

# Report of the Directors

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The Directors submit their report with the audited financial statements for the year ended 31 July 2006.

## 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 air and sea freight forwarding services, exhibition forwarding and household removal services and third party logistics (representing trucking and warehousing services).

An analysis of the Group's performance for the year by geographical and business segments is set out in note 6 to the financial statements.

## Results and appropriations

The results for the year are set out in the consolidated income statement on page 42. The Directors have declared an interim dividend of HK3.7 cents per share, totalling HK\$11,447,000, which was paid on 30 May 2006.

The Directors recommend the payments of a final dividend of HK11.8 cents per share, totalling approximately HK\$36,553,000.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders subject to a solvency test. As at 31 July 2006, the distributable reserves of the Company available for distribution, net of dividends paid and proposed, amounted to HK\$7,918,000 (2005: HK\$75,902,000, as restated).

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 16 to the financial statements.

## Share capital

Details of the movements in share capital of the Company are set out in note 27 to the financial statements.

## Pre-emptive rights

There are no provisions for pre-emptive rights under the Bye-laws of the Company ("Bye-laws") although there are no restrictions against such rights under the laws of 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.

## Report of the Directors

### Bank borrowings

As at 31 July 2006, short-term bank borrowings, bank overdrafts and long-term bank borrowings of the Group are repayable over the following period:

	Short-term bank borrowings and bank overdrafts HK\$'000	Long-term bank borrowings HK\$'000
On demand or not exceeding one year	201,116	3,772

### Five year financial summary

The following table summarizes the results, assets and liabilities of the Group for the five years ended 31 July 2006:

	2002 HK\$'000 (Note)	2003 HK\$'000 (Note)	2004 HK\$'000 (Note)	2005 HK\$'000 (Restated)	2006 HK\$'000
<b>Results</b>					
Profit attributable to equity holders	55,827	22,917	52,874	83,281	<b>113,259</b>
<b>Assets and liabilities</b>					
Total assets	594,822	948,714	1,079,869	1,246,068	<b>1,525,322</b>
Total liabilities	(237,994)	(446,552)	(535,942)	(650,849)	<b>(881,535)</b>
Total equity	356,828	502,162	543,927	595,219	<b>643,787</b>

Note: The comparative figures for the three years ended 31 July 2002, 2003 and 2004 have not been restated in accordance with the new/revised Hong Kong Financial Reporting Standards as the Directors consider that this would involve undue delay and expense.

### Major customers and suppliers

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales during the financial years ended 31 July 2005 and 2006.

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases during the financial years ended 31 July 2005 and 2006.

## Report of the Directors

### Retirement benefits

The Group operates two defined contribution retirement benefit schemes for its Hong Kong employees, the BALtrans Logistics (Hong Kong) Limited Retirement Scheme (“ORSO Scheme”) and the Hong Kong Mandatory Provident Fund (“MPF”). The schemes are administered by independent trustees.

Under the ORSO Scheme, each employee and the Group contribute 5% and 5% to 10% respectively of each employee’s basic salary to the relevant fund each month. Contributions made by the Group for those employees who cease to participate in the scheme prior to vesting fully in the contributions of the Group are forfeited and can be used to reduce the contributions.

Except for employees who commenced employment after 1 December 1999, all the existing employees were given an opportunity to select between the ORSO Scheme and the MPF. The employees who commenced employment after 1 December 1999 are required to join the MPF. For the MPF, both the Group’s and employees’ contributions are fixed at 5% of the employees’ relevant monthly income up to a maximum of HK\$1,000 per employee per month. The MPF contributions are fully and immediately vested to the employees as accrued benefits once they are paid.

