

Management Discussion and Analysis of Results of Operations and Financial Position

You should read the following discussion and analysis in conjunction with the consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) and the accompanying notes thereto included elsewhere in this Annual Report. The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements and the discussion and analysis below assume that the Group’s current structure had been in existence throughout the years presented.

OVERVIEW OF OUR OPERATIONS

We are a leading provider of logistics services in China with access to a nationwide service network and an overseas agency network. Our core services include freight forwarding, express services and shipping agency services, while our support services comprise storage and terminal services, marine transportation and other services. Our well-established service network as well as our united and integrated services strategy and competence enable us to provide integrated logistics services to our customers.

Our operating results are divided into the following six segments:

- freight forwarding;
- express services;

- shipping agency;
- storage and terminal services;
- marine transportation; and
- other services, of which trucking is the primary service.

The operating results from our integrated logistics services are included in the above business segments, with most of such results being included as part of our freight forwarding results and some being included as part of storage and terminal services results, depending on the source of the business and the nature of the services.

OUTLOOK OF OUR OPERATIONS

The global politics and economy still harbour not a few of uncertainties in 2003. The upheaval in the Middle East will affect adversely the global economic recovery and development. Nevertheless, China, in which our operations situate, continues to maintain strong growth in its economy. With further liberalisation of its market, China will enjoy sustained increment in both its external trade volume and direct investment from overseas investors, enlarging further the size of its trade market and benefiting immediately the transportation and logistics industry we engage in. As a result, our operations are offered rapid development potential.

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The uncertainties in global economic development and the competition pressure brought by further liberalising the PRC market may, to a certain extent, affect the business development of the Group. However, with our well-established service network and integrated service strategy and competence, together with

our experienced management team, strong customer base and customer handling experience, as well as our firm and sound financial policies and healthy financial position, our management is full of confidence in the Group's business prospects in 2003.

OPERATING STATISTICS

The table below sets forth certain of the Group's operating statistics by business segments for the years indicated:

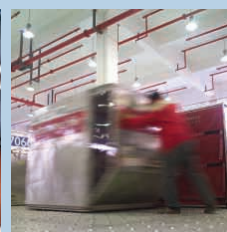
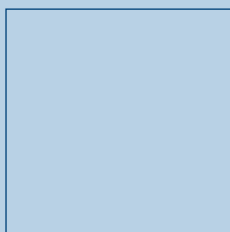
	For the year ended 31 December	
	2002	2001
Freight forwarding		
Sea freight forwarding (in millions of tonnes)		
Bulk cargo	4.8	6.5
Container cargo	24.3	19.4
Air freight forwarding (in millions of kilograms)	159.1	135.5
Rail freight forwarding (in millions of tonnes)		
Bulk cargo	3.3	3.3
Container cargo	0.4	0.5
Road freight forwarding (in millions of tonnes)		
Bulk cargo	0.3	0.4
Container cargo	0.9	0.6
Express services		
Packages (in millions of units)	9.5	7.4
Shipping agency		
Net registered tonnes (in millions of tonnes)	155.4	129.8
Vessel calls	42,920	36,011
Storage and terminal services		
Warehouses (in millions of tonnes)	17.2	16.3
Terminals (in millions of tonnes)	5.3	3.6
Marine transportation		
TEUs	769,175	564,526
Other services		
Trucking (in millions of tonnes)	3.0	3.0

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RESULTS OF OPERATIONS

The table below presents the Group's selected financial information for the years indicated:

	For the year ended 31 December	
	2002	2001
	(RMB in millions, except for per share and number of shares data)	
Turnover	13,550.4	11,049.8
Other revenues	41.9	32.3
Total revenues	13,592.3	11,082.1
Transportation and related charges	(10,074.3)	(8,085.1)
Total revenues, net of transportation and related charges	3,518.0	2,997.0
Depreciation and amortisation	(186.3)	(152.8)
Operating costs, excluding depreciation and amortisation:		
— Staff costs	(1,012.9)	(856.2)
— Repairs and maintenance	(79.9)	(69.3)
— Fuel	(214.7)	(155.9)
— Travel and promotional expenses	(179.2)	(147.2)
— Office and communications expenses	(118.8)	(101.1)
— Rental expenses	(578.3)	(525.7)
— Other operating expenses	(254.5)	(265.7)
Operating profit	893.4	723.1
Finance income, net	28.0	31.0
	921.4	754.1



