Management Discussion & Analysis

Financial Highlights

(HK$ million)	2005	2004	% growth
Turnover	**3,706.3**	3,300.9	+12%
Gross profit	**616.5**	532.4	+16%
EBITA	**138.3**	79.5	+74%
Net profit	**111.0**	52.9	+110%
Net cash from operating activities	**147.5**	91.9	+61%
Return on equity	**17.2%**	10.1%	
Gross margin	**16.6%**	16.1%	
Net margin	**3.0%**	1.6%	

Business Review and Outlook

During the year under review, the Group achieved a record turnover of over HK$3.7 billion, 12% higher than the previous year, despite challenging market conditions amidst rising fuel prices, increasing freight rates and continuing Sino-foreign trade disputes.

The Group's gross margin improved to 16.6% from 16.1% in the previous year. The EBITA of HK$138.3 million represents a substantial increase of 74% over the previous year. Similarly, the profit attributable to shareholders was HK$111.0 million, up 110% from the previous year, partly due to top line growth and continued margin improvement and partly because last year's results were held back by a number of factors, namely losses of approximately HK$11.7 million in our US operation, start-up losses in Germany of approximately HK$3 million, provision relating to prior year items of approximately HK$3 million in the UK and goodwill amortisation charge of HK$11.1 million, partly offset by property revaluation write-back of HK$4.7 million.

Due to the disposal of Fond group and the consolidation of the loss-making results of JCCTA, the Group's gross margin and financial results were negatively impacted during the second half of the financial year. With management restructuring and business streamlining of JCCTA being executed since the completion of the buy-out in March 2005, we believe JCCTA should turn around and contribute positively to the Group in the coming year.

In addition to improvement in recurrent results, our results also benefited from a net gain of HK$18.5 million attributable to a number of non-recurrent factors, namely a HK$24.6 million property revaluation credited to the profit and loss account, HK$8.2 million gain from the disposal of Fond Group, partly off-set by one-off restructuring costs of JCCTA amounting to HK$6.8 million, executive severance payments of HK$1.3 million as well as an exceptional provision for a claim for undue preference in the US amounting to HK$6.2 million relating to prior year cash receipts from a US customer.

Apart from robust profit growth, we also enjoyed strong cash generation during the financial year, with a record of HK$147.5 million operating cash inflow.

During the past year, we also completed rationalisation process of our business portfolio by disposing of non-core investments. We sold our investment stakes in Fond Group in May 2005. After the year end, we sold our investment stakes in Korchina Group in August 2005. These investments were not synergistic with the BALtrans Group and did not form part of the Group's future vision. Whilst the disposal of these non-core investments will inevitably have a short-term impact on the profitability of the Group, we believe this is a necessary step to take to focus on BALtrans worldwide network operating with a coherent group strategy.

Markets

The Group's operation in the Greater China region was the largest contributor to the Group's overall turnover during the financial period at 63%. The turnover represents an increase of approximately 16% from the previous year due to strong growth in trade volumes. The absence of the Fond Group's turnover during part of the financial year was more than off-set by the inclusion of JCCTA's turnover. Operating profit increased by 54% over the previous year to HK$69.7 million (excluding property revaluation credited to profit and loss account), despite the restructuring costs incurred by JCCTA.

US and Canada contributed 20% of Group's turnover during the year. The turnover increase of 10% is attributable to good progress in our marketing efforts in North America, especially on air freight business. The operating profit reached HK$24.8 million, a significant turnaround from an operating loss of HK$1.9 million last year. The turnaround of the US operation was a key management goal stated in the final results announcement last year and satisfactory results were delivered during the financial year.

Southeast Asia contributed 8% of Group's turnover and registered a slight decrease of 4%. The operating profit for this segment also decreased by 29%. These are attributable to the poor performance of Malaysia, the start-up losses of our new operation in India as well as the general trend of manufacturing operations relocating to the PRC and India.

The Europe market made up approximately 9% of the Group's turnover during the year. The turnover increased by 9% to HK$341.3 million. The operating profit contribution of the UK office has improved to HK$3.9 million compared to HK$0.7 million in the previous year. With our new expansion initiatives for the Europe, Middle East and Africa (EMEA) region, and new offices in Amsterdam, Rotterdam and Dubai, we believe the EMEA region will become a new growth engine for the Group.

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Services

Air freight

Turnover in HK$ million

	Greater China	North America	Southeast Asia	Europe	Total
2005	1,450	490	155	102	2,197
2004	1,163	362	171	83	1,779
% growth	+25%	+35%	-9%	+23%	+23%

Air freight turnover increased by 23% to approximately HK$2.2 billion, making up 59% of the Group's total turnover. The increase in demand for air freight is mainly driven by strong growth in Asia traffic to the western markets. The uncertainty over Sino-foreign trade disputes also led to higher demand for air freight which offers shorter lead time.

North America had an exceptional year as air freight turnover increased by 35%. Both the Europe and Greater China also put in robust performance with turnover increasing by more than 20%. Southeast Asia was adversely affected by the turnover decline in Malaysia.

The air freight operating profit increased by 60% to HK$64.8 million from HK$40.4 million last year as a result of economies of scale and improved buying power.

