Management Discussion & Analysis

Financial Highlights

(HK$'million)	2006	2005 (Restated)	% change
Turnover	**4,046.4**	3,706.3	+9%
Gross profit	**660.3**	616.5	+7%
EBITA	**145.3**	105.0	+38%
Net profit	**113.3**	83.3*	+36%

* The net profit last year had been restated from HK$111.0 million to HK$83.3 million due to the impact of adopting the new HKFRSs. The largest impact is the adoption of the new HKAS 16, under which the Group had opted for the cost model in respect of self-occupied properties for business purposes, resulting in exclusion of the write-back of the property revaluation deficit of HK$24.6 million from the comparative net profit last year.

Business Review

During the year under review, the Group achieved a record turnover of over HK$4.0 billion, 9% higher than the previous year amidst steady performance of the freight forwarding operation and strong increase in third party logistics turnover. The absence of turnover contribution from Fond Group this year was offset by the increased turnover from the expansion in the EMEA region.

After dipping to 15.5% during the first half, the Group's gross margin improved to 17.2% in the second half. EBITA was up 38% to HK$145.3 million. Net profit was also up 36% to HK$113.3 million. A number of specific items impacted the net profit and the comparative number last year. The net profit last year included HK$8.2 million disposal gain, HK$17.3 million net profit contribution from discontinued operations (Fond Group and Korchina Group), partly offset by HK$6.2 million provision for a US legal claim and HK$8.1 million restructuring and severance provisions. The net profit this year included disposal gain of HK$21.2 million, net claim compensation and write-backs of HK$12.3 million, negative goodwill of HK$8.3 million, partly offset by PRC restructuring provisions of HK$9.6 million and investment write-off of HK$0.8 million.

Our net profit had also been impacted by the expansion of our management and professional resources. In order to accelerate the expansion of the Group's business and international network, the Group continued to bring on board senior executives and international industry talents to strengthen the Group and regional management teams. This inevitably increased the corporate costs during the year, including the set-up and sign on fees of HK$6.3 million incurred for 2006, but we believe that this is an essential investment in order to lay the foundation for future group expansion.

During the year under review, the Group made substantial inroads into expanding its global footprint and consolidating its control over some of its key subsidiaries. Apart from opening up of our third office (Chennai) in India in September 2005, we had also started our wholly owned operation in Amsterdam and Rotterdam in October 2005. Since May 2006, we acquired 52% of Clover Cargo Group in South Africa (in addition to our initial 10% shareholding), 100% of BALtrans Logistics (UAE) LLC (formerly known as Outlook Logistics LLC) in Dubai and completed the buy-out of minorities in our key subsidiaries in the UK and the PRC. Immediately after the financial year end, we managed to complete the acquisition of Gothenburg Shipping Logistics AB in Sweden and increased our equity stake in our German operation to 96%. These new entities are expected to add meaningful contribution to the Group's turnover and profitability in the coming years.

During the period under review, our finance costs increased from HK$3.4 million to HK$4.8 million due to consolidation of 3-month local interest expenses of Clover Cargo Group. As we funded our new acquisitions in Sweden and Germany after the financial year end (for which we successfully raised our first syndicated loan facilities of HK$250 million in October 2006) and due to the full year effect of interest expenses of Clover Cargo Group, we expect our finance costs to increase from the current level in the coming year.

Our tax expenses increased from HK$13.0 million to HK$19.0 million. As we increased our weighting of higher tax jurisdictions in our overall geographical distribution, we believe that our effective tax rate will increase gradually in the future. Our minority interests increased from HK$8.6 million to HK$10.6 million. With the full year inclusion of Clover Cargo Group's results which we effectively own 62%, minority interests will also increase in the coming year.

Management Discussion & Analysis

Markets

The Group's operation in the Greater China region was the largest contributor to the Group's overall turnover during the financial year at 62%. The turnover of HK$2,506.3 million was up 7% from last year as turnover increase in the PRC is partly offset by weak performance in Taiwan. Operating profit increased 37% from HK$66.6 million to HK$91.3 million.