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	For the year ended 31 December	
	2002	2001
	(RMB in millions, except for per share and number of shares data)	
Share of results of associates before taxation	10.1	11.0
Profit before taxation	931.5	765.1
Taxation	(244.2)	(207.3)
Profit after taxation	687.3	557.8
Minority interests	(115.1)	(105.5)
Profit for the year	572.2	452.3
Profit distribution	(478.0)	(74.6)
Earnings per share, basic and diluted ⁽¹⁾	RMB0.22	RMB0.17
Number of shares (in millions) ⁽¹⁾	2,624.1	2,624.1

Note:

- (1) Basic and diluted earnings per share for the years ended 31 December 2002 and 2001 have been computed by dividing the profit for the year by 2,624,087,200 shares, being the number of shares issued and outstanding upon the legal formation of the Company on 20 November 2002 as if such shares had been outstanding for all years presented. As there are no potentially diluted shares, there is no difference between basic and diluted earnings per share.

The information included in the above table and in our discussion in this section is presented in a

format which differs in certain respects from the Group's consolidated financial statements. In particular, we have included an additional line item - total revenues, net of transportation and related charges.

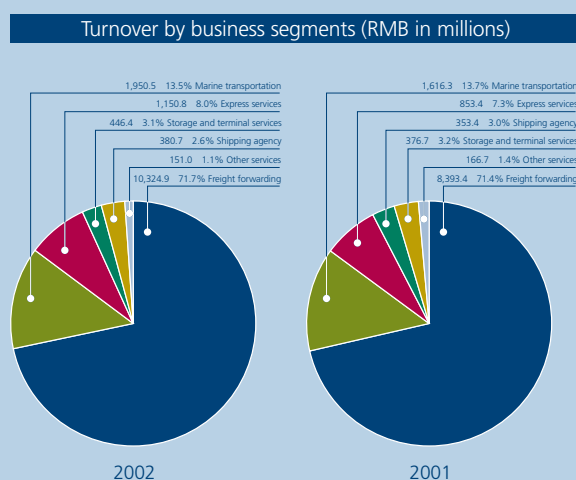
We record the Group's turnover in respect of some segments, such as freight forwarding, on a gross basis, being the full amount we charge our customers before deducting the transportation and related charges we pay to third party transport carriers who provide the transportation services. We record the Group's turnover in respect of certain other services,

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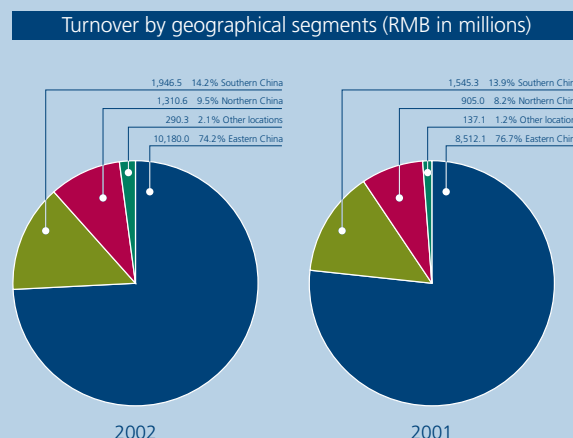
such as shipping agency, on a net basis, in that the amount we record as turnover excludes the amounts we incur to third party service providers that are necessary to generate the Group's turnover.

We have therefore presented the additional line item — total revenues, net of transportation and related charges — so that you can better compare and analyse the Group's revenues after deducting the transportation and related charges which we incur to third party transport carriers who provide the relevant transportation services that we effectively pass on to our customers.

The table below sets forth the Group's turnover by business segments and their respective percentage of total turnover before inter-segment elimination for the years indicated:

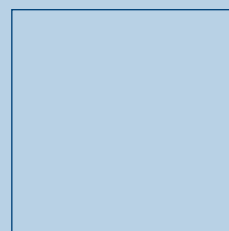
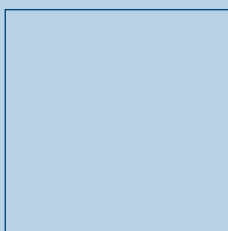


The table below sets forth the Group's turnover by geographical segments and their respective percentage of total turnover before inter-segment elimination for the years indicated:



Notes:

- (1) Eastern China includes core strategic locations in Jiangsu, Shanghai, Zhejiang, Fujian and Shandong and the operations of Sinoair (Sinotrans Air Transportation Development Co., Ltd., a listed company on the Shanghai Stock Exchange. Stock name: Sinotrans Air; stock code: 600270) in Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong.
- (2) Southern China includes core strategic locations in Guangdong, Shenzhen and Hubei and the operations of Sinoair in Hubei, Hunan, Guangdong, Guangxi, Hainan, Guizhou and Yunnan.

