

TO THE SHAREHOLDERS

Throughout the year under review, BALtrans Holdings Limited (the "Group") has made progress in a number of areas amidst the continued difficult environment in which we operate. The completion of the acquisition of Jardine Logistics Group ("Jardine Logistics") in January 2003 has demonstrated our commitment to our strategy of expansion through acquisitions. We believe that the Group's core strategy in terms of enhancing our logistics capabilities will continue to bear fruit despite challenging circumstances.

GENERAL REVIEW

The financial year 2003 was undoubtedly the most eventful and challenging the Group has faced since our listing in 1992.

Amidst a challenging environment, we have achieved record revenue this year due to both robust organic growth as well as revenue contribution from our newly acquired Jardine Logistics. We have made substantial progress in streamlining and improvement of Jardine Logistics' operations. However, our profitability for the year was negatively impacted by a combination of factors, in particular, the continued losses of the newly acquired Jardine Logistics and the associated non-recurrent restructuring costs, as well as property revaluation losses. At the same time, a number of unfavourable external factors, such as the outbreak of SARS and the war in Iraq, also affected our operations for a limited period. As these events are not expected to recur, we are confident of the future financial performance of the Group on the back of improving global economic outlook and rising trade flows.

We have continued our expansion strategy as demonstrated by our successful acquisition of Jardine Logistics, a key milestone which signified our Group's coming of age and its entry into the league of major logistics players on the global stage. The acquisition more than doubled the scale of the Group's business, further strengthened our UK and European markets to complete the Group's global coverage of logistics services, and added to our portfolio of service offerings a growing third-party logistics management platform to facilitate our move up the supply chain.

Jardine Logistics' core competence in seafreight business is also highly complementary to the Group's strong airfreight capabilities. The combined global freight forwarding and logistics platform have positioned us as a leading Asia-based logistics group with a comprehensive and robust global network of logistics operations as well as full service offerings to access a wider pool of potential customers globally. Our scale and strengths across airfreight and seafreight capabilities increase our bargaining power and provide substantial scope for cost synergies and economies of scale.

Although we are confident of the medium and longer-term return and strategic benefits of the acquisition, there was nevertheless substantial negative impact on the overall profitability of the Group during the year. This was due to the legacy of inherently uneconomic revenue and cost structure at Jardine Logistics. Subsequent to the completion of the acquisition, a number of issues have surfaced which could potentially affect the acquisition consideration. We are in negotiation with the vendor and are hopeful that the matter can be resolved amicably.

In light of these challenging circumstances, we have taken decisive and necessary steps to turn around Jardine Logistics since the acquisition. We revised the sales strategies with emphasis on gross margin rather than sales revenue and we reduced substantial overheads through restructuring and sharing of group resources. We took over the management and accounting functions on acquisition and have instituted best practices in management controls based on the experience of the Group.

As a result, we incurred some one-time costs for restructuring that were necessary to rationalise and integrate both businesses. Notwithstanding the adverse impact on the Group's results for the year, we saw the rationalization and integration as an important step to fully realise the value of the acquisition.

Apart from the traditional freight forwarding business which will continue to grow on the back of rising global trade flows, we believe that third-party logistics will also be a key growth driver for the Group in the future. Towards that end, we are making investments to upgrade our logistics operations to provide third-party logistics services such as Vendor Managed Inventory ("VMI") Hub services for multi-national companies in key locations such as Shanghai and Hong Kong. We believe that the increased traction we gain through such strategic relationships would be highly synergistic with our freight forwarding business. The systems and facilities that we put in place also have a high degree of scalability to cope with future business growth.

Looking back, it has been a challenging year for the Group. However, we believe the challenges and adverse impact associated with the outbreak of SARS and the rationalization and integration of Jardine Logistics are largely transitory. With improved competitiveness on the combined platform, we are confident of our medium and long-term prospects.

LOOKING AHEAD

As economic ties between Hong Kong and Mainland China become increasingly strong, we envisage an optimistic future for our Hong Kong and Mainland China operations.

The recently signed Closer Economic Partnership Arrangement (CEPA) provides Hong Kong companies and the Hong Kong-based subsidiaries of multinationals with significantly greater access to the China market. Moreover, Hong Kong has long been the gateway to and from Mainland China, in particular the manufacturing powerhouse of the Pearl River Delta region. Its strategic location and dynamic business environment attract international businesses looking for more than transportation solutions. Hong Kong's role as a regional base for multinationals is further solidified with CEPA.

As a leading Hong Kong-based freight forwarding and logistics group, BALtrans continues to focus on its core competencies in order to capture business opportunities arising from the continued development and growth of the Mainland China market.

Meanwhile, we are also seeking to expand our Mainland China operations to capitalise on the booming direct export trade at Chinese ports. Towards that end, we are assessing strategic options for acquiring existing players and/or setting up our own companies or joint ventures in the Pearl River Delta region and at key ports. We believe that our established presence in China as well as international credentials position us as the partner-of-choice for many domestic and international logistics service users and operators.

The acquisition of Jardine Logistics will continue to yield synergies that are instrumental in expanding the Group's businesses worldwide. With the combined strengths and the enlarged network of our logistics operations, we believe that the Group is well positioned to develop into a true global player.

Freight forwarding remains our core business, while we see vast potential for integrated logistics, a relatively new concept in Asia. Given the low penetration rate for third party logistics in the region, especially in Mainland China, there is plenty of room for growth.

We will continue with our strategy of growth through acquisition and expect to reap longer-term benefits from the strategic acquisitions accomplished in the past years. To bring our profitability on track again, we will seek to improve our operating results through both revenue enhancement and cost efficiency initiatives which will be implemented in the year ahead.

Finally, I would like to extend my sincere thanks to our shareholders, staff and Board of Directors for their continued support and dedicated efforts in these challenging times. I look towards an encouraging year with the creation of long-term value for our shareholders.

Anthony Siu Wing LAU

Chairman and Chief Executive

Hong Kong, 25th November 2003