

Corporate Governance Report

The Board of Directors of BALtrans Holdings Limited (the “Board”) considers that delivering high-quality services and maintaining the highest standards of corporate governance are the keys to enhance shareholder value and to ensure sustainable long-term development of the Company. Through promoting highest standards of business integrity, management accountability and stringent internal control, the Group can successfully direct and control its operations across many geographical regions in an effective and cohesive manner. The Board and the management of the Company is committed to ensuring good corporate governance practices essential in enhancing shareholders’ value and safeguarding shareholders’ interests. The principles of corporate governance adopted by the Company emphasize a quality board and sound internal control, as well as transparency and accountability to all stakeholders.

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the year ended 31 July 2006 except for code provision A.4.1 as discussed later in this report.

Board of directors

Board composition

The Board is responsible for making decisions on major operational and financial matters as well as investments, and overseeing the management of the business. The general management and day-to-day operations, including preparation of annual and interim reports and accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of operating budgets, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations, are delegated to the management team of the Group.

The Board is composed of the Executive Chairman, the Chief Executive, two other Executive Directors and six Non-executive Directors, of whom three are independent. Biographical details of the Directors are set out on pages 16 to 18 under the section “Biographical Details of Directors and Senior Management”. None of the members of the Board has any relationship (including financial, business, family or other material or relevant relationship) between each other.

Since June 2006, the roles of Executive Chairman and Chief Executive are separate and not performed by the same individual. Such division of responsibilities helps to reinforce their respective independence and accountability, and are clearly established and set out in writing. The Executive Chairman is responsible for providing leadership to, and overseeing the strategic direction to, the Board to ensure it is functioning properly with good corporate governance practices and procedures. With the support of the Company Secretary, the Executive Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and reliable information on a timely manner. The Chief Executive, supported by the Executive Directors and senior management, is responsible for managing the business of the Company, including the implementation of major strategies and initiatives adopted by the Board.

Corporate Governance Report

Non-executive Directors and Independent Non-executive Directors, with diversified business expertise and professional backgrounds (including Logistics, Sales and Marketing, Finance and Accounting, Legal and Information Technology) are not involved in day-to-day management of the Group. They actively bring their valuable experience to the Board and advise the management on the development of the Company's strategy and policies. The Independent Non-executive Directors contribute to ensuring that the Board maintains high standards of financial and other mandatory reporting, as well as providing adequate checks and balances for safeguarding the interests of all shareholders and the Company as a whole. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider each of them to be independent.

In accordance with the Bye-laws, apart from those holding the office of Chairman or Managing Director, one-third of Directors or, if their number is not a multiple of three, the number nearest to but not less than one-third are subject to retirement by rotation and re-election at every annual general meeting of the Company. Every Director holding the office of the Chairman or Managing Director is subject to re-election once every three years. New Directors appointed by the Board during the year are required to retire and offer themselves for re-election at the next following general meeting of the Company.

For the year under review, Non-executive Directors were not appointed for a specific term, and this constituted deviation from code provision A.4.1 of the Code on Corporate Governance Practices. The Board regards that although no specific term was set out in writing for each of the Non-executive Directors, they are all subject to retirement by rotation and re-election at the Company's annual general meetings pursuant to the Bye-laws. On average, Directors are subject to re-election by shareholders once every three years, and that such provision in Bye-laws ensures that shareholders may exercise their right in terminating the terms of any Non-executive Director.

As there are currently nine Directors (except the Executive Chairman) subject to the requirement to retire by rotation, and one-third of them shall retire and subject to re-election by the shareholders at each annual general meeting of the Company, each of the Non-executive Directors is effectively appointed for a term of approximately three years.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors from their risk arising out of corporate activities. The insurance coverage is reviewed annually.

Board meetings

The Board meets regularly and at least four times a year. Regular Board meetings of the year are scheduled in advance and Directors receive at least 14 days prior notice and an agenda with supporting Board papers no less than 3 days prior to the meeting. All Directors have access to the advice and service of the Company Secretary who is responsible for ensuring that correct Board procedures and all applicable rules and regulations are followed and advise the Board on all corporate governance matters, and may seek independent professional advice at the Company's expense, if necessary, in accordance with the agreed procedures.

Corporate Governance Report

During the year ended 31 July 2006, the Board met 12 times. The attendance record of each member of the Board is set out below:

Directors	No. of Regular Meetings Attended/Held	No. of Ad Hoc Meetings Attended/Held	No. of Total Meetings Attended/Held	Attendance Rate
Executive Directors				
Mr. Anthony Siu Wing LAU (Executive Chairman)	4/4	6/8	10/12	83.3%
Mr. Henrik August VON SYDOW (Note 1) (Chief Executive Officer)	N/A	1/1	1/1	100%
Mr. Hooi Chong NG	4/4	8/8	12/12	100%
Mr. Tetsu TOYOFUKU (Note 1)	N/A	1/1	1/1	100%
Non-executive Directors				
Mr. William Hugh Purton BIRD	4/4	5/8	9/12	75%
Mr. David Chung Hung WAI	3/4	2/8	5/12	41.7%
Mr. Christopher John David CLARKE	2/4	6/8	8/12	66.7%
Mr. Peter James Holland RILEY (Note 2)	2/2	2/3	4/5	80%
Mr. Naruyuki SADO (Note 3)	2/2	1/2	3/4	75%
Independent Non-executive Directors				
Mr. David Hon To YU	4/4	6/8	10/12	83.3%
Ms. Miriam Kin Yee LAU	3/4	4/8	7/12	58.3%
Mr. Cheung Shing NG	4/4	3/8	7/12	58.3%