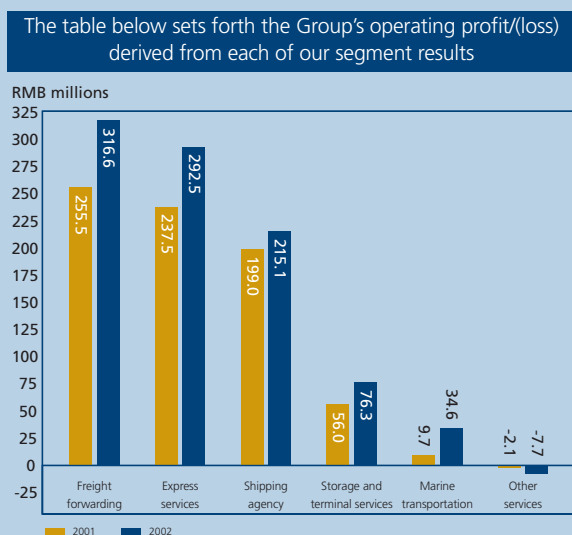


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- (3) Northern China includes core strategic locations in Liaoning, Tianjin and the operations of Sinoair in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Henan.
- (4) Other locations primarily includes air freight forwarding and express services operated by Sinoair and certain of our jointly controlled entities in locations other than the above.

Eastern China accounted for 74.2% of total turnover before inter-segment elimination for the year ended 31 December 2002 primarily due to the fact that Eastern China comprises the more economically developed regions of China.

The table below sets forth the Group's operating profit/(loss) derived from each of the segment results. Each segment result is defined as the turnover for that segment less direct operating expenses but before deducting unallocated costs. The segment results are presented as an amount of the Group's combined segment results for the years indicated:



COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2002

Turnover

The Group's total turnover increased 22.6% from RMB11,049.8 million in 2001 to RMB13,550.4 million in 2002, mainly due to the increase in turnover from freight forwarding, marine transportation and express services. Moreover, by further restructuring its business operations, the Group enjoyed the benefits arising from integrated and standardised operations. As a result, the Group achieved better resources allocation and economies of scale. On top of that, the Group implemented an employee incentive plan which also led to the increase in turnover.

Freight forwarding

Our freight forwarding services for import and export cargo encompasses both container cargo and bulk cargo. Meanwhile, we offer ancillary services to our customers including arranging for customs declaration and clearance, preparation of documentation, consolidation and distribution, trucking and warehousing. In addition, we also have the ability to provide special services such as project and trade fair cargo transportation. We use our Electronic Data Interchange ("EDI") technology extensively in our freight forwarding operations.

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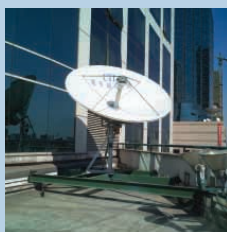
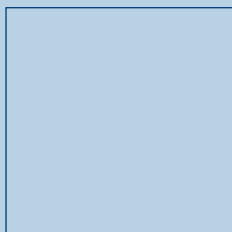
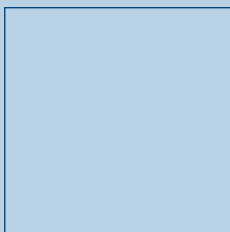
We believe that in the freight forwarding sector, price and quality of service are the major factors of gaining the market share, and we also believe the main features of quality of service are professional, safe and reliable service and quick response to customers' demand. Apart from competitive price, we also think that experienced staff, strong customer base and our expertise in providing value-added service are our invaluable competitive edges.

Turnover from our freight forwarding services increased 23.0% to RMB10,324.9 million in 2002 from RMB8,393.4 million in 2001. Income from containers sea freight forwarding services and air freight forwarding services are the largest components of the turnover from freight forwarding. The number of containers handled by sea freight forwarding services increased 22.9% to 2.58 million TEUs in 2002 from 2.10 million TEUs in 2001, while the amount of cargo handled by our air freight forwarding services increased 17.4% from 135,500 tonnes in 2001 to 159,100 tonnes in 2002. The growth in freight forwarding revenue in 2002 was mainly due to our ability to maintain a relatively faster pace of business development in the economic growth.