Defined contribution retirement benefit 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:

	2006 HK\$'000	2005 HK\$'000
Contributions charged to income statement for the year under the ORSO Scheme and the MPF	4,648	4,754
Forfeited contributions used by the Group to reduce the existing level of contributions under the ORSO Scheme	(201)	(232)
Contributions charged to income statement for the year pursuant to overseas statutory requirements	12,988	8,254
	<b>17,435</b>	12,776

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

The principal actuarial assumptions used were as follows:

	2006 %	2005 %
Discount rate	3.23	3.25
Expected rate of return on plan assets	3.23	3.25
Expected rate of future salary increases	0.5	0.5

## Report of the Directors

### Directors

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

#### Executive Directors:

Mr. Anthony Siu Wing LAU  
 Mr. Henrik August VON SYDOW (appointed on 5 June 2006)  
 Mr. Hooi Chong NG  
 Mr. Tetsu TOYOFUKU (appointed on 5 June 2006)

#### Non-executive Directors:

Mr. William Hugh Purton BIRD  
 Mr. David Chung Hung WAI  
 Mr. Christopher John David CLARKE  
 Mr. Naruyuki SADO (appointed on 7 February 2006 and resigned on 5 June 2006)  
 Mr. Peter James Holland RILEY (resigned on 6 January 2006)

#### Independent Non-executive Directors:

Mr. David Hon To YU  
 Ms. Miriam Kin Yee LAU  
 Mr. Cheung Shing NG

The Company considers that Mr. David Hon To YU, Ms. Miriam Kin Yee LAU and Mr. Cheung Shing NG are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and that annual confirmations of independence have been received from each of them.

Mr. Anthony Siu Wing LAU, Mr. David Chung Hung WAI and Mr. Christopher John David CLARKE will retire by rotation at the forthcoming annual general meeting in accordance with Section 87(2) of the Bye-laws. All of them will be eligible for re-election. Mr. Anthony Siu Wing LAU and Mr. David Chung Hung WAI have offered themselves for re-election, while Mr. Christopher John David CLARKE would not stand for re-election.

Mr. Henrik August VON SYDOW and Mr. Tetsu TOYOFUKU will retire in accordance with Section 86(2) of the Bye-laws and, being eligible, have offered themselves for re-election.

### 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.

## Report of the Directors

### Share Option Scheme

The current share option scheme was adopted by the Company on 28 December 2001 (the "Share Option Scheme"). Purpose and main rules governing the Share Option Scheme are as follows:

Purpose of the scheme                      The Share Option Scheme is set up for the purpose of attracting and retaining quality personnel and other persons to provide incentives for them to contribute to the business and operation of the Group.

Participants of the scheme                The Directors may at their discretion grant options to the following eligible persons:

- (i) Any director, employee or consultant of any member 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 any member of the Group or an Affiliate; or
- (iii) A company beneficially owned by any director, employee or consultant of the Group; 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.

Total number of shares available for issue under the scheme together with the percentage of the issued share capital that it represents as at the date of the annual report                      The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme(s) shall not exceed 10% of the share capital of the Company as at 21 December 2005 – the date of the latest general meeting approving the refreshing of the mandate (the "10% limit"), i.e. 30,350,050 shares, representing about 9.75% of the issued share capital of the Company as at the date of this annual report. As at the date of this annual report, options entitling their holders to subscribe for a total of 28,700,000 shares have been granted<sup>(Note)</sup> while options entitling their holders to subscribe for a total of 3,200,000 shares have been lapsed or surrendered. Accordingly, a total of 4,850,050 shares are available for issue under the Share Option Scheme.

The 10% limit may be refreshed with the approval of the shareholders of the Company.

The Company may also seek separate shareholders' approval in general meeting to grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before such approval is sought.

The maximum number of shares which may be issued or issuable upon exercise of all outstanding options granted or yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

## Report of the Directors

### Share Option Scheme *(Continued)*

The maximum entitlement of each participant under the scheme

The total number of shares (issued and to be issued) in respect of which options may be granted under the Share Option Scheme and any other scheme(s) of the Company to any one grantee in any 12 months period shall not exceed 1% of the share capital of the Company in issue on the last date of such 12 months period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

The period within which the securities must be taken up under an option

As specified by the Directors, but in any event, not more than 10 years from the date of grant. Details are as follows:

<b>Date of grant of option(s)</b>	<b>Expiry Date</b>
4 May 2004	3 May 2009
17 August 2005	16 August 2010
7 February 2006	6 February 2011
14 March 2006	13 March 2011

The minimum period, if any, for which an option must be held before it can be exercised

The Share Option Scheme does not contain any provisions which specify such minimum period but such period may be specified by the directors.

The amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purpose must be repaid

Option holders are not required to pay for grant of options.

The basis of determining the exercise price

The price per share payable on the exercise of an option is equal to 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 ; or where applicable such price as from time to time adjusted pursuant to the Share Option Scheme.

The remaining life of the scheme

The scheme will end on 27 December 2011, being 10 years after the adoption of the scheme by the Company on 28 December 2001.

Note: Options entitling their holders to subscribe for a total of 4,400,000 shares have been granted subsequent to the financial year end.

## Report of the Directors

**Share Option Scheme (Continued)**

The total number of options granted during the financial year is 9,900,000. Details of the movement of share options during the year and the amount of share options outstanding as at 31 July 2006 which have been granted under the Share Option Scheme are as follows:

Date of grant	Exercise price per share	Options held as at the date of grant	Options held at the 1 August 2005	Options granted during the year	Options exercised during the year	Options lapsed or surrendered during the year	Options held as at 31 July 2006
<b>4 May 2004</b>	HK\$2.045						
<i>Directors:</i>							
Mr. Anthony Siu Wing LAU		2,000,000	2,000,000	-	1,000,000	-	1,000,000
Mr. David Chung Hung WAI		2,000,000	1,500,000	-	-	-	1,500,000
Mr. Hooi Chong NG		1,200,000	1,200,000	-	600,000	-	600,000
		5,200,000	4,700,000	-	1,600,000	-	3,100,000
<i>Employees:</i>							
The Group		9,200,000	7,600,000	-	2,600,000	1,800,000	3,200,000
		<b>14,400,000</b>	<b>12,300,000</b>	<b>-</b>	<b>4,200,000</b>	<b>1,800,000</b>	<b>6,300,000</b>
<b>17 August 2005</b>	HK\$2.950						
<i>Directors:</i>							
Mr. Anthony Siu Wing LAU		1,600,000	-	1,600,000	-	-	1,600,000
Mr. Hooi Chong NG		600,000	-	600,000	-	-	600,000
		2,200,000	-	2,200,000	-	-	2,200,000
<i>Employees:</i>							
The Group		800,000	-	800,000	-	-	800,000
		<b>3,000,000</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>
<b>7 February 2006</b>	HK\$4.650						
<i>Employees:</i>							
The Group		3,700,000	-	3,700,000	-	-	3,700,000
		<b>3,700,000</b>	<b>-</b>	<b>3,700,000</b>	<b>-</b>	<b>-</b>	<b>3,700,000</b>
<b>14 March 2006</b>	HK\$4.765						
<i>Directors:</i>							
Mr. Hooi Chong NG		700,000	-	700,000	-	-	700,000
<i>Employees:</i>							
The Group		2,500,000	-	2,500,000	-	-	2,500,000
		<b>3,200,000</b>	<b>-</b>	<b>3,200,000</b>	<b>-</b>	<b>-</b>	<b>3,200,000</b>
		<b>24,300,000</b>	<b>12,300,000</b>	<b>9,900,000</b>	<b>4,200,000</b>	<b>1,800,000</b>	<b>16,200,000</b>

## Report of the Directors

**Share Option Scheme (Continued)**

The above outstanding share options can be exercised as follows:

Date of grant	Closing price per share immediately before date of grant	Tranche	Percentage	Vesting date	Expiry date
4 May 2004	HK\$1.990	1st	25%	4 May 2005	3 May 2009
		2nd	25%	4 May 2006	
		3rd	25%	4 May 2007	
		4th	25%	4 May 2008	
17 August 2005	HK\$2.950	1st	25%	17 August 2006	16 August 2010
		2nd	25%	17 August 2007	
		3rd	25%	17 August 2008	
		4th	25%	17 August 2009	
7 February 2006	HK\$4.650	1st	25%	7 February 2007	6 February 2011
		2nd	25%	7 February 2008	
		3rd	25%	7 February 2009	
		4th	25%	7 February 2010	
14 March 2006	HK\$4.700	1st	25%	14 March 2007	13 March 2011
		2nd	25%	14 March 2008	
		3rd	25%	14 March 2009	
		4th	25%	14 March 2010	

**Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation**

As at 31 July 2006, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company 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 Issuers were as follows:

**(a) Long positions in shares of the Company**

Name of directors	Nature of interest	Number of shares of the Company beneficially held	Approximate percentage of long position in shares to issued share capital of the Company as at 31 July 2006
Mr. Anthony Siu Wing LAU	Trust interest <sup>(Note 1)</sup>	73,286,000	23.66%
	Personal interest	1,000,000	0.32%
Mr. William Hugh Purton BIRD	Corporate interest <sup>(Note 2)</sup>	41,803,688	13.49%
Mr. David Chung Hung WAI	Personal interest	25,654,487	8.28%
Mr. Hooi Chong NG	Personal interest	600,000	0.19%
Mr. Henrik August VON SYDOW	Personal Interest	100,000	0.03%
	Deemed Interest <sup>(Note 3)</sup>	40,000	0.01%
Mr. Christopher John David CLARKE	Personal interest	78,000	0.03%

## Report of the Directors

**Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)****(a) Long positions in shares of the Company (Continued)**

Notes:

- 73,286,000 shares were beneficially owned by Asian Rim Company Limited, which is wholly owned by the brother and brother-in-law of Mr. Anthony Siu Wing LAU ("Mr. LAU") as the trustees of a discretionary trust set up for the benefit of Mr. LAU's family. Mr. LAU is a director of Asian Rim Company Limited.
- These shares were beneficially owned by Tropical Holding Investment Inc. ("Tropical Holding"), which is wholly owned by Mr. William Hugh Purton BIRD and his wife. Mr. William Hugh Purton BIRD is a director of Tropical Holding.
- Mr. Vilhelm VON SYDOW is the minor child of Mr. Henrik August VON SYDOW and Mr. Henrik August VON SYDOW is therefore deemed to be interested in 40,000 shares in which Mr. Vilhelm VON SYDOW is interested.

**(b) Long positions in underlying shares of the Company – share options**

Name of directors	Date of grant	Exercise price per share	Option held at 1 August 2006	Options granted during the year	Options exercised during the year	Options lapsed/surrendered during the year	Options held at 31 July 2006	Approximate percentage of long positions in underlying shares to issued share capital of the Company as at 31 July 2006
Mr. Anthony Siu Wing LAU	4 May 2004 17 August 2005	HK\$2.045 HK\$2.950	2,000,000 –	– 1,600,000	1,000,000 –	– –	1,000,000 1,600,000	0.32% 0.52%
Mr. David Chung Hung WAI	4 May 2004	HK\$2.045	1,500,000	–	–	–	1,500,000	0.48%
Mr. Hooi Chong NG	4 May 2004 17 August 2005 14 March 2006	HK\$2.045 HK\$2.950 HK\$4.765	1,200,000 – –	– 600,000 700,000	600,000 – –	– – –	600,000 600,000 700,000	0.19% 0.19% 0.23%
			4,700,000	2,900,000	1,600,000	–	6,000,000	1.94%

Save as disclosed above and other than certain non-beneficial ordinary shares of the subsidiaries held in bare trust for the Group by Mr. Anthony Siu Wing LAU and Mr. William Hugh Purton BIRD, as at 31 July 2006, 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.

