

Chairman's Statement



TO THE SHAREHOLDERS

The financial year of 2004 is a year of consolidation for the Group. After the difficult second half of 2003, the management of the Group has continued to forge ahead with restructuring and integration of the Jardine Logistics Group ("Jardine Logistics") in all geographical locations. Although it was the most challenging period for the Group, through the dedication and commitment of the management team and the employees of the Group, we have managed to achieve substantial progress.

During the financial year, we achieved a record group revenue of over HK\$3.3 billion, a 39% increase over the prior year as we include for the first time the full year revenue contribution from Jardine Logistics. This represents a 151% increase over our group revenue pre-acquisition in 2002 and is in line with our initial expectations upon acquisition. It also demonstrated the management capability and commitment to continue to deliver organic growth and synergies on the combined platform in the face of restructuring challenges. With the change in focus and strategy in Jardine Logistics businesses, the group's gross margin has improved during this financial year from its trough in the second half of 2003, and the net profit in 2004 has increased substantially by 131% to approximately HK\$53 million compared to 2003 as a result of the realization of cost synergies. Whilst the US operation incurred losses during the year, we have returned the rest of the Jardine Logistics to profitability, and we shall strive to achieve profitability in the US operation in the near future.

The integration and consolidation of the Jardine Logistics businesses has been largely completed during this financial year in all geographical regions except for China, which will be our focus for restructuring and integration in the coming year. Nevertheless, we will continue with our efforts to realize further cost synergies from the combined businesses.

In the mean time, the Group continues to extend and diversify its geographical reach, including setting up a joint venture in Germany initially with 6 offices in March 2004. This signifies our first foray into the heart of the largest economy in Continental Europe. In the same month, BALtrans also entered into a joint venture with Shenzhen Yantian Port Group Co. Limited and Shing Kee Logistics (Shenzhen Yantian) Limited to provide container logistics and cargo consolidation services at Yantian Port, Shenzhen. In May 2004, the Group acquired Exhibitstrans Logistics Ltd., a major exhibitions forwarder in China known for its expertise in automobile and telecommunications exhibitions to supplement our existing strong portfolio in the exhibitions forwarding market.

As the Group expands in terms of business volume and network and in view of the challenges that we faced during the integration process, we have strengthened our financial and operational control over all our offices globally through the implementation of standardized group directives, code of conduct and financial policies as well as through our internal audit function. We are also close to completing the implementation and customization of the new IT platform in the Head Office and we are planning to roll out the global IT platform encompassing operation and finance functions to our overseas offices in the coming year to improve our processing efficiency and to provide our customers with user-friendly supply chain interface.

Looking ahead, the Group is looking for growth through internally driven volume growth as well as strategic acquisitions and alliances.

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In order to drive top line growth, the Group has launched a new global accounts initiative focusing on key customers who have substantial multi-trade lane volumes by realigning our service framework to gravitate around the global requirements of such customers. We have redesigned our management incentives to emphasize growth, margin expansion, cash collection and financial procedures. We also intend to establish a common platform for better sharing of customer data across the Group's total network to facilitate cross-selling. In terms of expansion into new key markets, we are in the process of setting up new offices in India, an emerging market that could potentially be as strategically important to the Group as China. In China, we have recently obtained a Class A License for our Guangzhou office, which would enable us to pursue rapid business expansion with the opening of the new airport in Guangzhou.

The Group continues to actively assess potential acquisition targets outside of Asia with a view to strengthening our market position in key consignee markets such as the United States, the United Kingdom, Continental Europe and Australia. Such acquisitions would provide a new engine for growth and would be highly synergistic with our established network in Asia.

Finally, I would like to extend my sincere thanks to our shareholders and employees for their continued support and dedicated efforts in turning around the Jardine Logistics operations. With a positive industry environment and our established position in the fast growing emerging markets, I believe that we are well-positioned to deliver better performance in the coming years.

Anthony Siu Wing LAU

Chairman and Chief Executive

Hong Kong, 25th November 2004