Express services

A substantial portion of our express services operation is carried out by the Company's subsidiary, Sinoair, which is a listed company in the PRC.

We offer a range of international express services through our joint ventures and partnerships with international express services providers such as DHL, UPS and OCS. The services portfolio includes door-to-door custom-cleared delivery services to over 200 countries and regions worldwide and guaranteed on time delivery. Our EDI technology enables customs clearance of shipments in advance of their arrival. In addition, each shipment is assigned a unique barcoded airwaybill enabling us and our customers, via the internet, to track the status of a shipment. We believe that our advanced tracking systems allow us to save costs as well as facilitate secure and reliable delivery services.



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Turnover from our express services increased 34.8% to RMB1,150.8 million in 2002 from RMB853.4 million in 2001. The number of documents and packages handled increased 28.9% to 9.54 million pieces in 2002 from 7.40 million pieces in 2001. The growth was primarily due to the new services provided by the Group and the increase in the number of our branches. Moreover, in 2002, the average weight per document and package handled by us increased as compared to 2001 and therefore, the growth in turnover was higher than the growth in the number of documents and packages handled.

Shipping agency

We have well-established shipping agency operations in many major ports in China including Dalian, Fuzhou, Guangzhou, Lianyungang, Ningbo, Qingdao, Shanghai, Shenzhen, Tianjin and Xiamen.

We conduct our shipping agency business under the “Sinoagent” brand and have, through offering standardised services, established a good reputation amongst shipping companies.

We believe our strength lies in our large freight forwarding customer base, our good reputation in the market, and our long-established business relationship with many of

the major shipping companies. Good coordination between our freight forwarding activities and our shipping agency operations enables us to extract synergies between these two businesses.

Turnover from our shipping agency services increased 7.7% to RMB380.7 million in 2002 from RMB353.4 million in 2001. The number of containers we handled increased 29.2% to 4.65 million TEUs in 2002 from 3.60 million TEUs in 2001. Net registered tonnage of vessels handled by our shipping agency services also increased 19.7% from 129.8 million tonnes in 2001 to 155.4 million tonnes in 2002. The number of vessel calls we managed increased 19.2% from 36,011 in 2001 to 42,920 in 2002. Our turnover and volume growth in shipping agency services were primarily due to our enhanced effort in customer service and marketing and our ability to maintain a relatively faster pace of business development. However, due to the increasing competition and the decline in our agency fee rates in response to the decline in the market rates, the turnover growth from the volume growth was partially offset.

Storage and terminal services

Our storage and terminal services play an important supporting role to our freight forwarding and integrated logistics services.

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The aggregate turnover from storage and terminal services amounted to RMB446.4 million in 2002, a 18.5% growth from RMB376.7 million in 2001. Our warehouses handled 17.22 million tonnes of cargo in 2002, a 5.6% increase from 16.30 million tonnes in 2001; cargo tonnage handled in terminals increased 47.8% from 3.60 million tonnes in 2001 to 5.32 million tonnes in 2002, mainly because of the increased production capacity such as terminal loading/ unloading facilities in recent years and the more integrated cargo-handling capability at terminals, resulted from the acquisition of two terminal operating companies on 30 June and 30 September 2002 respectively. Moreover, while enhancing its import and export business, the Group proactively developed its domestic goods handling business in 2002, boosting the percentage of its domestic trading goods handling volume over total storage and terminal business volume from 5.4% in 2001 to 22.7% in 2002. However, the fee scale for handling domestic trading goods was lower than that of handling import and export trading goods, leaving the increment in turnover smaller than that of business volume.

Marine transportation

In support of our freight forwarding operations and to further develop our international network in accordance with our business

strategy, we have established liner and feeder operations in many important manufacturing and trading centers.

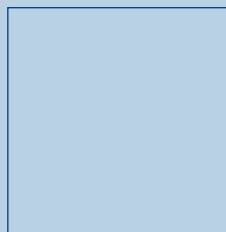
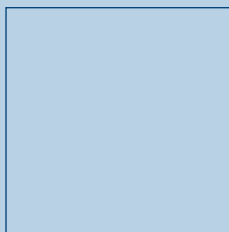
Turnover from our marine transportation services increased 20.7% from RMB1,616.3 million in 2001 to RMB1,950.5 million in 2002. The volume of containers shipped by the Group rose to 769,175 TEUs in 2002, a 36.3% up compared to the 564,526 TEUs in 2001. The growth could be largely attributed to our new shipping lines and capacity in the second half year in 2002, driving the turnover to increase; yet the revenue growth in marine transportation was partially offset by the fluctuation in international sea freight rates.