Apart from the Share Option Scheme disclosed above, at no time during the current year had any of the Company or its subsidiaries, been a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Report of the Directors

### Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 July 2006, the following persons (other than the directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of shares	Nature of interest	Approximate percentage to issued share capital of the Company as at 31 July 2006
Asian Rim Company Limited <i>(Note 1)</i>	73,286,000	Beneficial interest	23.66%
Mitsui & Co., Ltd.	75,875,125	Beneficial interest	24.49%
Tropical Holding Investment Inc. <i>(Note 2)</i>	41,803,688	Beneficial interest	13.49%

Notes:

- 73,286,000 shares were beneficially owned by Asian Rim Company Limited, which is wholly owned by the brother and brother-in-law of Mr. LAU as the trustees of a discretionary trust set up for the benefit of Mr. LAU's family. Mr. LAU is a director of Asian Rim Company Limited.
- These shares were beneficially owned by Tropical Holding, which is wholly owned by Mr. William Hugh Purton BIRD and his wife. Mr. William Hugh Purton BIRD is a director of Tropical Holding.

Save as disclosed above, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO for year ended 31 July 2006.

### Directors' service and management contracts

None of the Directors who are proposed for re-election 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 contract 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.

## Report of the Directors

### Continuing connected transactions

#### (a) Connected transactions with the related entities of Jardine Asian Holding Inc.

Throughout the year, the Group provided freight forwarding services to various associates of Jardine Asian Holding Inc. (“JAH”), a substantial shareholder of the Company for the period from 1 August 2005 to 5 January 2006, on normal commercial terms in the ordinary course of business, and received a total consideration of about HK\$2,942,000 from associates of JAH in respect of such services provided. In addition, the Group paid to various associates of JAH a total consideration of about HK\$1,127,000 for the use of their shipping agency services.

Pursuant to the waiver letter issued by the Stock Exchange dated 6 February 2004, the above connected transactions could be exempted from reporting on each occasion as they arise if the conditions set out in the waiver letter have been fulfilled.

#### (b) Connected transactions with the related entities of Mitsui & Co., Ltd.

On 11 January 2006, the Company has entered into an agreement with Mitsui & Co., Ltd. (“Mitsui”), a substantial shareholder of the Company. Pursuant to the agreement, Mitsui has agreed to procure that members of the Mitsui group appoint the Company and/or other members of the Group to provide freight forwarding and handling services to the Mitsui group. The approved maximum aggregate annual values of the fees (as confirmed by shareholders of the Company at the Special General Meeting held on 30 March 2006) payable by members of the Mitsui Group to members of the Group for the services contemplated under the agreement with respect to the three financial years ending 31 July 2008 are HK\$150,000,000, HK\$350,000,000 and HK\$450,000,000 respectively. The aggregate value of the transactions for the period from 6 January 2006 to 31 July 2006 is HK\$5,196,000.

The relevant transactions constituted continuing connected transactions under the Listing Rules and are subject to the reporting, announcement and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules. A press announcement and a circular were respectively published on 18 January 2006 and 2 March 2006 regarding the relevant transactions in accordance with the Listing Rules.

### Confirmation from Directors

The Independent Non-executive Directors, Mr. David Hon To YU, Ms. Miriam Kin Yee LAU and Mr. Cheung Shing NG, have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties (as the case may be); and
- (iii) in accordance with the relevant agreements governing them and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Report of the Directors

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### Findings from auditors

Pursuant to Rule 14A.38 of the Listing Rules, the auditors of the Company have also performed certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants and reported that the above continuing connected transactions have been:

- (i) approved by the board of directors of the Company;
- (ii) entered into in accordance with the terms as mutually agreed and in accordance with the pricing policy of the Group, if applicable, for the samples selected;
- (iii) both the turnover attributable to the associates of JAH in respect of the freight forwarding services transactions and consideration payable to the associates of JAH in respect of the shipping services transactions for the period from 1 August 2005 to 5 January 2006 did not exceed the respective annual caps set out in the waiver letter issued by the Stock Exchange dated 6 February 2004; and
- (iv) the turnover attributable to the related entities of Mitsui in respect of the freight forwarding and handling services transactions for the period from 6 January 2006 to 31 July 2006 did not exceed HK\$150,000,000.

For further details regarding the above continuing connected transactions, please refer to note 38 to the financial statements.

### Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the financial period, the amount of public float as required under the Listing Rules.

### Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, have offered themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Anthony Siu Wing LAU**

*Executive Chairman*

Hong Kong, 23 November 2006