Sea freight

Turnover in HK$ million

	Greater China	North America	Southeast Asia	Europe	Total
2005	714	218	115	240	1,287
2004	710	285	111	231	1,337
% growth	+1%	-24%	+4%	+4%	-4%

Sea freight turnover decreased by 4% to approximately HK$1.3 billion, making up approximately 35% of the Group's total turnover, with the decrease mainly attributable to the decrease in sea freight turnover in North America.

The sea freight operation had a challenging year amidst rising freight rates and fuel costs. The customer realignment in the US continued whilst the UK started to deliver turnover growth in the second half, reversing the previous declining trend. Despite the turnover decline, operating profit from sea freight increased by 86% to HK$24.9 million from HK$13.4 million last year, due to improved customer mix and cost rationalisation.

Exhibition Forwarding and Household Removal Services

The turnover from exhibition forwarding and household removal services grew by 42% to HK$133.4 million due to our thriving exhibition forwarding business in the PRC, full year contribution from Exhibitstrans and seasonal factors.

Operating profit increased by 157% to HK$15.4 million compared to HK$6.0 million in the previous year due to top line expansion and effective cost management.

Whilst the profitability and performance of the exhibition forwarding business is subject to the timing of key exhibition events and seasonal factors, we believe that this niche market in the PRC will enjoy healthy long term growth.

Third party Logistics

The turnover from third party logistics ("3PL") was HK$88.7 million, a slight decrease of 2% over the previous year. We fine-tuned our customer base and made certain management changes during the second half of the year. As a result, we achieved an operating profit of HK$1.5 million during the financial year, compared to an operating loss of HK$4.3 million last year.

In light of strong demand for 3PL services, we believe the 3PL operational performance will further improve in the coming year.

Outlook

The freight forwarding industry continues to face market uncertainties including the rising fuel costs, Sino-foreign trade disputes and potential outbreak of the bird flu epidemic.

Nevertheless, we shall continue to push ahead with our long term strategy of building an integrated global network and expanding into new markets. We set up our new operation in India with 2 offices in New Delhi and Mumbai in May 2005. After the end of the financial year, we set up our third office in Chennai in September 2005. We have commenced operation in Amsterdam and Rotterdam since October 2005 and Dubai since November 2005.

Looking ahead, we are reviewing our strategic options in various new markets. With our new management team in place for the EMEA region, we believe our expansion in this region will accelerate through recruitment of new talents as well as selective acquisitions. Our robust financial position and our strong execution capability across Greater China and Asia will stand us in good stead in our expansion into new markets.

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Liquidity, Financial Resources and Funding

As at 31st July 2005, the Group possessed cash and cash equivalents of HK$203.0 million (2004: HK$138.8 million). The majority of the Group's cash was in either HKD or USD. The gross gearing ratio (total borrowings/total shareholders' funds) at the end of the year was 17.5% (2004: 16.5%). However, the Group was in a net cash position of HK$118.1 million (2004: HK$71.3 million).

For the year ended 31st July 2005, total spending on fixed assets was higher than the last year. HK$23.2 million (2004: HK$19.6 million) was paid for the purchase of fixed assets. HK$1.9 million (2004: HK$4.0 million) was received for the disposal of fixed assets.

The Group's funding requirements have been fulfilled mainly by internal resources with some short-term loan/overdraft facilities granted by banks.

The Group's borrowings were mainly in HKD, USD, TWD and RMB. Overdraft and short-term loan facilities were granted to the Group at normal market interest rates. As the majority of the Group's cash is in either HKD or USD, exposure to exchange rate fluctuation is minimal .

As a matter of principle, the Group requires adequate working capital to be retained in overseas subsidiaries and then transfers excess funds back to the head office. Some of our overseas subsidiaries may use overdraft facilities in foreign currencies. No hedging arrangement is considered necessary since we receive and pay mainly in local currency.

During the year under review there was no significant deviation from the policies above.

Charges on Group Assets

The whole first floor of Sunshine Kowloon Bay Cargo Centre and the whole 8th floor of New Mandarin Plaza, Tower A have been charged to a bank in exchange for general banking facilities for the Group. The Group has placed fixed deposits totalling HK$11.3 million (2004: HK$1.3 million) as security for banking facilities extended to the Group.

Material Acquisitions and Disposal of Subsidiaries or Associated Companies

During the year, the Group has completed the acquisition of the remaining 55% shareholding of JCCTA in the PRC not previously owned by the Group. The Group has also disposed of its entire equity interest (88.65%) in Fond Express Logistics Limited and Fondair Express (HK) Limited.

Subsequent to the financial year end, the Group has disposed of its entire equity interest in Korchina Logistics Holdings Limited (50%) and Korchina Freight Taiwan Limited (35%).

Except as disclosed above, there was no material acquisition or disposal during the year.

Contingent Liabilities

Details of the contingent liabilities of the Group are set out in note 27 to the accounts.

Staff and Employment

As at 31st July 2005, the Group employed a workforce of 1,695 (2004: 1,478). Total staff remuneration for the year ended 31st July 2005 was HK$297.2 million including retirement benefit costs of HK$12.8 million (2004: HK$262.4 million including retirement benefit costs of HK$11.2 million).