Other services

Turnover from other services, primarily from our trucking services, decreased 9.4% from RMB166.7 million in 2001 to RMB151.0 million in 2002. The Group shipped 3 million tonnes of cargo in 2002, same as 2001. Due to the market competition, the business suffered a decrease in freight rates that led to the decrease in turnover.

TRANSPORTATION AND RELATED CHARGES

Transportation and related charges increased 24.6% from RMB8,085.1 million in 2001 to RMB10,074.3 million in 2002 primarily due to the increased volume of business.



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TOTAL REVENUES, NET OF TRANSPORTATION AND RELATED CHARGES

In 2002, total revenues, net of transportation and related charges increased 17.4% to RMB3,518.0 million from RMB2,997.0 million in 2001, while the turnover increased 22.6%. This is primarily due to the increase in transportation costs and related charges at a higher rate resulted from intense competition.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased 21.9% from RMB152.8 million in 2001 to RMB186.3 million in 2002 primarily as a result of increased fixed assets and intangible assets.

OPERATING COSTS, EXCLUDING DEPRECIATION AND AMORTISATION

In 2002, our operating costs, excluding depreciation and amortisation, were RMB2,438.3 million, a 15.0% increase from RMB2,121.1 million in 2001. The increase in operating costs, excluding depreciation and amortisation, was primarily due to the increased expenditure on staff costs, lease payments, travel and promotional expenses, office and communications expenses and fuel costs. The increase in staff costs was primarily due to the wage adjustment in our companies in Zhejiang, Shanghai, Jiangsu and Guangdong and also the establishment of new express services branches by Sinoair. The increase in

fuel costs was due to the increase in marine transportation capacity and the rise of international petroleum price, leading to the 37.7% increase in fuel costs in 2002. On the other hand, our business development also boosted our lease payments, travel and promotional expenses and the office and communications expenses in 2002 accordingly.

OPERATING PROFIT

In 2002, our operating profit was RMB893.4 million, an increase of 23.6% from RMB723.1 million in 2001 primarily as a result of the increase in business volume. Operating profit as a percentage of total revenues, net of transportation and related charges, increased from 24.1% in 2001 to 25.4% in 2002 primarily as a result of growth in total revenues, net of transportation and related charges combined with improved controls on operating costs.

TAXATION

Taxation increased 17.8% to RMB244.2 million in 2002 from RMB207.3 million in 2001 primarily as a result of the increase in taxable income. Taxation as a percentage of profit before tax decreased from 27.1% in 2001 to 26.2% in 2002. It was primarily due to the decrease in expenses not deductible for taxation purposes and the increase in non-assessable income in 2002.

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MINORITY INTERESTS

Minority interests increased 9.1% to RMB115.1 million in 2002 from RMB105.5 million in 2001 primarily as a result of the increase in the profits contributed by Sinoair, of which we are the holding company.

PROFIT FOR THE YEAR

Profit for the year of the Group increased 26.5% to RMB572.2 million in 2002 from RMB452.3 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

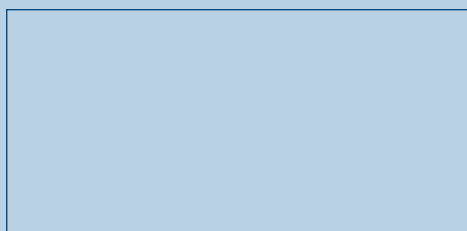
Prior to the Reorganisation, Sinotrans Group Company owned the Group's operations. Through the Reorganisation, the Group became

a separate group, both operationally and financially. Therefore, the historical information contained herein concerning liquidity and capital resources of the Group is derived from movements in the Group's consolidated balance sheets and profit and loss accounts and does not necessarily represent actual movements in cash. Accordingly, such movement may not be indicative of the Group's liquidity and capital resources in the future or what the Group's liquidity and capital resources would have been had the Group been a separate, stand-alone entity during the years presented.

Our principal source of working capital is cash generated from our operations.

