from University of Leicester and a Post Graduate Diploma in Marketing from the Chartered Institute of Marketing, both in the UK. He has extensive experience in the integrated logistics and freight forwarding industry.

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.

Details of the share options outstanding during the course of the year ended 31st July 2003 were as follows:

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

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

On 28th December 2001, the Company 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 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 the New Option 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

As at 31st July 2003, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies were as follows:

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
LAU Siu Wing, Anthony (note 1)	—	73,286,000	—	—	73,286,000
WAI Chung Hung, David	32,942,000	—	—	—	32,942,000
BIRD Hugh Purton, William (note 2)	—	—	57,591,200	—	57,591,200
CLARKE John David, Christopher	78,000	—	—	—	78,000
YU Hon To, David	—	—	—	—	—
RILEY Peter James Holland	—	—	—	—	—

REPORT OF THE DIRECTORS

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

Notes:

1. These shares are beneficially owned by Asian Rim Co. Ltd. ("Asian Rim"), which is wholly owned by the brother and brother-in-law of Mr Anthony Siu Wing LAU as the trustee(s) of a discretionary trust of which Mr Anthony Siu Wing LAU is the beneficiary.
2. These shares are beneficially owned by Tropical Holding Investment Inc. ("Tropical Holding"), which is wholly owned by Mr William Hugh Purton BIRD and his wife.

Save as disclosed herein, as at 31st July 2003, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st July 2003, the following persons (other than a director or chief executive of the Company) had interests in the share capital of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Number of shares	Nature of interest	Percentage of shareholding
Asian Rim	73,286,000	Beneficial owner	24.31
Jardine Asian Holdings Inc.	60,300,100 (note)	Beneficial owner	20.00
Jardine Pacific Holdings Limited	60,300,100 (note)	Corporate	20.00
JMH Investments Limited	60,300,100 (note)	Corporate	20.00
Jardine Matheson Holdings Limited	60,300,100 (note)	Corporate	20.00
Tropical Holding	57,591,200	Beneficial owner	19.10

Note: These shares are beneficially owned by Jardine Asian Holdings Inc.

Save as disclosed herein, as at 31st July 2003, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person (except the directors and chief executive of the Company whose interests are disclosed in "Particulars of shares held by directors, chief executives and their associates" above) who had any interest or short position in the shares or underlying shares of the Company.

Mr Anthony Siu Wing LAU is a director of Asian Rim.

Mr William Hugh Purton BIRD is a director of Tropical Holding.

Mr Peter James Holland RILEY is a director of various companies within Jardine Matheson Group.

DIRECTORS' SERVICE AND MANAGEMENT CONTRACTS

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.

CONNECTED TRANSACTIONS

During the period from 30th January 2003 to 31st July 2003, the Group provided freight forwarding services to various associates of Jardine Asian Holdings Inc. ("JAH"), a substantial shareholder of the Company, on normal commercial terms in the ordinary course of business, and received a total consideration of about HK\$20.4 million from associates of JAH in respect of such services provided.

During the period from 30th January 2003 to 31st July 2003, the Group paid to various associates of JAH:—

- (a) a total consideration of about HK\$300,000 for the use of their airport terminal services; and
- (b) a total consideration of about HK\$630,000 for the use of their shipping agencies services.

The relevant transactions were entered into on normal commercial terms in the ordinary course of business of the Group and the associates of JAH.

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.

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 three non-executive directors, namely Mr David Hon To YU, Mr Christopher John David CLARKE and Mr Peter James Holland RILEY. 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, 25th November 2003