US and Canada contributed 15% of Group's turnover during the year. Turnover decrease of 16% was mainly due to the absence of turnover contribution from Fond Group which was disposed of late last year. Operating profit was HK$21.4 million, down 14% from the previous year.

Southeast Asia contributed approximately 8% of Group's turnover and achieved an increase of 11% over previous year. Operating profit for this segment increased 78% to approximately HK$14.5 million, mainly due to the turnaround of Malaysian operation, good profit growth in Indonesia and Sri Lanka as well as narrowing of operating losses in our new operation in India.

The EMEA region made up approximately 15% of the Group's turnover during the year, up from around 9% last year. Turnover increased by 73% to HK$589.9 million and operating profit reached HK$15.1 million. Excluding negative goodwill of HK$8.3 million, the recurrent operating profit is approximately HK$6.8 million, up 71% from last year. Improved performance in the UK and 3-month contribution from our newly acquired South African subsidiary, Clover Cargo Group, led to substantial increase in EMEA contribution, partially offset by start-up losses in our new Netherlands operation. Our Netherlands offices had turned profitable since the second half of the financial year, and together with full year contribution from Clover Cargo Group, continuing improvement in UK and Dubai offices as well as newly acquired subsidiaries in Sweden and Germany, we believe the EMEA region would become an important new market segment for the Group.

Services

Air freight

Turnover (HK$'million)

	Greater China	North America	Southeast Asia	EMEA	Total
2006	**1,583**	**405**	**177**	**227**	**2,392**
2005	1,450	490	155	102	2,197
% change	+9%	-17%	+14%	+123%	+9%

Air freight turnover increased by 9% to approximately HK$2.4 billion, making up approximately 59% of the Group's total turnover. The one-off impact of the absence of Fond Group in the air freight turnover in North America had been largely offset by the substantial increase in EMEA air freight turnover.

The air freight operating profit was HK$64.1 million, up 4% from last year.

Sea freight

Turnover (HK$'million)

	Greater China	North America	Southeast Asia	EMEA	Total
2006	**690**	**195**	**120**	**339**	**1,344**
2005	714	218	115	240	1,287
% change	-3%	-11%	+4%	+41%	+4%

Sea freight turnover increased 4% to approximately HK$1.3 billion, making up approximately 33% of the Group's total turnover. In North America, the absence of Fond Group had led to a decline in sea freight turnover.

Despite modest turnover growth, operating profit from sea freight increased 28% to HK$31.8 million from HK$24.9 million last year due to improved margin as well as increased contribution from the EMEA region.

Exhibition forwarding and household removal services

Despite what was expected to be a slower year based on cyclical trends in the past, the performance of our exhibition forwarding and household removal services held up very well as we managed to minimise the impact of cyclical downturn due to our success in gaining new events as well as the robust performance of Exhibitstrans Logistics Limited. The turnover from exhibition forwarding and household removal services decreased slightly by 3% to HK$130.0 million whilst operating profit was maintained at HK$15.4 million as in the previous year.

We expect the performance of exhibition forwarding and household removal services division will improve in the coming year as we benefit from the expected upcycle.

Third party logistics

The turnover from third party logistics ("3PL") was HK$180.2 million, a strong increase of 103% over the previous year. Our 3PL operation in Greater China achieved substantial profit improvement due to continued strong demand for 3PL services as well as our success in restructuring our customer portfolio. Furthermore, new entities in the Netherlands and South Africa had also added to our 3PL business base and contribution. As a result, we achieved an operating profit of HK$10.0 million during the financial year, compared to an operating profit of approximately HK$1.5 million last year.

Outlook

Global economy and trade flow continues to grow despite the concern over US economic slowdown after recent interest rate hikes. We are cautiously optimistic on the medium term economic growth and trade outlook in Europe and Asia Pacific.

We continue to push ahead with our long term strategy of building an integrated global network and expanding into new markets. We have now built up a substantial presence in 6 countries in the EMEA region namely Germany, the Netherlands, South Africa, Sweden, the UK and the United Arab Emirates, all of which will be re-branded BALtrans in the first quarter of 2007. Through our Middle Eastern hub in Dubai, we had also entered into a franchising arrangement to expand our branded operation into the Middle East region. These entities complement our existing offices in Asia Pacific and North America and seek to cooperate more closely with one another in winning new business and delivering services to our customers globally.