The following table summarises our cash flows for each of the two years ended 31 December 2002 and 2001:

	For the year ended 31 December	
	2002	2001
	(RMB in millions)	
Net cash inflow from operating activities	564.4	590.5
Net cash used in investing activities	(162.4)	(533.6)
Net cash used in financing activities	(43.5)	(292.6)
Cash and cash equivalents at end of year	2,342.0	1,983.5



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OPERATING ACTIVITIES

Net cash from operating activities decreased 4.4% from RMB590.5 million for the year ended 31 December 2001 to RMB564.4 million for the year ended 31 December 2002 primarily due to a RMB752.8 million increase in trade and other receivables for the year ended 31 December 2002 as compared to a RMB233.6 million decrease for the year ended 31 December 2001, and also due to tax paid increased from RMB204.0 million for the year ended 31 December 2001 to RMB256.5 million for the year ended 31 December 2002, which was partially offset by a RMB531.4 million increase in trade payables for the year ended 31 December 2002 (a RMB347.3 million decrease for the year ended 31 December 2001). The increase in trade receivables for the year ended 31 December 2002 was primarily due to the growth in both business scale and revenue. The average age of trade receivables for the year ended 31 December 2002 and 2001 were 61 days and 64 days respectively. The increase in trade payables for the year ended 31 December 2002 was also primarily due to the growth in both business scale and revenue.

INVESTING ACTIVITIES

In 2002, net cash used in investing activities consisted primarily of the RMB345.3 million purchase of property, plant and equipment and the RMB83.1 million purchase of intangible assets and land use rights, which was partially offset by the reduction of RMB243.3 million of term deposits with an initial term of over three months. In 2001, net cash in investing activities consisted primarily of the RMB308.0 million purchase of property, plant and equipment, increase of RMB229.2 million of terms deposits with an initial term of over three months and the RMB57.8 million purchase of land use rights, primarily for our express services.

FINANCING ACTIVITIES

Net cash used in financing activities was RMB43.5 million for the year ended 31 December 2002, and net cash used in financing activities was RMB292.6 million for the year ended 31 December 2001. It was mainly because of the reduction in bank loan repayment, the curtailment in profit distribution and the absence of net distributions to Sinotrans Group Company in

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GEARING RATIO

As at 31 December 2002, the gearing ratio of the Group was 74.6% (2001: 71.1%), which was derived from the sum of liabilities and minority interests over total assets on 31 December 2002.

FOREIGN EXCHANGE RATE RISK

A substantial portion of our turnover and transportation and related charges are denominated in US dollars, which provides a natural currency hedge. The Renminbi, however, is our functional and reporting currency since it is the legal currency of the PRC, the primary economic environment in which we operate, and we are required under PRC regulations to convert the US dollars received, net of expenses, into Renminbi within a prescribed period of time. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. The foreign currency is converted into Renminbi within one year at the latest.

The Renminbi is not a freely convertible currency. The rules and regulations of the Chinese government limit our ability to establish a foreign currency account and our ability to use or exchange foreign currency.

Actions taken by the Chinese government could cause future exchange rates to vary significantly from current or historical exchange rates. Although the Renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollars and other foreign currencies will not adversely affect our results of operations and financial position (including ability to pay dividends). We believe that significant appreciation in the Renminbi against major foreign currencies may have a material adverse impact on our results of operations.

CREDIT RISK

The extent of our credit exposure is represented by an aggregated balance of trade receivables and other receivables, trading investments, pledged deposits and term deposits with an initial term of over three months. The maximum credit exposure in the event that other parties fail to perform their

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obligation under these financial instruments was approximately RMB3,206.8 million and RMB2,625.4 million as at 31 December 2002 and 2001 respectively. In addition, we made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB235.0 million and RMB225.0 million as at 31 December 2002 and 2001 respectively.

EMPLOYEES

The Group had 13,462 employees as at the end of 2002. The Group has long been concerned with its employees' development and it organised various training programs including occupational skills, professional knowledge, and laws and regulations. The Group spares no effort in its implementation of the Performance-assessment System that links staff's performance and their salary level, in order to improve the quality of staff and their working initiative. In addition, the Group has implemented the Share Appreciation Rights Scheme and Long-term Performance Unit Scheme on its management level, as an incentive for their utmost efforts.

ACQUISITIONS AND DISPOSALS

Save as disclosed in the Company's prospectus dated 29 January 2003, there were no material acquisitions and disposals of subsidiaries or associated companies of the Company in 2002.