Notes:

1. Appointed on 5 June 2006.
2. Resigned on 6 January 2006.
3. Appointed on 7 February 2006 and resigned on 5 June 2006.

Directors' securities transactions

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the year under review.

Directors' responsibilities for the accounts

The Directors acknowledge their responsibilities for preparing the financial statements of the Group which give a true and fair view, and ensuring that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 41.

Corporate Governance Report

Board committees

The Board has appointed the following committees with defined written terms of reference to oversee particular aspects of the Company's affairs:

Audit Committee

The Audit Committee comprises two Independent Non-executive Directors, namely Mr. David Hon To YU (Chairman of the Audit Committee) and Mr. Cheung Shing NG, and a Non-executive Director, Mr. William Hugh Purton BIRD. Mr. David Hon To YU has the appropriate professional qualifications and experience in financial matters as required by the Listing Rules.

Under its terms of reference, the Audit Committee is responsible for the appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system, internal control procedures, risk management frameworks and internal audit function, as well as monitoring compliance with statutory requirements. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval.

The Audit Committee held 4 meetings during the year ended 31 July 2006 to review (i) unaudited interim financial report and audited annual financial statements; (ii) the remuneration of external auditors and to evaluate the independence and objectivity of external Auditors; (iii) internal and external auditors' report on internal controls and their audit plans; and (iv) the financial and accounting policies and practices, the internal control, financial control and risk management system of the Company.

The attendance record of the Audit Committee member during the year ended 31 July 2006 is set out below:

Directors	No. of Meetings Attended/Held	Attendance Rate
Mr. David Hon To YU (<i>Chairman</i>)	4/4	100%
Mr. Cheung Shing NG	3/4	75%
Mr. William Hugh Purton BIRD (<i>Note 1</i>)	0/1	0%
Mr. Peter James Holland RILEY (<i>Note 2</i>)	1/1	100%
Mr. Naruyuki SADO (<i>Note 3</i>)	1/1	100%

Notes:

1. Mr. William Hugh Purton BIRD was appointed as an Audit Committee member on 5 July 2006.
2. Mr. Peter James RILEY ceased to be an Audit Committee member on 6 January 2006.
3. Mr. Naruyuki SADO was appointed on 7 February 2006 and ceased to be an Audit Committee member on 5 June 2006.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee consists of one Non-executive Director, Mr. Christopher John David CLARKE (Chairman of the Remuneration Committee) and two Independent Non-executive Directors, namely Ms. Miriam Kin Yee LAU and Mr. Cheung Shing NG.

The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and reviewing and determining the performance-based remuneration of all Executive Directors and senior management by reference to corporate goals and objectives. The written terms of reference for the Remuneration Committee clearly define its role, functions and authorities.

The Committee held two meetings during the year in which all the Committee members attended. They also regularly discussed remuneration matters during the year under review.

Nomination Committee

The Nomination Committee consists of one Non-executive Director, Mr. Christopher John David CLARKE (Chairman of the Nomination Committee) and two Independent Non-executive Directors, namely Ms. Miriam Kin Yee LAU and Mr. Cheung Shing NG.

The Nomination Committee is responsible for making recommendations to the Board on the appointment of Directors, as well as reviewing the structure, size and composition of the Board with reference to certain guidelines as endorsed by the Nomination Committee, include appropriate professional knowledge and business experience, personal ethics, integrity and personal skills. The Nomination Committee carries out the process of selecting and recommending candidates for directorship, including the consideration of referrals and engagement of external recruitment professionals when necessary.

The Committee held a meeting during the year in which all the Committee members attended. They also discussed matters relating to renomination of Directors.