With the successful resolution of the PRC shareholding position, we had finally merged the two main operating entities for Northern and Eastern China, Jardine-CCTA Logistics Services Limited and BALtrans Logistics (China) Limited, into a single platform operating under the name of BALtrans Logistics Company Limited in October 2006. Apart from the apparent operational synergies to be reaped, this fully licensed single platform in the PRC would enable us to improve our service offering and execution capability to win new customers overseas as more and more overseas companies seek to source their goods from China. However, the restructuring in the PRC is likely to entail revamp of business portfolio, staff reduction and additional one-off costs and provisions which are necessary to establish a streamlined platform in the longer term. These will have negative impact on the bottom-line in the short term, but we believe this is a necessary and critical step in the right direction.

As planned during the last 12 months, senior management positions have been filled with key strategic hires including the new Group Chief Executive, the EMEA regional management team, the Asia Pacific regional managing director and heads of the key corporate functional roles. Looking ahead, we will review our strategic options in the various new markets either through recruitment of new talents or selective acquisitions.

Finally, with the backing of our new major shareholder, Mitsui & Co., Ltd., one of the largest trading conglomerates in Japan, we are seeking to tap into new business opportunities with Japanese corporate sector globally.

Liquidity, Financial Resources and Funding

As at 31 July 2006, the Group possessed cash and cash equivalents of HK$280.0 million (2005: HK$203.0 million). The majority of the Group's cash was in either HKD or USD. The gross gearing ratio (total borrowings/total equity) at the end of the year was 32.7% (2005: 19.0%). However, the Group was in a net cash position of HK$112.8 million (2005: HK$125.9 million).

For the year ended 31 July 2006, total spending on property, plant and equipment was lower than the last year. HK$23.1 million (2005: HK$23.2 million) was paid for the purchase of property, plant and equipment. HK$7.3 million (2005: HK$1.9 million) was received for the disposal of property, plant and equipment and leasehold land and land use rights.

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, ZAR, CAD, USD and TWD. 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. Minimal hedging arrangement is arranged as 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 Group's leasehold land and buildings in Hong Kong and South Africa have been charged to banks in exchange for general banking facilities for the Group. Trade receivables of HK$76.9 million (2005: Nil) and fixed deposits of HK$16.0 million (2005: HK$11.3 million) are pledged as security for banking facilities extended to the Group.

Material Acquisitions and Disposal of Subsidiaries or Associates

During the year, the Group has completed the following material acquisitions:

(a) the acquisition of remaining minority shareholding of BALtrans Logistics (China) Limited in May 2006;

(b) the acquisition of 52% of Clover Cargo Holdings (Proprietary) Limited of South Africa in May 2006;

(c) the acquisition of 100% of BALtrans Logistics (UAE) LLC in Dubai in June 2006;

(d) the acquisition of the remaining 25% in JLS Logistics UK Limited in July 2006.

During the year, the Group has also completed the disposal of its entire equity interest in Korchina Logistics Holdings Limited (50%) ("Korchina Logistics") and Korchina Freight Taiwan Limited (35%) in August 2005.

Subsequent to the financial year end and in August 2006, the Group completed the acquisition of 100% in Gothenburg Shipping Logistics AB in Sweden and increased its effective shareholding in BNG Logistics GmbH in Germany from approximately 48% to 96%.

Except as disclosed above, there was no material acquisition or disposal of subsidiaries, jointly controlled entities or associates during the year.

Contingent Liabilities

Details of the contingent liabilities of the Group are set out in note 37 to the financial statements.

Staff and Employment

As at 31 July 2006, the Group employed a workforce of 2,070 (2005: 1,695). Total staff remuneration for the year ended 31 July 2006 was HK$336.3 million including retirement benefit costs of HK$17.4 million (2005: HK$300.5 million including retirement benefit costs of HK$12.8 million).