Auditors' remuneration

For the financial year ended 31 July 2006, the total remuneration in respect of audit and non-audit services provided by the external auditors to the Group were as follows:

Nature of services	Approximate amount (HK\$'000)
Audit services	7,262
Non-audit services	
(i) Tax services	1,082
(ii) Other services (Agreed-upon procedures on connected transactions and interim results, financial due diligence on acquisition transactions and others)	1,315

Corporate Governance Report

Internal control and risk management

The Board acknowledges its overall responsibility for maintaining a sound and effective internal control system to safeguard shareholders' investments and the Group's assets. The key procedures that the Group has established to provide effective internal controls and checks and balances include:

- the implementation of Quality Management System in the Group's key subsidiary company, BALtrans Logistics (Hong Kong) Limited, in accordance with the requirements of the International Organization for Standardization ("ISO") 9001:2000 system for quality management. In line with the ISO requirements, major operational procedures and instructions with illustrative flow charts are documented. Each year, an external ISO certification organization, BVQI, carries out independent audit on the Quality Management System of this subsidiary company;
- the initiation of a system of operation irregularity reporting on matters concerning operational blunders that may give rise to financial losses or customer dissatisfaction due to ineffective controls or negligence. Each company within the Group assigns quality personnel to provide a monthly summary of the operational irregularity issues and the recommended preventive measures for the attention and action of the Group's senior management executives;
- the preparation of annual business plans and financial budgets by the subsidiaries for the approval of the Group's senior management executives. On a monthly basis, management of subsidiaries report and explain to the Group's senior management executives of the variances against the plans and budgets;
- the setting up of the internal audit function since 2004 to carry out independent reviews of risks and internal controls; and
- the implementation of a whistle blower policy during the year so as to encourage employees to raise concerns about internal malpractices without fear. The reporting of such matters is internally directed to the Head of Internal Audit, who will review and decide how the investigation should be conducted.

To ensure the independence of the internal audit function of the Group, the Head of Internal Audit reports functionally to the Audit Committee and administratively to a Group Executive Director. An internal audit charter was approved and adopted by the Audit Committee. Through the internal audit charter, the internal audit function is given unrestricted rights of access to all records, property and personnel of the Group and its companies which are necessary to achieve its objectives.

Corporate Governance Report

Major functions of the internal audit function include:

- review of material controls on financial, operational and compliance in the key business processes of the Group's global operations;
- conducting special reviews on and investigations into areas of concern identified by Group's senior management executives;
- monitoring the progress of corrective actions recommended by the external auditors in their internal control reports.

In view of the Group operating in a significant number of geographical locations, the internal audit function carries out reviews of the operating companies on a rotational basis according to the annual audit plan that is approved by the Audit Committee. Apart from the routine reviews, the internal audit function also distributes the Internal Control Self Assessment Questionnaires ("ICSAQ") to be completed each year by all operating companies. The ICSAQ provides the framework on material financial, operational, compliance controls and risk management procedures that should be in place within the companies in the Group. Management of each operating company is required to provide its own assessment rankings on the relative strengths and weaknesses of the internal control system. The internal audit function carries out independent reviews on the key control activities during the routine audit visits.

At the end of each audit visit, internal audit function issues an audit report that is circulated to the Audit Committee, external auditors, Group's Executive Directors and the Executive Chairman. The report comprises findings, recommendations and management's agreed implementation dates for rectification. On a regular basis, internal audit function follows up on the implementation status of all audit recommendations agreed. The Head of Internal Audit then summarizes audit activities and reports audit progress to the Audit Committee during the Audit Committee meetings.

Apart from the ICSAQ, the internal audit function circulates the annual "General Representation Letter" to be completed by respective country managing executives as they give a personal certification of their compliance with policies (internal and regulatory), procedures and key internal control systems. The General Representation Letters are addressed to the Executive Chairman, the Chief Executive and the Executive Directors of the Group as of the end of financial year, and are meant to reinforce personal responsibility for good governance and controls by country managing executives.

For the financial year ended 31 July 2006, the Board, through the Audit Committee, has reviewed the effectiveness of key control activities of major operating companies over broad based risk management functions, financial, operational and compliance controls. The Audit Committee and the Board concluded that, in general, the internal control system of the Group is adequate. Nevertheless, the Audit Committee and the Board are committed to continue improving and strengthening the internal control systems of the Group.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, a strict prohibition on unauthorised use of confidential or insider information is included in the Code of Conduct of the Group. Employees who are privy or have access to unpublished price-sensitive information of the Group has also been notified through the Group corporate secretarial on the adoption of the "Code of dealing with price sensitive information and securities transactions by relevant employees".

Corporate Governance Report

Investor relations and shareholders' rights

The Company actively promotes investor relations and communications by participating in investors' conferences. The Executive Directors respond to requests for information and queries from the investment community through press conferences and presentations.

Shareholders are encouraged to attend all general meetings of the Company. All shareholders receive proper notice of annual general meeting of the Company, at which Directors and Chairmen of each of the Board Committees or their delegates or representatives are available to answer questions on the Group's businesses.

All substantive resolutions at the annual general meeting of the Company are decided on a poll, which is conducted by the Company's Share Registrars and the results of the poll are published in local newspapers as well as on the Company's website (www.baltrans.com). Financial and other information is made available on the Company's website, which is regularly updated.

Under the Bye-laws, shareholders holding not less than one-tenth of the paid up capital of the Company have the right to call for special general meetings and put forward agenda items for consideration by shareholders by depositing to the Board or the Company Secretary a written request for such meetings together with such agenda items. The same procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Any enquiries by shareholders can be sent in writing to the Company at the Company's business address in Hong Kong, or by e-mail via the Company's website.